

## **CONTRACT REVIEW**

### **AUSTRALIAN LIVESTOCK INDUSTRIES WILL BE INTEGRATED WITH APEC**

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## **INTRODUCTION**

Two recent reports from the Meat Research Corporation have investigated future opportunities for exporting red meat from Australia to ten countries in Asia, which presently account for only about 7% of such exports. They point out that, although the potential of Asian markets is large, many obstacles need to be overcome before they can be developed successfully by Australia.

In common with many such reports, it is predicted that, in ten or twelve years, buffalo and sheep and goat meat consumption in Asia will all more than double. Beef consumption, particularly in Indonesia, is expected to increase at least six-fold, while enormous opportunities have been forecast for the continued and long-term expansion of Australian dairy produce to Asia. Because of its enormous and steadily expanding population (1.2 billion, plus 14 million annually), China is the biggest single influence on most of these predictions. China accounts for more than one-fifth of the world's population, but has only 7% of the world's arable land and cannot therefore alone satisfy its surging demand for more and better quality food. Chinese meat consumption is said to be increasing by four million tonnes annually; the demand for poultry has recently doubled in five years, and beef consumption has almost trebled.

However, these markets are not going to be captured easily. Most Asian countries, including China, are seeking to maximise their domestic production of livestock and they are disinclined to encourage imports. For instance, tariffs on beef and mutton imported into China are 50% and 40% respectively, and there is also a 17% value-added tax. In some situations it promises to be easier for Australia to export the inputs that are needed by Asia to expand their livestock industries (eg genetically superior stock, feed grains and fodders, production and processing technologies, animal health packages, education and training) than to export the finished products. In all these cases the Australian exporter needs to identify the precise needs of the market, and to formulate products and delivery processes accordingly.

Even where expanding markets for finished animal products exist, there is an urgent need to increase further our understanding of what particular groups of Asian consumers require in terms of quality.

Australian livestock producers and scientists have learned much about Asia during the last decade or two. What more must now be done to ensure that the future cooperation and trade between APEC's livestock industries achieves the legitimate hopes and ambitions of all its member countries?

## **APEC: OPPORTUNITIES AND CHALLENGES FOR AUSTRALIA**

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The Asian-Pacific economies, already large and fast growing, accounted for 60% or A\$11.5 billion of Australia's A\$19.1 billion export trade of food and fibre products during 1994-95. Given this fact alone it is hardly surprising that APEC is important to Australian agriculture.

APEC is important to Australian agriculture because the trade liberalisation measures planned will further boost economic growth in the Asian Pacific Region. It is also important because under APEC, barriers to trade in agriculture will be further reduced.

Economic growth is changing the structure of trade and production in the Pacific Rim. South East Asian economies are on average growing by 7%, with some, such as China, experiencing growth rates as high as 14%. Expansion of the manufacturing sectors in Asian economies is pulling labour away from

agriculture, thus restricting the level of domestic supplies. At the same time strong population growth coupled with higher consumer incomes have increased the demand for foodstuffs.

The consequent disparity between domestic production relative to total consumption has increased demand for imports. The volume of agricultural imports into ASEAN countries is growing at 10% a year. This demand is expected to continue in line with the rapid economic development of the region. Australian agriculture, therefore, has an obvious interest in arrangements, such as APEC, which promote regional economic growth and reinforce the trends currently in evidence.

APEC is certainly the best news for Australian agriculture since the formation of the Cairns Group at the commencement of the Uruguay Round. Other shifts in policy positions for agricultural trade of countries such as Japan and the US have been important, but cannot compare to the promises of APEC, which even if delivered only in part, will provide an enormous boost to the prospects for Australian agriculture.

The challenge for Australian agriculture will be to shape up to these new opportunities especially in shedding remaining vestiges of a 'commodity mentality' to international trade and to best satisfy the more specific and discerning food preferences of Asia Pacific importing countries.

## **ASIA/AUSTRALIA PARTNERSHIP IN LIVESTOCK : AN ASIAN VIEW**

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### *Asian livestock and changing economics*

The demand for meat, milk and eggs in Asia will continue to grow due to increasing human population, expanding urbanization, higher per capita income, improved levels of education, and so on. Many countries in Asia will continue to be importers of animal foods such as dairy and beef products. While urbanization in Asia continues to expand, most people in many Asian countries will remain in rural areas for some decades to come and, for them, agriculture will remain a major source of income and livelihood. Livestock is traditionally integrated into cropping systems to provide not only food products, but most importantly draught power and manure, as well as socio-economic values so highly regarded by traditional rural farmers.

