Response to the Quarantine and Biosecurity Review

April 2008

AUSTRALIAN LOT FEEDERS' ASSOCIATION (ALFA)
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Executive Summary

The Australian feedlot industry is supportive of Australia's conservative approach to quarantine and maintaining appropriate levels of protection at low risk levels.

However, with respect to grain imports we believe that this approach is unnecessarily trade restrictive and has resulted in the burgeoning intensive industry sector being unable to secure appropriate grain tonnages at world parity prices when domestic supplies are low. Accordingly the feedlot industry is placed at a competitive disadvantage to many foreign countries in our key export markets.

Problematically the current import risk analysis approach is flawed. While it determines the potential scientific risks and economic cost impacts of imports upon the affected industry, it ignores the potential economic benefits obtained by other industries if imports were permitted. As such this approach is disproportionately precautionary such that (with respect to grain) potential imports permits are more likely to be rejected. A more economic framework is required.

The feedlot industry would prefer to source domestic grain given biosecurity concerns. However domestic production during extended dry periods is increasingly unable to meet rising local consumption requirements. The onset of climate change is also predicted to induce greater crop production variability thereby exacerbating the issue. Accordingly, our quarantine approach needs to be revised to ensure that the biosecurity and grain supply needs of the wider grains industry is concurrently being met.

Collectively, the conservative quarantine approach results in needless import permit rejection or are such a deterrent in terms of excessive costs, energy and time that the industry has rarely secured imported grain. These implicit barriers to import grain are not only inconsistent with Australia's World Trade Organisation stance in support of the removal of protectionist measures in the international trade arena but will result in increased prices for beef as the industry's requirement for grain increases into the future.

Recommendations

The Australian Lot Feeders Association recommends that the Centre of Excellence for Risk Analysis;

- Develop a more economic import risk analysis framework to take into account the economic costs and benefits as well as scientific risks associated with <u>all</u> affected stakeholders involved with any potential import.
- Investigate mechanisms in the land movement of grain that result in the satisfactory extermination of pathogens, arthropod pests and prevent weed germination.
- Streamline the import permit risk assessment process to reduce the burden, time lines and costs associated with import permits for grain.

Background

The Australian Lot Feeders' Association (ALFA) welcomes the opportunity to have input into the independent quarantine and biosecurity review.

ALFA is the peak representative body for the lot feeding industry representing approximately 90 per cent of feedlot capacity in Australia. The industry is the fifth largest agricultural industry in Australia behind the grain, horticulture, grass fed cattle and dairy sectors.

The Australian feedlot industry has a value of production of approximately $2.7billion while employing some 2000 people (all in rural areas) directly and almost 7000 more indirectly. Approximately 40 per cent of Australia's total beef supply, 80 per cent of beef sold in major domestic supermarkets and the majority of production growth in the beef industry over the last 10 years has originated from the expanding feedlot sector.

More than one third of the national slaughter comes to market after being finished in feedlots and more than 50per cent of feedlot beef is exported into premium international markets.

The Quarantine and Biosecurity Review issues paper has stated that submissions need not focus solely on the issues and questions raised. Accordingly ALFA will concentrate its submission on our concerns pertaining to the Appropriate Level of Protection associated with grain imports.

Grain supply, demand and prices

There are approximately 600 accredited feedlots in Australia located in areas that are in close proximity to cattle and grain supplies. Feed grains represent the single biggest cost in producing a kilogram of beef, pork, milk and chicken.

In a normal season 80% of Australia's east coast grain production is consumed by intensive livestock industries with the feedlot sector the largest user of grain among these using approximately 3.7 million tonnes in 2006/07. This represented 33% of grain consumed by intensive industries in that year. The distribution of grain among livestock industries is shown in the following graph. During drought periods the percentage of grain consumed by intensive industries increases greatly as exports diminish. Feedlots utilize wheat, barley and sorghum as their main sources of feed grain.

Table 1 – Use of main feed grains by industry 2006-07[1]

