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Submission to Senate Finance and Public Administration References Committee

Native Vegetation Laws, Greenhouse Gas Abatement

and Climate Change Matters

Parliament of Australia: The Senate

5th. March, 2010

Abstract

Section 1 is brief introduction only

Section 2 discusses the effect of the Queensland vegetation legislation upon a small underdeveloped property on Queensland's western Darling Downs. As a consequence of the 2004 legislation, approximately 80% of the property was frozen as remnant vegetation. The remaining 20% became the "the farm" to provide family income.

Productivity improvement across 20% of the original farm could never deliver income sufficient to maintain farm viability and financial stability. Immediate asset value and potential capital gain from development evaporated. As the farm was undeveloped before the legislation, the property was ineligible for compensation

Off farm income became the main source of income supplemented by opportunity income from the severely down sized "farm". A planned superannuation program that relied upon development of the farm to provide a comfortable retirement income was torn from under our feet. Security of retirement income is now of considerable concern to both my wife and I as we enter our retirement years

Section 3 draws upon over 15 years of involvement in the agricultural policy debate at academic, media, and industry levels to discuss:

- *Potential flow on effects from interventionist farm level environmental policy.*
- *Delimitation of freehold property rights by the Queensland legislation muddies the water with respect to Commonwealth responsibility under Section 51(xxxi)*
- *Australian population growth debate unlike overseas concerns does not recognise the links across population growth, agricultural policy and food security. Implications of environmental policies upon agricultural production are assumed away*

The submission comprises

- Main document supported by 3 attachments
- Attachment 1 discusses Zero cost environmental policy
- Attachment 3 is a Current Land valuation of lot 15AU38 for proposed Queensland Gas Co. easement

Senate Finance and Public Administration References Committee

Submission

Native Vegetation Laws, Greenhouse Gas Abatement and Climate Change Matters

L. H. (Ben) Rees, B. Econ.; M. Litt. (econ.)

1 Introduction

This submission has two parts. Firstly, as required by the terms of reference, it deals with microeconomic policy impacts upon our family farm 17 kilometres north east of miles. The final section deals with a broader picture of macroeconomic effects that flow from the aggregation of microeconomic impacts upon agriculture.

2 Diminution of asset value and productivity

2(a) Asset Values

is a small family farm that has been in my family since 1949. comprises two lots or portions. My wife and I have held title to Lot 28AU49 since 1976. Similarly, Lot 15 AU38 has been held by myself since the mid 1970's. Lot 28Au49 was freeholded by my father in the mid 1950's. Lot 15 AU38 was freehold title when purchased by my brother and self in 1964. Currently Lot 28AU49 is held in joint names with my wife Gillian and myself Leonard Henry Hamilton Rees. Lot 15 AU38 is in my name.

In 1984, my wife and I returned from a term of professional employment in Brisbane with the intention of developing both Lot 28 AU49 and lot 15AU38. They were then "virgin" or unimproved blocks. My parents had done little in their period of ownership to improve the productive capacity of land held by them. They were traditional farmers of their era and had little understanding what could be achieved by mechanical land clearing and improved pastures.

Unfortunately, we quickly became involved in the rural collapse through the late 1980's and into the 1990's. Both with professional backgrounds, we resolved to put land development on the back burner and concentrate on educating our three children to equip them for a life outside the declining rural sector. A rural policy vacuum marketed as structural reform offered little prospect for young people following in the family business.

In 2001, we decided to resurrect our original property development plans. On eleventh December, 2001, my wife and I lodged an application for a clearing permit with the DNR Chinchilla Office. The application outlined a structured ten year plan to clear land and plant down to improved pastures both lot 28Au49 and Lot15 AU38. Wildlife corridors were included in the plan as required at that time. The first stage was an initial 100 hectares on Lot 28AU49. The progression of the ten year plan would proceed in staged format over the ten years. The first stage was approved and permit to clear granted with an expiry date of December 31, 2004. That stage was completed within the time frame;

but, owing to protracted drought, no further permit to clear was lodged before the moratorium closed down land clearing. My staged ten year plan became a casualty of the moratorium and later prohibition of land clearing.

This meant that comprised one partially developed block: Lot 28 AU49; and, one "virgin" or unimproved block Lot 15 AU38. The market values of the two blocks became instantly devalued as no further development could take place. Selected clearing was an option provided under the Legislation; but, it is cumbersome, costly and not an economic option.

The market for selling the property changed dramatically. It could not be marketed as a grazing property with capital gain inherent in further development through land clearing and improved pastures. In the past these types of properties were sought by young farmers as "starter blocks". A young farmer could buy an undeveloped or under-developed property and develop or partially develop with the aim of upgrading later with the capital gain achieved.

