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Moving beyond the blame game: the Ban on Australian Live Cattle Exports to Indonesia; Lessons to be Learnt

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Key Points

- The current problems with the Indonesian cattle industry must be seen in the context of a policy regime that seeks to achieve self-sufficiency and food security. It means that there are structural incentives that drive the live cattle export industry.
- The fundamental problem in Indonesia is the lack of a proper regulatory regime to ensure animal welfare. In particular, videos showing Australian cattle being subjected to inhumane treatment in Indonesian abattoirs demonstrates the failure of the Indonesian live-stock services system, in particular the monitoring and supervision roles of the Indonesian Ulema Council (*Majelis Ulama Indonesia* or MUI) and the Ministry of Agriculture (MoA).
- The Australian response to animal abuses reflects a desire to locate the sources of such abuse within the context of individual blame rather than from within the context of systematic problems within the Indonesian animal welfare regimes.
- Understanding the systemic sources of regulatory failure would facilitate a more creative and ultimately more effective response by the Australian government particularly through investment in regulatory capacity building for animal welfare within the live-stock industry.

Introduction

Recently, the Australian Minister for Agriculture, Joe Ludwig, suspended live cattle exports to Indonesia after undercover video was broadcast showing inhumane treatment of Australian cattle. The cattle industry is a significant component of the Australian economy. Australian cattle account for up to 40% of Indonesia's beef consumption, and Indonesia buys 60% of Australia's live cattle exports. Aside from its impact on the industry, the ban on the export of live cattle raises a host of important policy and governance challenges for both Australian and Indonesian policy makers. These include such questions as: Is a unilateral export ban the only option? What are the regulatory challenges faced by Indonesian policy makers? What broader lesson can Australia learn from this event? Is an

export ban Australia's only option and what can Indonesia and Australia learn from this incident?

This policy brief reviews the following issues:

1. What are the implications of Indonesia's self-sufficiency target for Australian live cattle exports?
2. What are the wider social and economic implications that arise from this incident?

Indonesia's Self-Sufficiency Target

Before discussing the nature of policy and regulatory challenges, we need to situate the live cattle export industry in the context of broader policy and strategic interests of food security policy. Beef self-sufficiency has been a focus of the Indonesian government over recent years. In the early years of the Soesilo Bambang Yudhoyono presidency, the Indonesian government announced the country's commitment to achieve self-sufficiency in beef by 2005, a deadline which was then postponed to 2010. In early 2009, the Minister of Agriculture, Anton Apriantono announced the deadline must once again be extended, this time to 2014.

The concept of self-sufficiency is closely related to food security, but the two terms differ. According to the Government of the Republic of Indonesia Regulation (*Peraturan Pemerintah*) No. 68 Year 2002, food security is a condition indicated by the availability to households of adequate food in terms of quantity, quality, security, equality and affordability. The food supply can come from either domestic production or imported sources. Self-sufficiency, on the other hand, is defined as a condition in which at least 90% of domestic demand for food is met by domestic production. Hence, while food security emphasises access to food, self-sufficiency requires sufficient domestic food production capacity to meet domestic demand. In other words, self-sufficiency is an important but not a necessary condition to achieve food security.

Yet, this remains at best an unrealistic target, as Indonesia's desire to achieve livestock self-sufficiency faces a wide range of barriers. Global movements towards a more unregulated market make it impossible to stop imports flowing into the economy without a legitimate reason. Moreover, current cattle industries in Indonesia still rely heavily on imported feedlot cattle, some of which come from Australia.

To overcome these challenges, Indonesia must increase its domestic production from 67% of domestic consumption in 2010, to 90% of domestic consumption in 2014. In addition, the cattle population, including animals that form part of the breeding cycle, must increase from 12 million in 2009 to 14.6 million in 2014. Yet, a cursory analysis of the historical time scale shows such targets to be unrealistic. Beef production in Indonesia has been quite volatile over recent decades. In addition, between 2005 and 2009, the growth rate of (slaughtered) animal production was only about 3% per annum.

There are a number of reasons as to why Indonesia's domestic production remains sluggish. One major problem faced by Indonesian agricultural sectors is the increased demand for agricultural land in addition to increased demand for water and irrigation. Land limitation in livestock sectors is an important issue as it may affect the quality of livestock production. As a consequence, the majority

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of Indonesian farmers keep their cattle in highly confined spaces. Furthermore, the industry relies on unskilled workers. About 90% of cattle in Indonesia are owned by 6.5 million rural households with a low educational background. Furthermore, the number of breeding yards has not shown a consistent increase over the years. In 2007, there were only 10 cattle breeding establishments across Indonesia. With so few breeding establishments, it seems that the aim to boost the cattle population by over 20% is unlikely to be met. Foreign investment in breeding yards also remains low. According to the national statistics agency (BPS), of the 317 small and large livestock establishments (including cattle yards) there is only one where the majority of shares are held by foreign investors.