As economic conditions in most Asian countries keep evolving, livestock production systems also change and they are becoming even more economically important in the total agricultural production. While, in some countries, poultry and swine production can be classified as large-scale commercial production, most rural livestock production remains as traditional farming systems. However, specialized market-oriented animal enterprises, such as commercial dairy farming, are increasing in some countries especially in Southeast Asia.

It is evident that the livestock sector will continue to play an important role in the national economy of Asian countries. The increasing demand for foods from livestock and the important roles of animals in the rural economy make livestock development policies of many national governments high priority programmes, and this means that more efforts and resources will be sought and channelled toward livestock development.

### *Some problems in livestock development in Asia*

In most Asian countries, further developments of the animal industries face numerous problems and constraints. These problems can be broadly classified into four categories: (1) technical factors; (2) institutional support; (3) government policies; and (4) farmers' socio-economic conditions. Examples of factors which require technical solutions include: the availability of suitable breeds of animals for hot and humid environments; the supply of good quality feeds, especially forages and roughages for ruminants during dry summer season; efficient farm management and suitable herd husbandry practices; effective health prevention and control measures against tropical animal diseases and parasites; and effective schemes for selecting and culling breeding animals. Institutional supports include agricultural credit, farmer training facilities, farmer cooperatives, extension and veterinary services, processing and marketing facilities, and so on. Government policies relating to livestock production and trade issues of

course have significant impacts on the expansion of the national livestock industry. Socio-economic factors which influence farmers' decisions whether to invest in the improvement of livestock production, particularly in the village situation, include: the opportunities for off-farm jobs; farm labour scarcity; market prices of farm products; levels of farmer education; and prices of farmland.

Hence, in order to further develop or expand animal production the following factors are very important: research capabilities and facilities; existence of government development projects or programmes; good credit institutions; effective farmer training and extension; sufficient technical and scientific manpower; good marketing systems, slaughterhouses and processing plants for livestock products.

#### *Reasons for Australian cooperation with Asia in livestock development*

Among 31 nations in Asia and the Pacific Region, Australia is one of only three developed countries, ie Australia, Japan and New Zealand. In the past, Australia concentrated its trade interests in European markets and, when compared with Japan, paid much less attention to Asia. In some respects this was strange because, in fact, Australia could combine its comparative advantages both in agricultural and industrial sectors to penetrate Asian markets with lower cost products and appropriate technologies, as well as its geographical proximity to Asia. Livestock production is one of the areas which Australia could employ to spearhead or "boomerang" its cooperation and trade to benefit not only Asia but also Australia in return. This could be a genuine win-win situation.

Some may wonder why Australia should assist Asia to increase livestock production when Australian graziers want to sell their livestock products to Asian markets. For Asia, benefits from livestock development cooperation are obvious, for example, to: (1) increase farmers' incomes and purchasing power; (2) provide better nutrition and hence good health to people; (3) generate more jobs and employment; (4) increase food security for rural people; and (5) produce more locally available inputs such as draught animal power and manure for sustainable crop production.

At the same time Australia also benefits from such cooperative relationships with Asia. First, in spite of future increases in livestock production, many Asian countries will remain importers of various livestock products due to increasing human population, higher per capita demand of livestock products, and some natural limitations of certain livestock production. Due to the increasing demand for animal products many countries, such as Thailand, will continue to import dairy products, dairy cows, and beef breeding stock. Elsewhere in Asia as livestock production expands, the need for various production inputs will increase, such as superior genetic stocks, forage crops, and technical expertise. As Asia's partner and close neighbour Australia is in a favourable position to meet these needs of most Asian countries. Furthermore, the resulting benefits should be viewed with broader perspectives since many countries in Asia increasingly import not only agricultural goods but also industrial and other merchandise. The experience of Japan serves as a practical example of how a partnership with Asia can reap wide and mutual benefits in manufacturing as well as agriculture. Now that Australia views itself increasingly as part of Asia rather than Europe, it is becoming increasingly important to promote and nurture closer relationships and partnerships with countries in Asia and the Pacific Region. Regional goodwill and friendship will be a primary factor leading to a durable growth of mutual trust.