The less attractive market for residential or hobby farm is now the market in which the two blocks would be sold. That might not be so bad for Lot 28Au49 as it is partially developed and has power and phone connected. Lot 15 AU 38, on the other hand, remains a virgin block without power and phone connection. As the blocks are 17 kilometres and 22 kilometres respectively from the township of miles, the attractiveness of the blocks as residential or hobby farms is not great. The value of the property diminished substantially; and, the distance from town disadvantage makes a simultaneous quick sale of both properties an unlikely prospect. As a fully developed grazing property under the proposed ten year plan, should have been saleable in the \$1.5m - \$2m range. As housing block or hobby farms, the aggregated value is probably \$650 000 - \$800 000 range depending upon the desire and speed of disposal. No compensation for this loss in value is recognised.

We are now faced with a further demeaning experience. Queensland Gas Company (QGC) will run a gas pipeline easement through Lot 15 AU38. They value the property now as simply a single independent virgin block of land unattached to Lot 28 AU38. Whilst the pipeline traverses the property on the title without the house, there is no recognition that the whole property is one and overall value is affected.

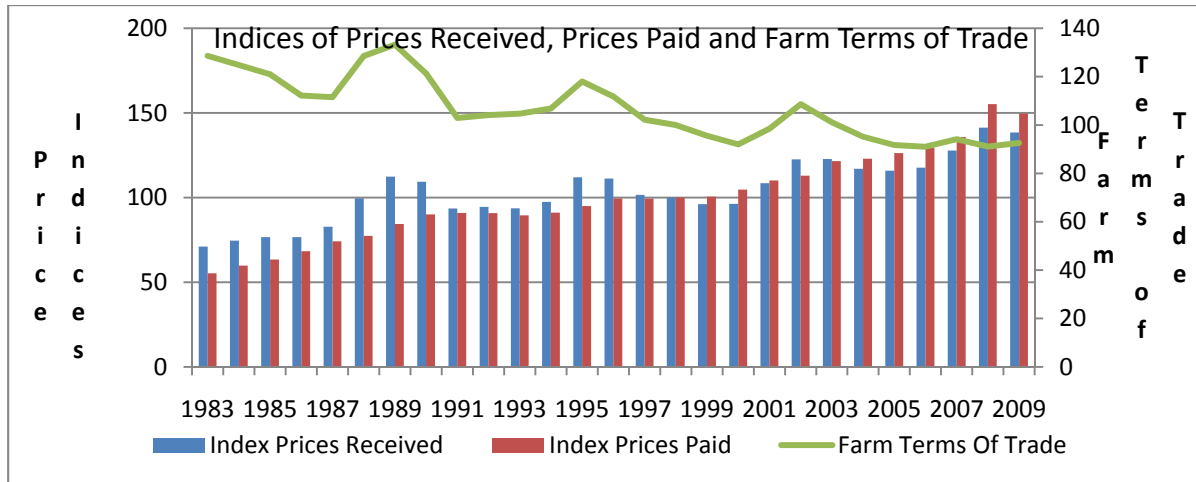
Under the Queensland Legislation that frames resource companies and landowner property rights for easement construction, there is no recognition of native vegetation as carbon sink (*refer Attachment 3*). A thirty metre clear area cut through standing remnant vegetation will be very difficult to rehabilitate. Consequently, the most likely scenario will be a thirty metre scar running through the block of remaining vegetation. Market value of the overall property as a carbon sink repository will diminish when climate change policies are finally structured. Vegetation Management Legislation has been very damaging to overall asset value of both properties both immediately and into the future.

Our long term plan had been to substantially develop the property and use the sale proceeds as our superannuation fund to enjoy a comfortable retirement. This has been denied us by the impact of environmental policy on our assets. Given the price of housing in urban areas of this State, a sale at current value of the property would be substantially extinguished by purchase of a retirement home. Our capacity to fund retirement income is slowly slipping away as urban house prices continue to rise. This is a dramatic difference to our original plans. The 2004 and environmental legislation

demanded by urban lifestyle and Kyoto politics lies at the centre of our financial deterioration and insecurity. This is a direct consequence of public policy on the cheap as illustrated in the extract from my academic paper in Attachment 1

