

Select Committee on the Scrutiny of New Taxes
Parliament House
Canberra ACT 2600
Email: newtaxes@aph.gov.au

The Victorian Farmers Federation

The Victorian Farmers Federation (VFF), Australia's largest state farmer organisation and only recognised consistent voice on issues affecting rural Victoria, welcomes the opportunity to comment on road pricing reform.

Victoria is home to 25 per cent of the nation's farms. They attract neither government export subsidies nor tariff support. Despite farming on only three percent of Australia's available agricultural land, Victorians produce 30 per cent of the nation's agricultural product. The VFF represents the interests of our State's dairy, livestock, grains, horticulture, flowers, chicken meat, pigs and egg producers.

Question on Notice from Public Hearing

At the public hearing held in Geelong, Vic on September 1 the issue of the carbon tax impacting off-road fuel prices. Below is the transcript:

CHAIR: And off-road fuel use is taxed as of 1 July 2012? As a grain grower you would be using it?

Mr Tuohey: Yes, we use off-road fuel. The excise is taken off so that will not affect off-road fuel use.

CHAIR: It will affect it?

Mr Tuohey: No, it will not.

CHAIR: The secretary of the Department of Climate Change and Energy Efficiency has told us it would, so you might want to clarify that.

Mr Tuohey: That will have a significant effect, which could be up to 30 per cent extra in fuel usage costs. And in a business like mine that will be—

CHAIR: It is a very specific question that I asked the secretary of the Department of Climate Change and Energy Efficiency in relation to the way the legislation is currently drafted. I am actually keen for you to verify that and get back to us.

Mr Tuohey: In my understanding no tax would go on off-road fuel use. But if that is the case it will impact on agriculture costs of production very significantly.

CHAIR: Obviously that is something that will need to be clarified. I am keen to know. In terms of the cost of electricity, Treasury tells us that there will be a 10 per cent cost increase in year one and, as the carbon tax and emissions trading scheme costs increase, it will be more in the future. What sort of impact is an increase in the cost of electricity going to have on your industry?

It has been confirmed to the VFF that off-road use in the Agriculture, Forestry and Fishing sectors will not be impacted. The comments made by the secretary of the Department of Climate Change and

Energy Efficiency during the public hearing must have been referring to the other sectors of off-road business fuel use. Below is an excerpt from a fact sheet from the cleanenergyfuture.gov.au website.

Off-road business use

Some businesses effectively pay no excise on the fuel they use off-road, as their excise is offset under the fuel tax credits scheme. An effective carbon price will be imposed on some businesses through reduced fuel tax credit entitlements and reductions to the automatic remission of excise on gaseous fuel used for non-transport purposes.

The current fuel tax regime provides fuel tax credits that remove or reduce the incidence of fuel tax from business inputs so that fuel tax falls primarily on non-business consumers and light commercial vehicles. By reducing existing fuel tax credits by an amount equal to the carbon price, the Government will impose an effective carbon price on businesses liquid and gaseous fuel emissions through the existing fuel tax regime.

*Fuel tax credits will not be reduced for the **agriculture, forestry and fishery** industries. Therefore, these industries will not pay an effective carbon price. The fuel tax credits will remain at 100 per cent of the effective fuel tax for these industries.*

The Direct Farm Impacts

There has been considerable research conducted in the farm sector on the impacts of the carbon tax. While farming emissions are not directly covered there will still be indirect costs imposed on farms. The indirect costs imposed on farms are predominately based on electricity use and the magnitude of costs is proportional to the amount of energy use for the farm type.

Victorian farms, based on research by the Australian Farm Institute, will face increased inputs costs from \$1,200 to \$7,000¹ on average depending on the farm type, with dairy farms and horticulture farms (with packing sheds) facing the greatest impost. Farmers are not in the position to pass on the increased costs therefore will directly impact margins. Below is a summary of research conducted by the Australian Farm Institute:

¹ Research available from the NFF at <http://www.nff.org.au/read/2161/processors-may-have-pass-carbon-tax.html>

Summary of Australian Farm Institute research reports

The impact of a carbon price on Australian primary production businesses
(excluding agricultural emissions and fuel)

Projected change in farm business costs and farm cash income

		Carbon Price of \$23.40/t	
NSW grain farm	Cost - Processor	\$	929.00
	Cost - farm	\$	1,956.00
	Cost total	\$	2,885.00
	Income Change		-3.3%
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WA grain farm	Cost - Processor	\$	2,190.00
	Cost - farm	\$	2,165.00
	Cost total	\$	4,355.00
	Income Change		-1.6%
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Australian sheep farm	Cost - Processor	\$	282.00
	Cost - farm	\$	789.00
	Cost total	\$	1,071.00
	Income Change		-2.8%
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Australian beef farm	Cost - Processor	\$	425.00
	Cost - farm	\$	900.00
	Cost total	\$	1,325.00
	Income Change		-2.1%
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Victoria Dairy	Cost - Farm	\$	6,054.00
	Income Change		-7.8%

Victorian Horticulture Industry Impacts

The horticulture industry is a significant user of electricity and therefore will be impacted relative to that use. It is very difficult to identify a 'typical' or 'average' horticulture farm to determine an 'average' farm level impact, therefore we have compiled a short list of electricity increase cost estimates from Victorian producers based on current electricity use:

Increase in Electricity costs impacts (excluding impacts on direct emissions and fuel)

Business	FTE	Current Electricity use	10% increase through Carbon Tax
Apple, pear and Stone fruit producer with packing shed	100	\$231,000	\$23,100
Stone Fruit and Grapes with Packing shed	11	\$75,000	\$7,500
Vegetables	8	\$15,000	\$1,500

Clean Technology Food and Foundries Investment Program

The VFF is not confident that the clean technology food investment program will deliver benefits to the food processors that will translate to saving back to farmers. The program targets Australian businesses in food and beverage processing with the food processing sector will have a dedicated funding stream of \$150 million.