Given these myriad reasons, it is hardly surprising that despite the ostensible commitment to food security, Indonesia is heavily dependent on imported cattle. The trade in imported cattle continues to grow both in terms of the total number of cattle imported every year, especially after the 1997-1998 Asian financial crisis, as well as the percentages of imported cattle in domestic production, particularly in the last decade. Such considerations mean that Indonesia remains a potential market for any exporting countries, including Australia. Yet, this has led to a very particular political and policy dynamic. The commitment to the self-sufficiency target has led the Indonesian government to set the maximum weight of imported live cattle at 350 kilograms, in order to facilitate value adding in Indonesia. This has led to the development of the feedlotting business in Indonesia, who receive supplies of feedlot cattle from Australia.

Implications of Inhumane Treatment on Australian Live Cattle at Indonesian Abattoirs

It is obvious that an export ban, especially if it is permanent, will damage Indonesia and Australia's trade relationship. The live cattle trade between the two countries is worth nearly \$320 million per annum. Over 50% of Australian cattle farmers in the Northern Territory rely on exports to Indonesia. Hence, this ban has the potential to adversely affect Australia's economic performance.

The cost of the export ban for Australia also extends to Australia's past investments in research and development of livestock services sectors; they could lose all value under the circumstances. The Australian government, through the Australian Centre for International Agricultural Research (ACIAR), has funded several programs to review the effectiveness of the Indonesian government's programs and to investigate the supply chain in the beef market. Australia must also take into account the cost that it must carry if compensation for farmers and transporters are approved. There is also the social cost incurred by the export ban, including its impact on farm incomes and welfare.

Australia also stands to lose a very lucrative market with growth potential. Indonesia's large population, with over 230 million people, promises positive growth of beef consumption. Indonesia's stable economic growth at 6.1% in recent years further highlights the importance of Indonesia as Australia's trading partner. In addition, beef for many Indonesian households is considered to be relatively luxurious food. As Indonesia's per capita income has increased, so has domestic demand for imported livestock, including from Australia, thanks to its quality, relatively affordable price and availability at

'Australian support for Indonesia to deal with this animal welfare issue is of critical importance and would be greatly appreciated'

the supermarket. Indonesia also imposes relatively low trade barriers. Its tariff on livestock is currently low at 5 per cent and heading to zero under some Free Trade Agreements such as the ASEAN-Australia-New Zealand FTA in 2020.

There are broader implications for the bilateral relationship. Australia's immediate decision to ban live cattle exports to Indonesia might demonstrate its reluctance to work with Indonesia. Agriculture Minister Suswono argued that the ban was 'regrettable' as it was made without prior consultation with Indonesia.¹⁾ The Indonesian Government also remarked that Australia was never bothered about slaughtering standards before the broadcast of the footage of Indonesian abattoirs. In addition, two of the 12 abattoirs listed by the Australian Government are in Nusa Tenggara, which did not process cattle from Australia, and another one in Lampung, that has been closed for a while. It is apparent that there is a necessity for discussion and clarification. The export ban may also raise concern over Australia's commitment to engage fairly in the global economy. It may represent discrimination and violate fair trade principles under the World Trade Organization (WTO).

Whilst the above discussion seems to suggest that Australia stands to lose more than Indonesia, Indonesians may also suffer in the near future. Indonesia's high dependence on imported live cattle suggests the potential for inflation, due to shortage of supply, especially in the festive seasons of Ramadhan and Eid Fitr.

Regulatory and policy challenges

However, the real challenges are regulatory issues. The fundamental problem with the Australian response is the failure to understand that the abuses uncovered were not due to individual failure or cultural differences, but can be directly located in the systemic regulatory problems within the industry. Recognition of such systematic regulatory issues would have led Australia to help Indonesia with issues of animal welfare rather than rely on the blunt instrument of an export ban.

Ray Trewin of the Australian National University (ANU) in his opinion piece summarised Australia's ban on live cattle exports as the following: "Trade bans are often a sign of a lack of ideas or an attempt to constrain market forces, driven by the more vocal rather than based on good evidence-based policy analysis." A better approach would have been for Australia to have continued exporting cattle to Indonesia and to have assisted Indonesia to improve animal welfare, building on decades of collaborative agricultural research between the two countries such as that developed by ACIAR. Worker exchange and capacity building programs to train the MUI members and MoA officials to supervise and monitor slaughtering effectively would be a positive step forward.