2 (b) *Productivity*

Graph 1



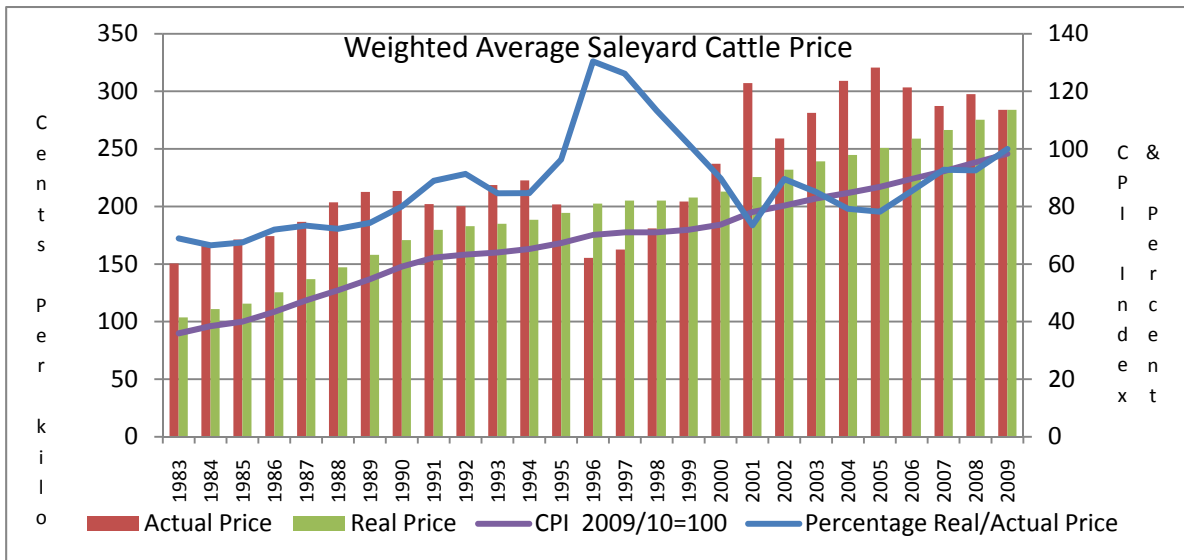
Source: Compiled from ABARE Commodity Statistics 2009, p. 17

Vegetation management Legislation enacted in 2004 has confined to a small cattle grazing enterprise. As no further clearing can take place, the enterprise must look to grazing productivity by factor transfer from natural pasture to improved pasture wherever possible. The economic Law of Diminishing Marginal Returns in the end determines the limits of gains through productivity improvements. Real farm income then becomes dependent upon prices received for output, prices paid for inputs and rising output. In other words declining Farm Terms of Trade and constrained productivity become the determinants of real farm income.

Graph 1 illustrates graphically long term farm terms of trade and indices for prices paid and received. From 1999 onwards, there appears to have emerged structural change in the relationship between prices paid and prices received. A trend line drawn through prices paid would identify structural change as emerging in the rising gradient of the curve from 1999 onwards. Whilst prices received also have a steeper curve gradient from 1999 onwards, the comparative slope is less steep and more volatile than the prices paid curve. It might be coincidence but that period coincides with rising interest in environmental policy to meet Kyoto targets and other urban lifestyle policies.

For an individual farm with constrained productivity structural change in the terms of trade becomes magnified. Vegetation management Laws denied the right to expand productivity through traditional methodology of factor transfer of virgin land to productive land by clearing and development. What this meant is that off farm income became the only option remaining for continued occupancy of the farm. If this is the experience of one farm, then multiply all similarly affected farmers and demographic change in rural and regional communities is no longer a mystery. Urban population congestion has been ably compounded by environmental policy.

Graph 2



Compiled from: ABARE Commodity Statistics 2009, p.155

For [redacted], with rising productivity limited, the price of output becomes critical. Graph 2 demonstrates graphically the behaviour of dressed weight saleyard export quality cattle price on a weighted average basis. The real price is computed by converting historical prices to 2008-09 price using ABARE's CPI Index in which 2009/10=100. What the Graph attempts to illustrate is the importance of lifting farm productivity to maintain farm viability. For [redacted] falling real output prices could not be offset by lifting productivity.

