

**HD**      **REFILE-UPDATE 2-Australia, China set to sign live cattle export deal**

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**LP**

(Adds editing credit)

\* Australia-China close to live cattle export pact

**TD**

\* Trade seen worth \$1 billion a year

\* China's appetite for red meat rising fast

By Lincoln Feast and James Regan

SYDNEY, Nov 7 (Reuters) - Australia will export up to 1 million head of cattle a year to China, worth around A\$1 billion (\$856 million), to help meet a growing appetite for red meat, Australian officials said on Friday citing a long-awaited deal set to be signed shortly.

Australia Agriculture Minister Barnaby Joyce said negotiations to finally reach an agreement after a decade of on-again-off-again discussions were "progressing well" and close to being announced jointly by the two countries.

The latest talks over shipping live cattle from Australia to China resumed in February. Australia's trade minister is currently in China where the cattle deal is expected to get a final sign-off.

"It's a million cattle, worth A\$1 billion. The ink is not dry on the contract though. It's a great breakthrough," Australian cabinet minister Christopher Pyne told Australia's Channel Nine television network on Friday.

China is Australia's largest trading partner, with two-way trade of around \$150 billion in 2013. The two countries are in the final stages of reaching a free trade agreement (FTA) that Prime Minister Tony Abbott wants signed by the end of the year.

Agriculture minister Joyce said talks over live cattle exports were being conducted outside those for an FTA and at this late stage were focused on technical aspects of breaking into the Chinese market, such as biosecurity requirements.

Nevertheless, greater access for Australian agricultural goods has been a key sticking point in Abbott's push for an FTA.

"It's a very big deal," said ANZ senior agricultural economist Paul Deane. "The far northern cattle industry is very dependent on live cattle and the trouble is, it's very reliant on Indonesia" making it a far riskier investment.

Australian live cattle exports to Indonesia collapsed in 2011 after footage emerged of animals being mistreated in Indonesian abattoirs.

Talks over live cattle exports to China have in the past been hit by a series of setbacks, such as the allegations of inhumane treatment of cattle exported to Indonesia and concerns over fly-born disease in Australian herds.

The presence of Bluetongue disease, a virus spread by a tiny fly, in some Australian cattle has held up live export talks. While the disease typically has little effect on cattle, it would pose a threat to **China's** 140-**million**-strong sheep flock, the world's largest.

Despite buoyant demand for meat, limited land, water and feed is keeping **China's** cattle herd from growing in size. Many feedlots and abattoirs are all but empty.

**China** already imports large quantities of Australian red meat, buying A\$785 **million** worth in 2013/14, according to Australian government data.

"There's no question that the fundamentals for beef in **China** are positive regardless of whether it's live cattle or boxed beef," ANZ's Deane said. "Beef prices generally would be our standout (pick) over the next 12-18 months over all the ag commodities we look at."

Investors have been positioning for a breakthrough in the Australia-**China** cattle talks.

Andrew "Twiggy" Forrest, who has made **billions** of dollars **mining iron ore** near the cattle ranch where he grew up in far west Australia, this year paid \$40 **million** for a beef processing and exporting **company** already gearing up for the **China** market.

After visiting a supermarket in **China** and inspecting Australian beef on offer, Forrest said he hoped to build a beef success story to rival last decade's boom in **mining**.

Another **iron ore** magnate, Gina Rinehart, bought a 50 percent **stake** in two large cattle farms in June. Rinehart's private **company**, Hancock Prospecting, paid \$A40 **million** for the **stake**.

But Australia may struggle to meet a surge in demand for live cattle exports.

Queensland state, home to about half the national herd, has been plagued by drought, forcing farmers to slaughter animals at a record rate this year.

And while Bluetongue-free cattle from southern Australia will be allowed access all year round, cattle from northern Australia will be restricted to the few months of the year when the virus is less prevalent, according to the Australian newspaper. (\$1=1.1678 Australian dollar) (Editing by Michael Perry)

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