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Shining light on the farm impact of rising energy costs

The fluctuation of energy costs is not a new issue for agriculture, but until recently the relative importance of energy as an agricultural business cost has been mitigated by strong business performance and improvements in energy efficiency.

However, with the National Farmers' Federation stating that "[Australia's electricity market is broken](#)" and some producers reporting energy cost increases [up to 300%](#) in recent years, affordability of energy has become an urgent policy issue for the sector. Despite the increasing impact of energy costs on farm business profitability, there have been few recent investigations into energy use in the agricultural sector specifically related to the cost burden and sectoral impacts of changing energy prices.

The Australian Farm Institute's new report on '***The impacts of energy costs on the Australian agriculture sector***', funded by Energy Consumers Australia, provides evidential analysis of the financial cost of energy and a calculation tool for evaluating the impact of energy price changes on the sector. The report estimates the current annual cost of energy to the Australian agriculture sector at **\$5.8 billion**.

"Energy price rises are an economy-wide problem and have fuelled intense political debate about appropriate policy to provide reliable and affordable energy," said AFI Executive Director Richard Heath. "Australian industry – including agriculture – is rapidly becoming uncompetitive against countries with cheaper and more reliable power."

While Australian farm businesses have been becoming more energy-efficient for some time, recent price rises have outstripped the sector's ability to match price rises with efficiency gains. The significance of energy costs to agriculture is also being amplified by moves in many sectors to more energy-intensive practices such as pressurised irrigation, to achieve efficiency gains in other areas such as water use.

Data on the cost of energy to Australian agriculture at a sectoral level is "surprisingly sparse", Mr Heath said, meaning the energy policy debate has to date occurred in an environment where there has been limited ability to estimate the sectoral and value chain impact of energy price increases. "This research will enable a more informed discussion of the economic impact of changes in the price of energy on the sector," he said.

The absence of reliable energy use data, the complex nature of tariff structures and network and supply charges, and the differences in energy pricing and policy settings across Australian states required the report to adopt a 'big picture' approach to energy costs for agriculture.

The aggregated energy use data collected in the research is detailed in an **Energy Cost Calculator**, developed for the report. The calculator – available to download at www.farminstitute.org.au – allows interrogation of the energy use data with user-inputted energy price points. To demonstrate the use of the calculator a price increase of 30% for electricity and 5% for all other sources was modelled for the report, conservatively reflecting the recent experiences of energy consumers. A price rise of this scale would result in **\$863 million** in increased annual energy costs for the agricultural sector.

“The Energy Cost Calculator will be a useful and timely aid for providing impact context to the ongoing discussion about energy policy,” Mr Heath said.

“Given the upward projections of energy prices, a thorough understanding of the current situation and outlook is fundamental to the creation and implementation of fair, affordable and sustainable energy policies for the future state of Australian agriculture.”

KEY POINTS

- This report estimates the cost of energy to the Australian agriculture sector to be \$5.8 billion annually.
- Excluding post farm gate processing, energy costs are \$4.56 billion - which is equal to 9% of the gross value of production of the 11 sectors analysed.
- A modelled increase of just 30% to the cost of electricity and 5% across all other energy sources would result in an impact of an additional \$863 million cost to agriculture overall.
- The cost of energy has become a significant factor impacting profitability and potentially the global competitiveness of Australian agriculture - policy changes likely to impact on energy prices needs to be considered in this context.
- Lack of data is the biggest barrier to understanding the impact of energy policy changes on Australian agriculture – further investigation and better data collection is needed.
- The agriculture industry needs to urgently construct a compelling, evidence-based case for energy policy change.
- The report and Energy Cost Calculator are available to download at: http://farminstitute.org.au/publications/research_report/energy

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