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Environmental Markets and Incentives Failing to Develop in Australia

While United States (US) farmers receive A\$ 5.9 billion and European Union (EU) farmers receive A\$ 7.4 billion annually in incentives and payments for environmental services they provide to the community, the use of such policies for natural resource management on Australian farms is virtually non-existent, and unlikely to develop quickly.

This is the conclusion arising from papers included in the latest edition of the *Farm Policy Journal*, published by the Australian Farm Institute. The papers, written by Australian and International authors, analyse the role of incentives and market-based policies in the management of land and water resources on farms.

'What is obvious from the papers is the scale and extent of incentives and market-based policies used in the US and the EU to encourage changes in natural resource management on farms, and the long history of their use. The payments made under these policies to US and EU farmers are in addition to the substantial farm subsidies they also receive' said Australian Farm Institute Executive Director, Mick Keogh.

'The US, in particular, has well-developed programs that provide strong incentives for farmers to carry out activities on their farms that provide a benefit to the entire community, through encouraging wildlife habitat, protecting waterways, and improving wetlands. Using incentive programs means that the entire community shares the costs of these actions. A number of these programs are structured as markets, where farmers bid competitively to provide environmental services, meaning that the community receives these services at minimum cost.

'Farm natural resource policies in Australia still rely almost totally on blunt regulation, with little or no incentive for farmers to voluntarily provide environmental services that benefit the entire community.'

'While several of the papers discuss pilot programs trialling these policies in Australia, there seems to be no commitment at either the Commonwealth or State level to introduce them as a core and sustained part of the policy mix for on-farm natural resource management.'

'Unlike their overseas counterparts, Australian environmental groups are lukewarm at best in their support for those policy instruments, and seem locked into a regulatory mindset where the main measure of environmental progress is increased regulation, and little attention is paid to real, on ground results, and in particular issues such as equity and efficiency.'

'Real leadership is required of both the Commonwealth Government and Australian environmental groups to support a more balanced set of policies which include substantial and sustained use of incentives and market-based instruments to encourage changes in natural resource management on Australian farms' Mr Keogh concluded.

Further information: Mick Keogh BH (02) 9690 1388 AH 0418 256 066

(Abstracts of Journal papers follow)

Voluntary versus Regulatory Approaches to Protecting the Environment in Rural Areas

Professor David Pannell, School of Agricultural and Resource Economics, University of Western Australia, & Program Leader, Co-operative Research Centre for Plant-Based Management of Dryland Salinity

Six broad policy mechanisms are available for changing land management for the enhancement or protection of the Australian environment. These mechanisms have varying degrees of voluntarism and regulation. The most appropriate choice of policy mechanism is likely to vary between different environmental problems, or even for the same environmental problem in different circumstances. Considerable policy debate revolves around the question of who should pay for improvements in land management. Neither ethics nor economics solve the problem of who should pay for environmental protection but the final choice of policy mechanism needs to be made with an awareness of political realities and community attitudes. For change in land management to occur, environmental policy programs need to have greater flexibility to accommodate the most appropriate policy approach for given environmental, economic and social circumstances. They should be more strongly based on current scientific understanding, on socioeconomic considerations, and ought to consider the full range of policy mechanisms, not just those that are currently in favour in policy circles. Policies that are designed without sufficient flexibility, sophistication or technical or economic information are likely to be ineffective and costly.

Do Ecosystem Service Markets Have a Role in a Sustainable Agriculture?

Dr Warren Parker, Chief Executive Officer, Landcare Research

The environment and sustainable development are now central to any contemplation of the future of agriculture. Notwithstanding many efforts by farmers and others to improve environmental performance over the past decade, the disjuncture between agricultural development and environmental and social sustainability remains obvious. Thus further adjustments to public policy, institutions and markets are needed to deliver sustainable agriculture. Markets for ecosystem services, while at an early stage of development, are functioning for a range of environmental components, notably carbon and water but also biodiversity, wetlands, and energy. To succeed markets require assignable property rights, a price setting mechanism, low transaction costs, reliable information and cost-benefit data about trade-offs between alternatives. Markets for carbon, wetlands and 'acid rain' (sulphur dioxide) show these conditions can be met with benefits to participants and the environment. These examples, together with improved planning (long-term scenarios), measurement tools and information-communication technologies, provide confidence that markets for ecosystems can play a positive, but not solo, role in achieving a sustainable agriculture.