#### *Partnership in livestock*

The formulation and choices of modes of partnership and cooperation between Asia and Australia will depend on various factors:

1. types of livestock enterprise: whether commercial enterprise or small farm production;
2. livestock species: whether large and small ruminants (dairy and beef, sheep and goat), or swine or poultry, or other less conventional animals such as deer, camel, crocodile, etc.;
3. types of activities or targets: whether manpower development, research collaboration and strengthening, transfer of technology, information network, development programmes, or business joint ventures, such as feedmills, milk processing plants, slaughterhouses, etc; and
4. types of cooperation: whether bilateral, multilateral, or international activities; and what combinations of partners ie governments, NGOs, universities, or the private sector.

It is hoped and expected that in the future Asia and Australia will become closer partners in technical and economic development in agriculture, especially livestock, and that such cooperation will result in mutual benefits. Livestock production and consumption will continue to expand in Asia with the

application of new technologies. By lending a helping hand to achieve these developments, Australia will also reap great benefits. In the future, Asia will not only grow stronger economically, socially and politically but, in many countries, the increasing demands for food, particularly animal products, are likely to outstrip the increases in home production. Therefore, Asian imports of meat and milk are forecast to increase.

From where will these imports come? I cannot promise you that they will come from Australia - but if you market animals and animal products of the quality that Asia wants, and at the most competitive price, we will be delighted to be your customers.

## **SUPPLY BREEDING CATTLE TO ASIA : SOME PRACTICAL PROBLEMS**

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The importation of feeder steers into South East Asia from Australia has generally been profitable because of careful economic planning, adequate capitalisation, rapid adoption of the appropriate technology, and successful lobbying to change bureaucratic measures which hinder profits.

In contrast, importations of breeding stock have generally been organised by bureaucracies. With the exception of the purchase price of the animal, the farmer is usually undercapitalised. In the early years of exports no technology was provided and, in later years, the appropriate technology was often not adopted because of ingrained concepts held by village farmers.

Australian breeding cattle exported to South East Asia have experienced high mortalities, suffered from poor nutrition and associated infertility, and inadequate basic planning has often affected reproduction. Little thought has been given to the economy of scale for the individual farmer or to profit motivation. To be successful, farmers who import breeding cattle need to understand the points set out above that have made feedlot importations successful.

This paper discusses some improvements that will reduce mortalities, and improve nutrition and reproduction, and suggests how the breeder dispersal of breeding stock to small farmers could be planned in ways that will be more economically and technically viable.

### *Mortalities*

Most mortalities occur soon after breeding cattle arrive in an importing country. The cause of death is usually stress from bad trucking, malnutrition in quarantine, extreme muddy conditions, inadequate processing facilities and lack of quietening prior to dispersal to individual farmers, with losses between the quarantine and the farm. Gestation problems brought on by these factors cause abortions with complications leading to deaths. A decade ago there was little pre-planning. At best a quarantine was constructed but early training and the preparation of fodder and handling facilities were not considered necessary.

*Solutions* During recent years, the Livestock Export Section of the Australian Meat and Livestock Commission has provided an after sales service to the importers of Australian breeders. This has included the publication of manuals for both importers and exporters which explain to farmers the preparations which are necessary in order to quieten and manage Australian cattle successfully.

Unfortunately, handing a manual to a village farmer new to livestock is not enough. He needs a local leader or livestock technician who has been trained and can demonstrate the procedures outlined in these manuals.

The training of technicians needs to be completed before a cattle shipment arrives in order that the technicians can organise farmers to prepare:

1. adequate quantities of quality forage;
2. breeding groups where bulls can have daily access to the females;
3. demonstrations to farmers on how to quickly quieten Australian Brahman; and
4. technical support for the farmer in all other aspects of cattle husbandry.

Quietening Brahman cattle is not difficult provided that it is undertaken during the quarantine period, using a good crush, but farmers need to be given confidence and training in dealing with their animal

**before it can be walked home.** Halters rather than nose-rings (except for the bulls) should be provided **before the end of quarantine.**

### *Malnutrition*

The past experience of many Asian farmers has been limited to the feeding of smaller cattle or buffalo which require less fodder and have the ability to digest poorer quality roughages better than can Australian cattle. Without understanding, farmers expect imported cattle to thrive on the same rations. Village farmers do not recognise that body condition is correlated with fertility. When their animals lose condition and do not cycle the farmers blame everything but nutrition, usually the bull. In some circumstances the farmer also has insufficient land and no access to industrial or agricultural byproducts to provide adequate feed. In other words, the dispersal of imported breeding cattle is usually badly planned.