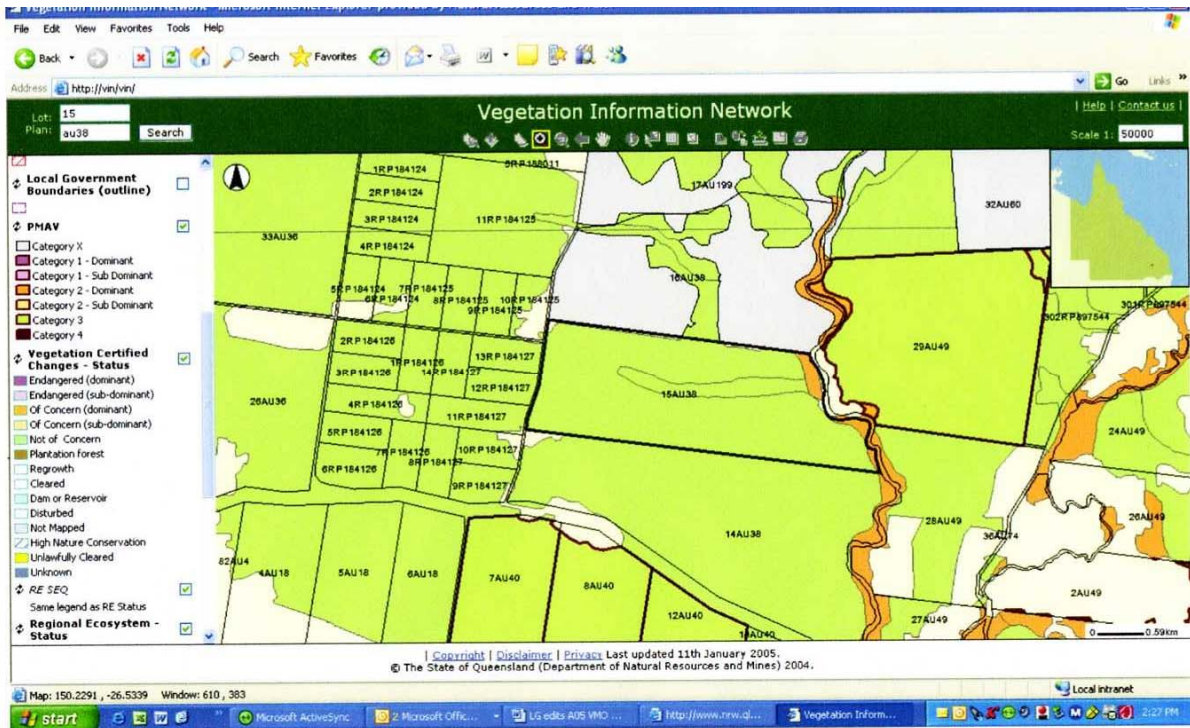
The conversion has thrown up a statistical blip 1994-1999. It is doubtful if any beef grazer would have felt the low nominal saleyard prices delivered high on farm purchasing power. Over that period there was a linking of an older 1997-98=100 index and later a 2006-07 index. What you see in the 2009-10 index is the same value for 1996-97 and 1997-98 of 120.3. By returning to an index closer to that period, inflation was very low but positive at 0.8% for the year. Farm gate real saleyard prices would have fallen. The actual farm position can be inferred by returning to Graph 1 and Farm Terms of Trade which fell sharply between 1995 and 2000.

The percentage curve is the most telling. What the percentage curve shows is that in percentage terms, 2009 saleyard prices are around 70% of 1983 actual saleyard price. Similarly other percentage comparisons can be read to determine the comparative purchasing power of 2009 saleyard average weighted price. Because vegetation management legislation constrained productivity increases for "Laguna", the decline in real value of saleyard price of cattle becomes the crucial factor farm income stability and productivity measured as (marginal input costs / marginal output price).

Under the legislation, commercial timber can be sold; but, I can not remove vegetation to increase farm productivity. The implication is that my farm can be used to lift productivity and income in timber industries whilst my productivity potential becomes captured as profit in off farm employment by other industries.

2 (c) Compensation.

North



South

Blocks 15 AU38 and 28AU49

Lot 28 AU49 is the first complete block directly above the bottom margin wedged between the two creeks directly above the typed 28AU49. The eastern boundary is the white U shaped creek area east of the road. Three white areas are west of the road within the western boundary also a creek

Lot 15AU 38 is the second block in the picture directly above the word "Blocks" and backs onto the NW corner of RE of 28 AU49. A tongue shaped figure runs west from the orange area on the creek.

The figure above shows the magnitude of the Vegetation Management Legislation impact on the property comprising Lot 28 AU38 and Lot 15 AU38. The green area is classified "remnant not of concern regional ecosystem". White areas are cleared country exempt from the Legislation. As you can see, across the two lots or portions has approximately 20% cleared country and 80% remnant vegetation frozen under the Vegetation Management Laws of 2004. The full effect of vegetation management legislation has been a de facto resumption of 80% of "Laguna" leaving 20% to generate income for myself and family

It is possible to apply for a permit to selectively clear the green areas; but in reality, it is not an economic proposition. Selective clearing is little more than a throw away political gesture to appease the conscience of urban lifestyle environmentalists. The most economically efficient way to clear the green areas would be to develop in blocks leaving defined wild life corridors. That was the basis of the original development plan lodged with the DNR in December 2001.

