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ETS could force major changes in Australian agriculture

Australia's proposed Emissions Trading Scheme (ETS) could have a major impact on the farm sector resulting in big switches in enterprises on farms, and could have the biggest impact on smaller-scale farms involved in livestock production; according to preliminary modelling released today by the Australian Farm Institute.

The preliminary modelling was carried out by the Institute to examine the farm level impacts of the proposed ETS, and to examine the effects of different ETS scenarios for agriculture. The Government's Green Paper has proposed that farm businesses will not immediately be required to be ETS participants, but foreshadows that agriculture may be required to participate in the ETS from 2015 onwards.

"Under scenarios where farmers are not required to pay for the greenhouse emissions estimated for their farms, the ETS will have a significant impact on farm profitability due to the increased cost of farm inputs such as fuel and electricity, and their inability to pass on these extra costs. Reductions in farm profitability of between 5% and 10% compared to a business as usual scenario are projected, even with quite modest emission prices," explained Mick Keogh, Executive Director of the Institute.

"Under scenarios where farmers are required to pay the full cost of estimated farm emissions as a covered sector, the modelling projects farm profit reductions of more than 100%, especially for farms running sheep and cattle. In the event that farm businesses are recognised as being emissions intensive and trade exposed (EITE) and are therefore not required to pay for 90% of their estimated emissions, farm profitability was projected to decline by between 5% and 25% compared to business as usual, with the biggest losses projected for livestock farms, and the smallest losses projected for horticulture and vegetable farms."

The modelling highlights that the ETS has the potential to result in major changes in landuse, especially in higher rainfall zones. "The ETS will simultaneously reduce the profitability of livestock production, and increase the profitability of forestry plantations. A major expansion of forestry could have unintended implications for the environment, in particular reducing rainfall runoff and further exacerbating pressure on water supplies," said Mr Keogh.

"The modelling highlights that one consequence of the ETS could be a reduction in Australian farm output and an increase in food imports from nations without similar greenhouse emission policies. The result of this would be of no benefit to the global environment, and an economic loss for Australia.

"There is a critical need for more comprehensive greenhouse accounting rules for agricultural emissions. Current emission accounting rules estimate emissions from agriculture, but do not recognise greenhouse gas removals that are also part of the annual farm production cycle. There is no sense making farmers pay for emissions that are an artifact of greenhouse accounting rules, rather than a true reflection of the annual cycling of carbon through farm production systems."

The research also highlights the urgent need in Australia for a big increase in government investment in research into ways to reduce greenhouse emissions from agricultural activities. "Finding ways to reduce net agricultural emissions could have an enormous national payoff, yet Governments are currently winding back agricultural research, rather than increasing it. This is a very short-sighted approach that will have enormous long-term economic costs," Mr Keogh concluded.

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