**Solutions** Importing agencies need to be sure that village farmers have adequate feed resources available to maintain the body condition of imported cattle. Because there is no short term economic return from an imported breeding heifer, it is suggested that farmers should also be supplied with a steer to fatten. This would provide a quick cash flow and encourage better feeding practices because the less skilled managers would see their more efficient neighbours cashing in their finished steers earlier because of better nutrition. There should be some spin off in the better feeding of breeders, provided that farmers have sufficient resources to care for both a fattening steer and a breeding heifer. In many situations, farmers need training to understand how protein requirements can be economically sourced from locally available fodders, including tree legumes.

### *Reproduction*

As mentioned, reproduction is diminished by poor nutrition. However, there are other points that need attention if breeder exports are to continue into the next century. In the past some exporters have completed contract arrangements without clear thought as to how they would supply the specified animals, particularly if they are to be in-calf. In their anxiety to achieve a sale, exporters too often ignore the fact that the supply of in-calf heifers at the correct stage of pregnancy always creates problems. Because of the seasonal nature of breeding in most of Northern Australia it is difficult to supply heifers less than six months in calf. When dealing with bureaucratic institutions in importing countries there can be a four-month delay between the tender to purchase in-calf breeders and establishing a letter of credit. Many in-calf heifers that were at the correct stage of pregnancy when selected for export in Australia come out of quarantine after arrival in the South East Asian country two to three months later, too heavy in calf to be transported over poor roads in unsuitable trucks. Even with the best of care at least 16% of in-calf heifers abort; those that calve soon after arrival have problems lactating; and only 34% are in calf again a year after being exported. Where careful planning has been executed and the farmer follows the advice given, a live calf is the normal result. However, the farmer then has to wait another two years for normal reproduction to resume. This usually does not mean putting the animal out to graze, but instead involves cutting and carrying forage daily for about 600 days before the farmer sees any signs of pregnancy or further economic return.

**Solutions** Importers should be persuaded that it is wisest to import empty heifers and to get them in-calf after arrival. The small price differentiation between in-calf and empty heifers (\$50) is the result of a tender system where exporters have been asked to supply in-calf heifers, often out of season. Knowing that a lower percentage than specified would be in-calf on arrival tenderers keep the price difference small in order to reduce penalties. In some instances many exporters withdraw because of the difficulty of supplying to tender specifications, but there are always some who will "have a go".

The industry should aim to export young empty heifers or, at certain times of the year, chance-mated heifers. The existing regulations on the export of heavily in-calf cattle should be rigidly enforced. Continuation of the existing circumstances is not helping the long term prospects for breeder exports.

### *Economic returns to farmers*

The objective of Asian government schemes is to build their breeding base and they have tried to do this by providing small village farmers with a single animal. Initially, there is enthusiasm on the part of the farmer who thinks he is being given the livestock equivalent of a Mercedes Benz. But, if he does not intend to use the animal for draught purposes, or he does not have sufficient forage, and the animal does not breed, it is not economic. The farmer finds instead that he has been given the equivalent of a heavy

wheelbarrow. Also problems arise when farmers do not have access to a bull because of poor planning, and imported bulls usually take some months to acclimatise, particularly if they are housed away from the females.

*Solutions* As suggested, projects should be encouraged to finance a combination of steer and heifer purchases. If this is not acceptable, cooperative planning should be towards mini-herds rather than individual heifers. These can be run successfully on behalf of members of farmer cooperatives by cattle managers and labourers, rather than by individual members who tend to neglect the cattle at peak periods, eg harvest.

An alternative, which is being carried out in the Philippines, is to have feedlotter import, say, 10% of breeders. These cattle are then mated in the feedlot and distributed as well-fed, acclimatised pregnant animals to small farmers who are shown by the feedlotter how they have to be fed. Although some feedlotter are enthusiastic, others consider breeders a nuisance and, if a quick profitable sale cannot be organised, they slaughter the animal.

In some locations, where land is unsuitable for arable cropping but suitable for ranching, empty breeding cattle could be sold to local cattlemen for adaption, breeding and then distribution to farmers. By considering such alternative approaches, Asian governments could import younger, lower-priced heifers that would be given a chance to adapt to local conditions before they start breeding. For their part, Australian exporters must provide sufficient price differentiation to make the purchase of younger empty heifers more attractive than in-calf heifers.

In order to maintain and expand the present cattle trade with Asia it is imperative that these various problems should be addressed as quickly as possible.