The examples of eligible projects are listed as:

- supporting the adoption and deployment of technologies to reduce energy use and/or carbon emissions at manufacturing facilities;
- process re-engineering involving the adoption of energy or carbon efficient manufacturing;
- supporting the conversion of facilities from coal to natural gas;
- investing in cogeneration plants; and
- assistance with the implementation of energy efficiency opportunities.

We do not see that many of the processors, especially the milk processors will be able to benefit from these programs and will be left with comparable levels of electricity use and carbon tax obligations.

Agricultures improved carbon efficiency

Australian Farmers have already done a lot to contribute to reducing the per capita carbon levels in Australia. Our industry has made significant gains in carbon efficiency through the use of better breeding (more feed efficient animals) and direct drilling (soil carbon levels often rising from 0.9 to 1.5 ppm and reduced fuel use), for example.

The Carbon Farming Initiative is a positive step in recognising that the farmers are the majority landholders in Victoria and should be compensated for the positive environmental activities that are conducted on-farm.

Conclusion

The cost impost of the carbon tax on the farm sector is well documented. The main result will be an increase in input costs that will affect farmers to varying degrees, but regardless on the increase in costs farmers will not be able to pass on those extra costs.

The VFF has been a vocal opposition to the carbon tax due to the input cost increases and the lack of evidence that the carbon tax will impact climate variability.

The VFF does recognise that the price of off-road use of fuel in the agriculture sector will not be affected by the carbon tax and feel that this is an appropriate measure.

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Question on Notice from Public Hearing

At the public hearing held in Geelong, Vic on September 1 the following question on notice recorded:

(2) Senator CAMERON: If you have access to the historical prices for your commodity, perhaps you could provide those figures on notice. Now let me come back to the issue of why we are doing this. Do you believe there is a problem with climate change?

The VFF does not compile and maintain a historical commodity price dataset. Any analysis of historical prices that is used for policy development generally relies on publically available data compiled from the Federal Government.

Below is a table from the Australian Bureau of Agricultural and Resource Economics and Sciences 'Rural Commodities – Wheat' dataset.

Wheat

217 Australian wheat prices ^a

	AWB Limited export quote ^a		Stock feed	
	US\$/t	AS/t	wheat ^b	Unit GVP
1967-68	na	na	60.81	57.70
1968-69	na	na	62.83	49.40
1969-70	na	na	63.38	50.36
1970-71	na	51.00	63.93	51.15
1971-72	na	49.00	54.75	54.35
1972-73	90.00	70.00	56.97	54.11
1973-74	195.00	132.00	71.00	109.45
1974-75	167.00	122.00	83.40	110.63
1975-76	146.00	116.00	99.32	104.26
1976-77	114.00	99.00	105.40	90.06
1977-78	118.00	105.00	111.60	99.77
1978-79	143.00	126.00	116.61	126.91
1979-80	169.00	152.00	140.50	153.07
1980-81	180.00	155.00	151.37	155.13

1981-82	165.00	149.00	149.78	158.89
1982-83	164.00	175.00	184.11	176.45
1983-84	154.00	170.00	175.24	163.77
1984-85	150.00	194.00	204.36	171.60
1985-86	133.00	190.00	193.82	165.67
1986-87	110.00	166.00	170.12	145.90
1987-88	125.00	172.00	189.54	161.93
1988-89	172.00	212.00	221.84	209.82
1989-90	168.00	218.00	169.08	195.24
1990-91	126.58	161.07	132.33	131.96
1991-92	160.33	208.77	159.67	200.16
1992-93	155.67	222.97	143.50	165.94
1993-94	153.75	223.70	137.58	173.97
1994-95	175.08	236.97	232.75	237.09
1995-96	230.42	304.56	236.24	260.83
1996-97	206.67	264.92	188.38	212.79
1997-98	167.00	246.22	185.93	197.75
1998-99	146.91	234.65	155.38	186.87
1999-00	136.42	216.66	153.63	195.14
2000-01	153.97	285.88	171.83	232.06
2001-02	157.58	301.02	211.97	261.60
2002-03	185.03	316.46	309.69	265.68
2003-04	183.56	257.71	220.74	215.67
2004-05	175.43	233.55	194.77	197.06
2005-06	195.08	261.64	191.84	202.75
2006-07	231.90	295.95	286.76	241.96
2007-08	380.52	425.02	425.49	390.00
2008-09	267.92	360.31	314.47	281.09
2009-10	208.26	234.89	236.83	242.43

a Average of daily asking prices for Australian standard white wheat fob eastern states for the relevant financial year. AWB ceased quoting the Australian standard white wheat price as at September 2007. b Administered pricing of domestic wheat ceased after the 1988–89 season. Sydney cash price, ASW (July–June average) from 1989–90. na Not available.

Sources: International Grains Council, *Grain Market Report*, London; ABARES.

Yours sincerely,

Peter Tuohey
Chair
VFF Farm Business and Regional Development Committee