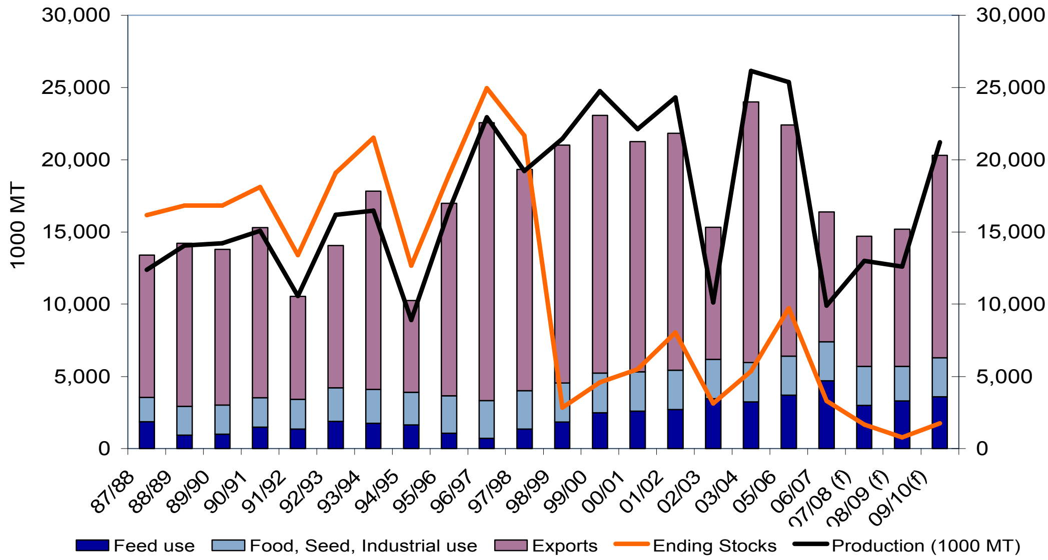
	broilers	layers	pigs	beef feedlot	dairy	sheep for live export	grazing ruminants	others	total
	kt	kt	kt	kt	kt	kt	kt	kt	kt
feed ingredient									
wheat	823	124	600	1 538	1 008	15	182	70	4 361
barley	172	27	517	1 297	943	25	164	4	3 148
oats	16	1	10	0	425	18	59	0	529
maize	108	75	68	0	0	0	0	4	255
sorghum	361	5	71	529	3	0	27	0	996
triticale	76	2	129	67	15	0	0	0	289
lupins	0	3	20	10	44	14	0	60	151
peas	129	10	0	0	0	0	0	0	139
faba bean	87	0	0	2	0	0	0	14	102
cotton seed	0	0	0	256	86	0	12	0	354
canola meal	41	0	0	5	2	0	0	2	50
soy meal	357	51	36	0	92	0	0	0	536
cotton meal	66	23	5	0	13	0	0	0	106
sunflower meal	0	0	0	0	0	0	0	0	0
mill mix	194	88	99	59	39	1	2	4	487
others	0	0	0	0	9	0	0	4	0
total	2 430	408	1 555	3 764	2 678	73	446	162	11 516

[1] ABARE, 'Feedgrains – regional demand and supply in Australia' 2007

The feedlot industry has expanded rapidly over the last 10-15 years. For instance despite the recent downturn in the industry (grain prices are currently up to 200% above long term averages), the industry has expanded by 30% between 1995 and 2008. The correlating increase in demand for grain during this period is demonstrated in the following graph. It is predicted that this expansion will continue into the future. Asian demand for proteins such as red meat are forecast to increase by 50% per capita over the next 10-15 years as their economies expand and their populations become more affluent. The feedlot sector is particularly set to take advantage of this opportunity given their eagerness to purchase beef over more commonly consumed proteins along with our ability to provide a guaranteed supply of consistent eating quality product.

Australia is characterised by large fluctuations in grain production levels due to climatic variability. This variability is set to increase due to climate change impacts with reductions in crop production forecast in particularly southern and eastern Australia[2]. An indication of this production variability and its impact upon grain stocks is demonstrated in the following graph.

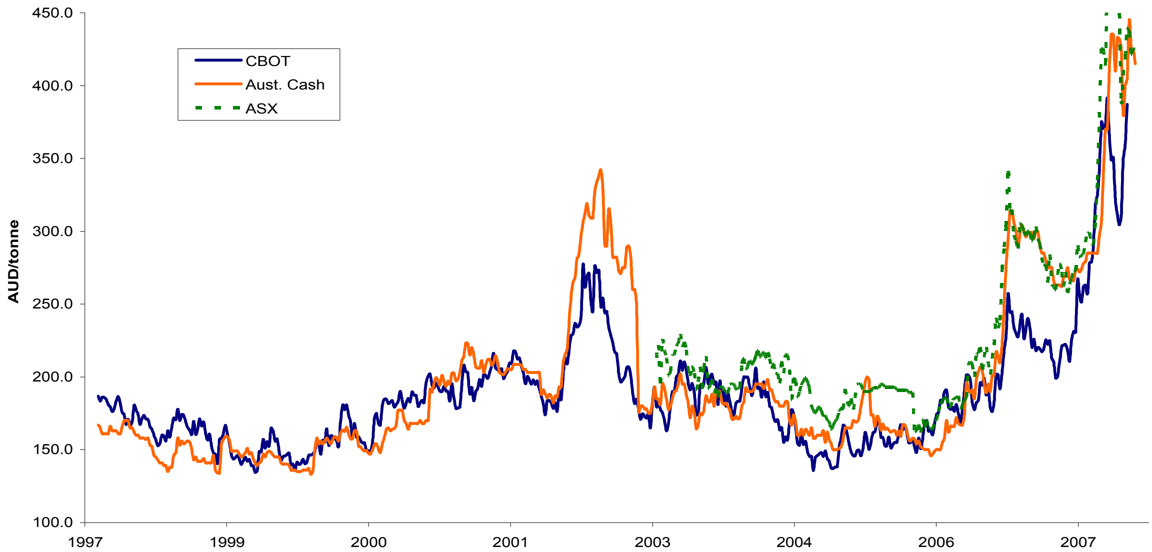
Table 2 - Australian grain consumption, production, exports and ending stocks, 1987/88-2009/10[3]