It is important to understand that Muslim Indonesians are equally as upset as Australians over the issue. Most Muslim Indonesians feel that the inhumane treatment of animals is not in keeping with the spirit of Islam generally, or *Halal*. *Halal* defines what is lawful according to Islamic law including acceptable food, slaughtering procedures, and how Muslims get the money they use to purchase food. Most abattoirs in Indonesia meet *Halal* requirements. Indeed, the lack of monitoring of *Halal* practises in Indonesia has been a concern of Muslim Indonesians for a long time. In fact, this inci-

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dence has made Indonesians feel that their basic need to access *Halal* food cannot be satisfied by the government.

Indonesia may find importing from other countries to be an effective solution. Importing from other countries may be effective in the short-term to stabilise beef prices but it may raise concern over food safety standards. Another concern is that sourcing beef from other countries might shift Indonesia's attention from animal welfare and the practise of *Halal* slaughtering issues. Indonesia will miss the opportunity to learn something from this incidence. A more effective regulatory response would be to encourage the development and monitoring of a more robust regime for *Halal* practices at abattoirs; such an approach to regulation would be rigorous and in keeping with cultural norms.

Another regulatory challenge for Indonesia is to develop new techniques to develop internal capacities of self-regulation of Indonesian abattoirs. Such a response, variously termed responsive or reflexive regulation, might involve third party involvement in the development of technical animal welfare regulatory capacities within regulated entities. There has to be recognition that the development of such regulatory capacities involves investment in the development of technical expertise and the complex relationships with third parties such as veterinarians and non-governmental organisations. The development of such expertise also creates the growth of serious regulatory capacity building, within regulated entities such as abattoirs, as well as a broader regulatory regime.

For Australia, such a response would mean that animal welfare is not seen as some kind of 'moral blame' game, but a set of technical and regulatory practices that emerge out of a set of complex relationship between diverse actors – NGOs, regulated entities, experts, regulators – in a broader regulatory regime. Australia has much to offer Indonesia in terms of developing such regulatory capacities but this means recognition that abusive animal welfare practices are not the result of individual failure but the result of systematic regulatory underdevelopment. Proceeding from such a perspective would lead Australia to a more sophisticated and ultimately more effective response than the blunt instrument of a cattle export ban.

Finally, there are broader challenges to do with restructuring the Indonesian cattle industry. Australians should also consider investing in abattoirs in Indonesia, and the Indonesian government must ensure easy market access for investors. LiveCorp has recently launched a strategic vision for improving animal welfare in Indonesia; this would see Australia as the only country in the world investing in animal welfare in its overseas markets.

From both social and economic perspectives, imposing a ban on exports may cause Australia to lose opportunities to assist Indonesia, not only in livestock services and animal welfare improvement, but also the ability of the Indonesian Government to provide for the basic needs of the majority of the Indonesian population, that is *Halal* meat. Australia has continued to assist Indonesian Muslims for decades, especially in the area of education to support Indonesia to improve the quality of teaching and learning in Islamic primary and secondary schools. This goodwill toward Indonesia may also contribute to Australia's own economic growth and strengthen Australia's regional influence.

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IPGRC Research Mission

A primary focus of our research agenda is on political dynamics of governance and institutional innovations in the provision of public goods and regulation especially as it relates to economic and social development in the region.

This will address issues relating to the organisation of markets and politics, and their effectiveness and fairness in addressing complex economic and social problems. It will also include an examination of the transformations of political organisation and authority at various scales – global, national, and regional – which have a bearing on the complex multilevel governance of the delivery of public goods and regulations.

The centre has a particular focus on the global and regional challenges arising from the shifting tectonic plates of economic and political power to the Indo-Pacific region.

It is worth noting that Australia should not force Indonesia to import beef from Australia. In fact, Australia should respect and further support Indonesia's program to be self-sufficient in livestock. A joint University of Adelaide, ANU and Indonesian Trade Ministry research project suggests that the best approach to achieve self-sufficiency is to improve productivity in contrast to any policy which affects prices, such as tariffs. The author's individual analysis suggests that there is a strong indication of a two-way causal relationship between the ratio of import quantity to total domestic production (i.e. Relative import quantity) and the ratio of domestic price to the price in the global market (i.e. Relative domestic price). The effect of change in relative domestic price on relative import quantity, however, diminishes quickly whilst the effect of change in relative import quantity on domestic price lasts much longer. This indicates that any intervention which could affect domestic quantity might be more effective in controlling domestic prices rather than policy affecting prices.

Research and development consists of various aspects including building appropriate, effective and sustainable regulatory regimes. Many believe that proper slaughtering may help to produce good quality meat. Clearly, this recent incident has resulted from a very unfortunate combination of animal cruelty and a lack of understanding between trading partners.

Endnotes

1) See <http://www.thejakartapost.com/news/2011/06/15/australian-ban-a-regrettable-decision-minister.html>