Evolution of Conservation Programs in United States Farm Legislation

Zachary Cain, Graduate Research Assistant, Department of Agricultural Economics, Purdue University
Dr Stephen Lovejoy, Professor Department of Agricultural Economics, Purdue University

Conservation programs in the United States (US) have often been used as means to improve the incomes of rural communities and farm families. More recently, these programs have refocused on the conservation of natural resources. This paper investigates the origins of these conservation programs, their evolution over the last 70 years, and speculates on their future direction. Over time, conservation programs have waxed and waned based on the needs of farmers and the nation as a whole. Present conservation programs openly recognise and reward those producers who have made stewardship a priority, ushering in the age of 'green payments' or subsidies based on environmental protection rather than direct income support or commodity production. Some current programs seek to maximise the environmental benefit per dollar expenditure rather than maximise the number of acres enrolled; a stark change from past programs that were based on supply control. Looking to the future, US farmers will likely see the expansion of green payment programs while maintaining some base level of commodity support and disaster payments.

Overview of Agri-Environmental Programs in the European Union and the United States

Joseph Cooper, Economist, Economic Research Service, USDA

Roger Claassen, Economist, Economic Research Service, USDA

Jason Bernstein, Economist, Foreign Agricultural Service, USDA

The United States (US) and European Union (EU) agri-environmental policies utilise regulation, cross-compliance (making income support and other program eligibility subject to minimum standards of environmental performance) and voluntary subsidy programs. US policies focus on reducing soil erosion and nutrient run-off to improve water quality and on improving wildlife habitat to enhance wildlife populations. Historically, the US has relied heavily on retiring land from crop production to achieve agri-environmental gains. More recently, emphasis has shifted toward encouraging improving agri-environmental performance on land in crop production or grazing use. EU policy also seeks to reduce environmental damage from agricultural production but can also specifically emphasise socio-economic goals such as maintaining farm income and employment in less favoured areas. The EU also emphasises maintaining rural landscapes, features that have little counterpart in US Federal agri-environmental policy. EU agri-environmental programs also focus on preventing land abandonment. Both the US and the EU offer flexibility to meet the specific environmental needs of individual communities. In the US, flexibility is given to the producer, whilst in the EU, it is more likely given to the Member State.

Proactive Conservation Management on Australian Farms: The Role of Economic Incentives

Corey Watts, Coordinator, Sustainable Rural Landscapes Program, Australian Conservation Foundation

This paper presents an environmentalist perspective on the role of incentives and other economic policy tools for conservation management in Australia's farming landscapes. Well designed and delivered regulations play a crucial role in any policy mix, although they are generally inappropriate as a means of promoting proactive conservation management. The Australian Conservation Foundation (ACF) strongly favours stewardship schemes, including tender-style programs, that reward conservation outcomes 'beyond compliance,' together with publicly sponsored retirement and rehabilitation of marginal agricultural land. Tradeable permits/credits are considered a tool of last resort, although they may, with precautionary safeguards, deliver significant ecological benefits. There is also significant scope for a package of institutional and policy reforms that catalyse large-scale private sector investment in new farming systems and commercial landuse designed to yield critical ecosystem services. Indeed, without policy drivers for investment in new commercial-environmental industries, it is unlikely that the scale of landscape change required to arrest key threatening processes, such as dryland salinity, can be achieved. Attention to the context and goals of the incentive or mix of incentives is crucial to effective policy design and delivery.

Developments in Market-Based Instruments for Natural Resource Management

Rod Carr, Director of the Incentives and Sustainable Production Systems Section

Australian Government Department of Agriculture, Fisheries and Forestry Interest in Market-Based Instruments (MBIs) and their application in natural resource management (NRM) has stemmed from concerns that a reliance on traditional policy such as direct 'command and control' regulation, education and information may be insufficient to achieve desired NRM outcomes. In 2002 the Australian and State and Territory Governments jointly announced \$5 million in funding for the first round of the National MBI Pilots Program (the Program) to find answers to common questions about MBIs. Interim results from the 11 pilots funded by the Program suggest MBIs can deliver improved NRM outcomes at reduced cost and with increased landholder engagement. The Australian Government hopes the results from the Program and other successful MBIs will assist NRM decision makers to identify the right conditions for the practical application of MBIs to a range of natural resource issues including water quality, salinity and native vegetation.