As the farm was a virgin or unimproved farm prior to the legislation, it was precluded from compensation.

"Vegetation management financial assistance packages are available only to primary producers who can demonstrate that their business performance is directly affected by the introduction of changes to vegetation management legislation and policies introduced in May 2004".

Peter Voller

Principal Project Officer, Enterprise Unit

My application for confirmation of area affected under the legislation is acknowledged in a response letter from the DNR dated 1/2/2007. The above quote in italics is a direct extract from the DNR response letter (File /Reference number: 2007/000869:247989). In their desktop assessment of my application, the DNR estimated that the Legislation affected 213 hectares of the property or 19% of the overall property. As you can see from the green colouring on the above map, green remnant vegetation comprises approximately 75%-80 % of the overall property.

The use of regulation rather than resumption would circumvent financial responsibility created by the legislation. The compensation package was able to be sold to urban environmental activists as "generous". The compensation package has all the appearance of a political throw away to appease the conscience of urban environmental activists; and, to hell with any moral obligation to affected land owners. Land owners were politically weak and electorally expendable.

3 Other Related Matters

3.1 Broader Implications

Traditionally farm viability has been maintained by factor expansion and factor transfer of resources into other more intensive farm industries. Factor expansion traditionally has been achieved through purchasing additional land. Factor transfer moves existing farm land to a different industry (grazing to horticulture), or brings into more intensive production idle and timbered land. Vegetation management legislation removed the option of factor transfer of remnant vegetation land to lift farm productivity. Productivity improvement is now limited to debt funded factor expansion, improvement in managerial skill, input mixes, and technological advances. This pathway to lifting on farm and sectoral productivity is slow and laborious compared to factor transfer of virgin or idle land to productive use.

In the case of vegetation management, factor transfer of remnant vegetation land is no longer a path way to rising productivity, increasing income, and financial stability. Vegetation management legislation has frozen the national stock of cleared land and therefore created an artificial scarcity which will compound as population grows. A perverse outcome of this policy direction will be to raise the prices of cleared land beyond that which can be justified by output or income. Rural land valuations will not be determined by market forces focusing upon income and capacity to repay debt; but, a valuation based upon land scarcity. Enterprise factor expansion will be driven by capital gains underwritten by land scarcity. Food security both nationally and internationally will become the casualty.

3.2

Since structural reforms of the 1980's, agricultural policy has encouraged market forces to allocate resources efficiently and lift farm and sectoral productivity. In a major export sector such as agriculture, exposure to international competitiveness has been the policy instrument employed to lift farm and sectoral efficiency and productivity. Meanwhile, on farm prices paid or costs have risen at a faster rate over time than prices received. Long term decline in farm terms of trade have meant long term falling real incomes for agricultural producers. Inappropriate agricultural policy has compounded long term decline in the farm sector. It is ill equipped to carry the burden of environmental policies demanded by the wider community

The impact of Native Vegetation on Queensland farmers is the consequence of a direct collision between national agricultural policy and state regulation driven environmental policy. Prior to environmental policy rising to prominence, The Productivity Commission identified competition policy as a generator of sponge cities in its 1999 Draft Report. Environmental policies required by the wider community and imposed upon agricultural without realistic compensation will compound demographic change. Agitation of State and local governments hard pressed by population growth pressures should be seen for what they are: *crocodile tears*. After all they actively supported both market based agricultural policies and regulated environmental policies.

3.3 Federal and State Links

Environmental policy is very reliant upon regulation of agriculture to address urban lifestyle concerns over conservation; bio-diversity and green house gas emissions. Whilst State legislation was marketed as conservation, biodiversity and sustainable land management, Federal policy was concerned with control of land clearing of natural vegetation to meet Kyoto greenhouse emissions targets (Kyoto protocol Article 3.3 and 3.7). Article 3.7 , known as the Australia Clause, provided an accounting free kick to meet Australia's 1990 emissions target of 108% increase in emissions by 2008. Queensland with its vast area of native forest was a logical political target. All that was needed was cooperation between the state and federal Governments

For the states to act in concert with the federal Government to circumvent Section 51(xxxi) of the Australian Constitution is not new:

"soldiers settlement program following the First World War, States compulsorily acquired land for this purpose at a price less than the federal government would have had to pay as 'just compensation'; and then made the land available at that price for a joint federal-state scheme" (Geoffrey Sawyer; Australian government Today, twelfth edition, Melbourne University press, 1977, p. 128.

