Senate Finance and Public Administration Legislation Committee
Supplementary Budget Estimates Hearing – October 2009
ANSWER TO QUESTION ON NOTICE

Topic: Rural Industries Research and Development Corporation Study
Question reference number: CC16
Type of Question: ***(Hansard F&PA page 127-8, 19 October 2009)***
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Question: (Senator Boswell**)**

Senator BOSWELL—The Rural Industries Research and Development Corporation released a study which said that the incomes of farmers could fall by over 60 per cent at a carbon price of $25 or by as much as 125 per cent at a carbon price of $50, when and if agriculture becomes part of the ETS. You, no doubt, would have seen that study. Do you agree with it?
[…]

Senator Wong—Well, you would not expect, I would have thought, that we could immediately recall all the details of a particular report just because it has been in the public arena, given how many have been in the public arena. We are happy to take the question on notice...

Answer:

The report *On-farm impacts of an Australian ETS* (May 2009) was commissioned by the Rural Industries Research and Development Corporation (RIRDC) and prepared by the Centre for International Economics (CIE). It was released on 4 May 2009.

The report analyses the impacts of the Carbon Pollution Reduction Scheme (CPRS) on average farms in particular industry segments, including wheat and other crops, mixed livestock-cropping, sheep, beef, mixed sheep-beef, dairy, sugar and horticulture. It was the second in a series of modelling reports by CIE reports including:

– *Some impacts on agriculture of an Australian emissions trading scheme* (commissioned by the Australian Farm Institute); and

– *Possible impacts of the CPRS on the Australian red meat and livestock industry (commissioned by the Meat and Livestock Association).*

This report did not accurately represent the policy position set out by the Government in the CPRS White Paper. It did not take into account the Government's commitment to emissions-intensive trade-exposed (EITE) assistance should agriculture become a covered sector.

The report also overestimated the effects of the CPRS on agriculture for at least four reasons:

- No international action on climate change is assumed, with the exception of New Zealand.
- The report assumes no behavioural change other than reduction in output as a response to the introduction of a carbon price. However, encouraging behavioural change – eg increasing the uptake of on-farm abatement options – is a key reason for the introduction of the CPRS.
- The report understated transitional support available to farmers for the first three years of the scheme through the CPRS fuel offset scheme.
- The farm income baseline of 2005-7 against which CPRS impacts are assessed includes the negative impacts of drought conditions. Using a low income base period exaggerates the relative impact of the CPRS.

The Australian Government has recently committed to excluding the agricultural sector from the CPRS indefinitely.

This means that emissions from agricultural sources will not be covered by the CPRS, and that therefore a number of modelling scenarios in this report are no longer relevant.