With the exception of drought years, Australian feed grain prices are largely determined by world markets (given Australia is a net exporter) and in particular the prices in the USA given it is the worlds largest exporter and importer of grain. Notably however during drought periods there are significant reductions in grain stocks. When there are shortages of grain on the domestic market, competition between domestic users (including feedlots) drive the price above import parity levels by up to $100/mt. This is seen in the following graph which compares Australian wheat with wheat sold on the Chicago Board of Trade where the droughts in 2002 and 2006/07 led to large domestic grain prices differentials to world parity prices.

[2] Prime Minister's Science, Engineering and Innovation Council, Independent working group report, *Climate Change in Australia: Regional Impacts and Adaptation – Managing the Risk for Australia,* 2007
[3] Rabobank Food & Agribusiness Research and Advisory, 2008

Table 3 - Australian grain prices versus world grain prices (ASX & Newcastle Wheat Prices, 1997-2008)[4]



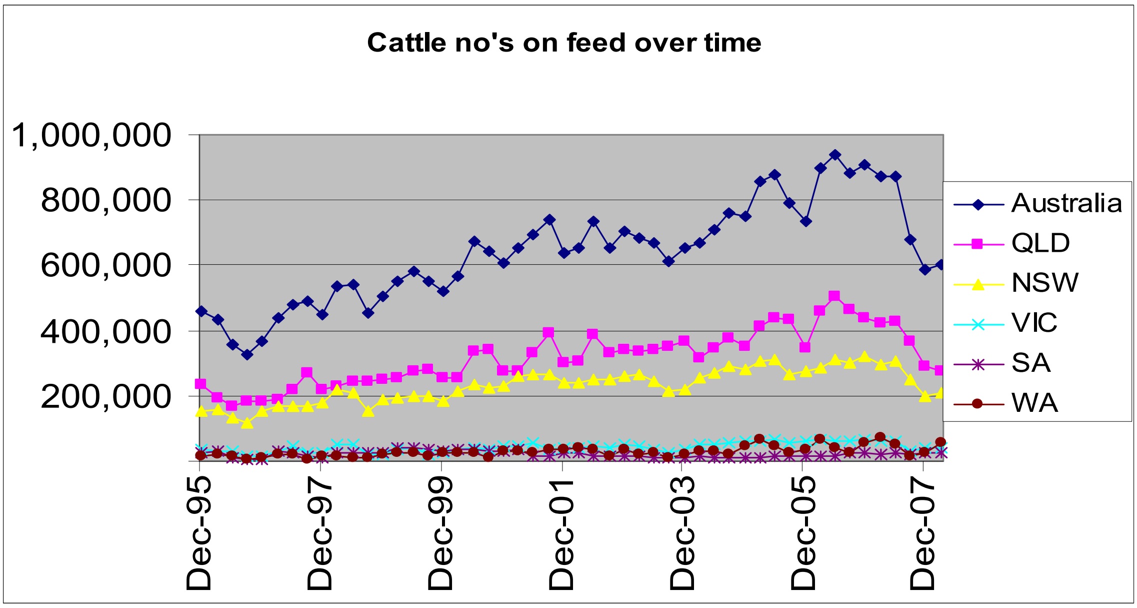
When domestic prices are significantly above export and import parity levels there is a large incentive for domestic intensive industry grain users to import. This is particularly the case for the feedlot industry given its strong export orientation and therefore need to be competitive with grain fed beef producers in other countries. In general around 50% of all feedlot cattle are directed to the export market.

However given current conservative import protocols Australian feedlots have difficulty sourcing imported grain at world parity prices during drought periods while our competitors have less seasonal variation and continual access to grain at world parity prices. Accordingly Australian feedlots are placed at a significant competitive disadvantage during these times.

Given that domestic grain prices were above world parity levels for much of 2006/07 (and grain imports could not be obtained) Australian feedlots have been forced to reduce cattle numbers. The number of cattle on feed has declined by 35% from the peak of 940,097 in June 2006 to 604,026 in March 2008. Currently feedlots are operating at only 51% of potential capacity. Feedlot utilisation is down 30% from the same time last year with cattle numbers on feed now similar to those of 2000. This situation is depicted clearly in the following graph.