The cooperation between the Queensland State and federal governments over vegetation management legislation is strongly implied in two documents in my possession.

- Letter to me from the Office of the Premier and Minister for Trade dated 9 Oct. 2003 , reference 39770/AJo8/ERP. This document is signed by the premiers Chief of staff

" Discussions between the two Governments have progressed to the point where the Prime minister has agreed that a moratorium on applications to clear is required prior to placing the proposal before peak stakeholder groups and finalising a joint approach by the two Governments"

- The Hon. Dr. David Kemp

Transcript of a door stop press release 16/5/2003

" The Howard government has acted on this matter. We've worked with the Queensland Government closely and today I'm delighted to announce that a moratorium has now been imposed on new applications and permits on land clearing in Queensland

This was a result of the fact that the Howard Government has worked in close partnership with the Queensland Government to ensure that we can bring into place a proper framework to govern vegetation clearing in Queensland and to protect native remnant vegetation"

By delimiting property rights, the Queensland Government effectively "muddied the water" for any attempt to shift home responsibility of the Federal Government that could emerge under Section 51 (xxxii) of the Australian Constitution. The delimitation of property rights on freehold land by the Queensland Government in effect drew a line under historic British legal interpretation of freehold tenure and began anew

Refer High Court of Australia:

- 1923 Judgement Sir Isaac Isaacs *The Commonwealth v New South Wales* p.218
- 1998 *Fejo v Northern Territory*

Whilst this submission must address microeconomic farm impacts of vegetation laws on an individual enterprise, it is important to draw attention to the wider macroeconomic ramifications of environmental policy. The potential for conflict between agricultural policy and environmental policy have been discussed at the highest level.

Refer

- Rees Ben; Productivity Commission Draft Report, Submission No. 210
- Rees Ben, *Agriculture, Trade, the Environment and Potential for Conflict*, Evaluating free trade and beyond Conference, School of International Business QUT, 23/2/2004, particularly pp 1-6. (Refer attachment 1)
- McGovern, Mark; Rees, Ben; *Regions Between Theory and Reality*, paper presented University of Wollongong Regional Science Conferences Sep. 28- Oct.1; 2004 , pp. 10-11

When any public policy decision has been taken, there is an opportunity cost. An opportunity cost is the loss of alternative production. In the case of environmental laws, the alternative cost of planting trees or freezing land clearing is food production. There is great consternation in the media over population growth to 2050. The narrow disciplines of demography and infrastructure are proposing four million people for Brisbane and Perth and seven million for Sydney and Melbourne. Unlike overseas population debate, the Australian population debate does recognise agricultural policy as an important component of overall policy. It appears as though the background economists are up to their old tricks of assuming away the real world. They simply assume agriculture will respond to market signals driven population growth and expand production. Lets hope this time around their assumption are more accurate than the ones that underwrote the GFC.

Attachment 1

From : Agriculture, Trade , the Environment and the Potential for Conflict

2 Zero Tree Clearing: a Theoretical Discussion

2.1 The Draft Report Key Points: An Overviewⁱ

- Existing environmental and conservation regulations were inefficient and costly to the community. Cost could be reduced and benefit increased through a different approach.
- Effects of directionless and inflexible clearing regulations had negative impacts upon landowners and produced perverse environmental outcomes.
- Existing inflexible regulations impede upon landowner's managerial flexibility and capacity to reconfigure resource use. This limits opportunities at farm level to pursue more profitable productive directions.
- Farmers should expect to pay for conservation measures that benefited them individually. The community should expect to pay for conservation services demanded such as biodiversity conservation. This would be best achieved through negotiated contracts.

Potential lost production impacts of proposed restrictions on land clearing for the Murweh Shire in Queensland and the Moree Shire in NSWⁱⁱ, over a forty-year period, were estimated to be in the order of \$87m and \$80m respectively. When future thickening of woodlands was considered for the Murweh Shire, the cost of \$87m could be doubled. As these were microeconomic impacts, estimates understate future macroeconomic costs to the wider community.

2.2 The Third Coase Theorem a Theoretical Illustration

The analytical framework used by the Productivity Commission was Coase's Problem of Social Costsⁱⁱⁱ. There were some structural problems related to the PC's choice of Coase's Theorem. This has been discussed elsewhere^{iv}.

Under the proposed Queensland Government's legislation of zero land clearing, the appropriate Coase theorem is delimitation of property rights under government legislation. Unlike his other two theorems, delimited property rights exclude trading to correct any initial misallocation of property rights. Unless the government can closely approximate an efficient distribution of property rights, a policy of zero tree clearing will prove costly to the Australian community in terms of a less than optimal social welfare outcome. This is demonstrated theoretically below.

Felder, 2001.^v is the underlying reference for Coase's Third Theorem

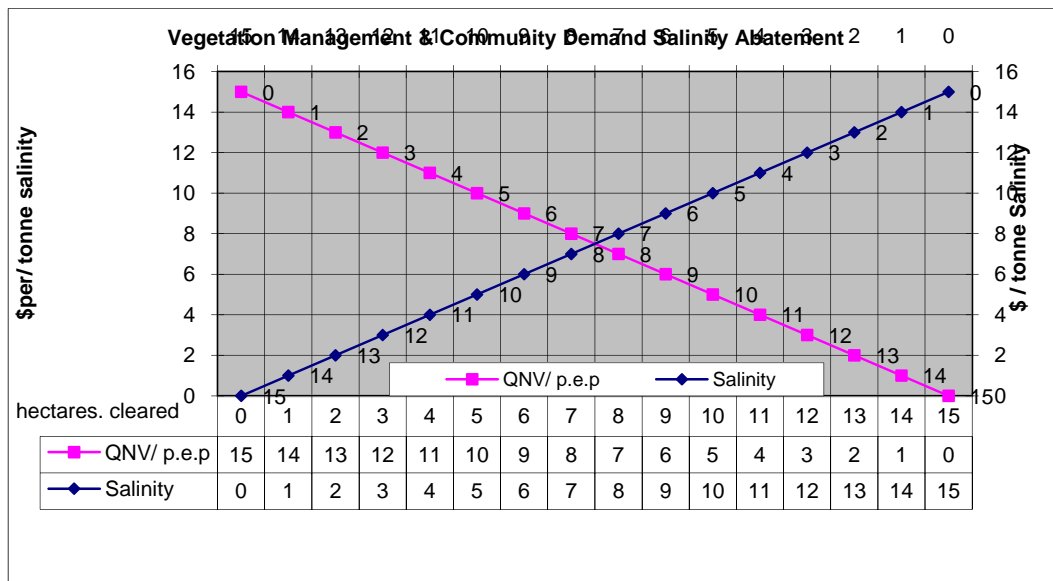
Assumptions & Parameters

Government delimits property rights and no opportunity exists for market correction of the initial allocation.

- Governments can approximate and compare the welfare effects of alternative delimitations of rights at relatively low cost
- Governments act in a way that approximates fairness and impartiality

Graph 1

Third Coase Theorem: a Theoretical Illustration



Note: 1 Notional values are allocated to the X and Y Axes for illustrative purposes. Other values could be used; but the underlying direction of the outcome would not be compromised

2 QNV/pep = Queensland Native Vegetation/ potential, efficiency, productivity

Reading from left to right, the curve QNV/pep represents the rural sectors demand for potential profitability as efficiency and productivity are increased through vegetation clearing. The curve, Salinity, represents the marginal costs or welfare loss to the community of increasing salinity and reduced biodiversity as vegetation clearing is undertaken. The Y-axis represents cost measurement in money value

Maximum social welfare loss is at 15 units of vegetation clearing on the X-axis and is represented by the area under the marginal community cost Salinity Curve. Welfare maximization for the community will be at 0 units on the X-axis where no clearing is undertaken. The cost of salinity abatement to the rural sector can be measured as the area under the QNV/pep curve reading backwards from 15. Under a prohibition on clearing remnant vegetation, this will be the full 15 units of hectares cleared and reflects the real life situation in Queensland.

The two curves intersect at approximately \$7.50 on the left hand Y Axis defining an equilibrium point between land clearing and welfare loss to the community. This confirms that a prohibition on clearing is an undesirable outcome from the social welfare perspective of the community.

If we read the graph from right to left using the QNV/pep tab values as the X-axis, the structure of the analysis changes and the problem is viewed from a different perspective. Instead of being a marginal welfare cost curve the salinity/biodiversity curve becomes the community demand for a salinity reduction and biodiversity improvement program. The QNV/pep curve becomes the rural sectors marginal cost curve of supplying the salinity reduction and biodiversity improvement program.

At \$0 cost to the community on the Y-axis reading from right to left, the community's demand for salinity abatement and biodiversity is at its maximum. Demand contracts however as the program must be paid for by the community and can be read for particular values on the X and Y axes. At a value of approximately \$7.50 per tonne salt, an equilibrium point is determined between the producer's marginal cost curve and communities demand curve for environmental improvement. This simply reflects a budget preference choice in the community's budget ordering process.