[4]Bloomberg, Profarmer, Rabobank Food & Agribusiness Research and Advisory, 2008

Table 4 – Feedlot cattle number trends 1995-2008[5]



Grain imports

Quarantine conditions applying to imported feedgrains are extensive, and are attributable to the high quarantine risks associated with the grains proposed for importation as feedgrain. Grain is a biologically active product capable of reproduction and of harbouring some serious pest and disease risks that may negatively impact on Australia's broadacre industries. Quarantine rules are intended to minimise those risks, which are the germination of spilt grain; release of weeds; release of pathogens; release of insects.

The quarantine restrictions that apply are intended to manage quarantine risks to an "appropriate" level. ALFA maintains that this level is closer to nil risk with respect to grain imports and therefore serves as a non tariff barrier and deterrent for import trade.

Problematically the current import risk analysis process is too narrowly focussed. While it determines the potential scientific risks and economic cost impacts of imports upon the affected industry, it ignores the potential economic benefits obtained by other industries if imports were permitted. As such this approach is disproportionately precautionary such that potential grain imports permits are more likely to be rejected. A more economic import risk analysis framework is required which takes into account the economic costs and benefits as well as scientific risks associated with potential imports. To this end we recommend that the Centre of Excellence for Risk Analysis investigate this option to increase the integrity of the import risk analysis process.

Current quarantine rules for the import of grain are also extensive and restrictive with all grain requiring devitalisation in metropolitan areas to effectively treat pathogens and arthropod pests along with preventing weeds from germinating. Devitalisation involves hammer milling and steam pelletisation.

The quarantine rules in relation to the importation of grain are outlined in the following table.

[5] Australian Lot Feeders' Association & Meat & Livestock Australia quarterly survey March 2008

Table 5 – AQIS grain import quarantine rules[6]

Location	Access to imported product under current quarantine rules		
	Processed or devitalised feedgrains	Unprocessed feedgrains	Current Eligible Supplying countries
Metropolitan areas (metropolitan post code zones and Newcastle/ Sydney/ Port Kembla transport areas	Yes	Under strict conditions from approved supplying countries/ regions.	No formal list exists; but approvals have been granted for unprocessed feedgrains from United Kingdom, regions of the USA, Canada, Argentina and the Ukraine.
Inland areas (areas outside metropolitans areas)	Yes	No	Above

Unfortunately devitalisation can only be achieved in dedicated stock feed manufacturing plants which have limited capacity given existing obligations to domestic stockfeed and poultry processor clients. With current plant capacity levels around 1 million tonnes and the feedlot sector alone requiring 3.7mill tonnes of grain per year, this is also a limiting factor preventing increased grain imports. Problematically at precisely the same time that intensive industries require capacity to devitalize imported grain, stockfeed manufacturing plants are running at full capacity due to drought feed requirements. The effect of metropolitan processing is to allow only some feedgrain users, eg maltsters, flour millers and chicken meat producers, to utilise existing on site processing facilities.

Further, devitalisation is costly and results in a loss of nutritional value. For instance, it has been estimated that the culmination of these two factors alone adds an extra $40 per tonne to overall grain costs for feedlot end users. These costs and complexities make grain importation for inland customers a costly and "last resort" option.

The import permit risk assessment process is also administratively complex requiring considerable resources, costs and time to complete. Accordingly this serves to deter feedlots from committing to the process. In short, the import permit risk assessment process needs to be streamlined to reduce the burden, time lines and costs associated with import permits for grain.

Large feedlots (who finish the majority of grain fed cattle in Australia) are most likely to contemplate importing grain. These feedlots routinely process their grain through reconstitution or steam rolling/flaking systems and keep it in on-site storage until fed to stock. These processes we contend are sufficient to exterminate pathogens, arthropod pests and prevent weed germination. Consequently we recommend an investigation of mechanisms that will allow the secure inland movement of untreated grain to feedlot sites, where it can be devitalized by existing processes.

The feedlot and pork industries have commissioned the CSIRO to investigate the efficacy of devitalizing whole grain using a gaseous fumigant. This project is yet to be completed but we are hopeful that this will provide a suitable alternative to the current devitalizing process.

Given the problems and barriers associated with these previously mentioned issues, only around 50,000 tonnes during the 1995-95 drought has ever been imported by the feedlot sector. If Australia is to continue to compete with our overseas counterparts, then the feedlot sector along with other intensive industries need a ready access to grain at world parity prices. The improvement in Australia's quarantine and biosecurity systems and protocols with respect to grain is vital to enable this to occur.

[6] Macarthur Agribusiness and Rural Action – 'Review Options to Reduce Feedstuff Supply Variability in Australia' 2004