At prices beyond \$7.50, the community accepts levels of vegetation clearing higher than the equilibrium point. Very clearly the graphical analysis demonstrates that once the community has to pay for environmental values, demand contracts relative to the "free good situation" of \$0 cost. The community "pays" for environmental and conservation measure by accepting less expenditure on education, health, law and order, and infrastructure

The overall outcome remains the same from whichever perspective the problem is viewed. Consistent with economic analysis, at some point the curves intersect to determine market equilibrium between supply and demand at the market-clearing price. This is the optimal outcome from a community social welfare perspective; and, the level of land clearing is within the bounds acceptable to community welfare values and preparedness to pay.

2.3 Implications

Theoretical analysis of the problem has demonstrated that the optimal outcome for vegetation management is not zero land clearing. A policy of zero clearing of remnant vegetation will breach the necessary assumption of impartiality and fairness by government. It can be inferred therefore that a policy direction of zero land clearing will be more about politics than overall economic welfare of the community

The proposed Queensland structural adjustment package of \$75m from the State Government; and, a further \$75m from the Commonwealth, will not adequately address compensation for one shire let alone cover macroeconomic flow on effects.

3 Macroeconomic Implications

In the Draft Report, the Productivity Commission gave preliminary estimates of potential lost production from proposed restrictions on land clearing for the Murweh Shire in Queensland and the Moree Shire in NSW. Flow on effects will be much broader than this microeconomic view of land clearing. The wider economy beyond the regions will encompass losses due to future production foregone across a wide range of activities e.g. value adding of agricultural output, supporting service industries of accounting, banking, transport, insurance. These macroeconomic flow on effects will

impact upon future growth in employment, production, trade and the social fabric of the Australian society.

Failure to properly analyze macroeconomic implications of land clearing regulations arises from narrow Terms of Reference restricting analysis to regional impacts. This section seeks to discuss the wider implication of the stated policy direction as it would be expected to impact upon the balance of payments (BOP) current account outcome; and, the value of the Australian currency.

ⁱ Productivity Commission Draft Report, Impacts of Native Vegetation and Biodiversity Regulations, Dec. 2003, p.xxii

ⁱⁱ Productivity Commission Draft Report, op. cit. p.xxx

ⁱⁱⁱ Productivity Commission, Box 2.4 p.14 op. cit.

^{iv} Rees, Ben, P.C Submission DR227, Response to the Productivity Commissions Draft Report, Jan 2004

^v Felder, Joseph; Coase Theorem's 1-2-3, The American Economist, Vol. 45, No.1 Spring 2001, p.p 54-61

Attachment 2

From : Regions between Theory and Reality

Of agricultural production

Conflict between urban lifestyle values and the farm sector can be directly attributed to rural policy reliance upon CGE modelling. Urban lifestyle policy solutions require government intervention to alleviate perceived externalities from the agricultural production process. Purely competitive price determination under CGE modelling is a market clearance competitive efficiency outcome. There is no role for government intervention under the principles of competitive efficiency.

The appropriate market-clearing price, in a purely competitive market structure, is determined when marginal costs of inputs equal the marginal value of output. Inputs are restricted to those required in the actual physical production process. Input costs therefore do not recognise unintended outcomes of the production process that are costs to the overall welfare of society in terms of environmental and conservation impacts and resource depletion. This is why agricultural policy and environmental policy in Australia are in open conflict.

The theoretical way around this policy dilemma is the Kaldor-Hicks compensation solution whereby gainers compensate losers. Real world outcomes of the applied compensation principle appear to be that gainers gain and losers lose. Real world outcomes expressed physically in terms of unemployed/ underemployed factors of production, rising levels of poverty, falling living standards, and consequent breakdown in the fabric of society are tell-tale signs of emerging conflict between theoretical and real world outcomes. They are also physical evidence of an inefficient allocation of resources for the economy as a whole.

Attachment 3

Queensland Gas Company valuation of Lot 15 AU8

Queensland Curtis LNG Project
RevD/2520 - Rees

COMPENSATION ANALYSIS

ITEM	DESCRIPTION	AMOUNT
Easement Area	7.23 ha @ \$750/ha @ 40%	\$2,169
Risers		
Intermittent Access	Allow 4 metre wide track over length of the easement at 1,826 metres at a full loss in value, i.e. .7304 ha @ \$750/ha.	\$550
Proximity effect on residence or home site (if applicable)	N/A	
Encumbrance on Title	Allow 1 title @ \$1,000/title	\$1,000
Disturbance		
TOTAL		\$3,719
	ADOPT	<u>\$4,000</u>

Note: These assessments are made on a GST exclusive basis