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

Topic: ABARE Report
Question reference number: CC4
Type of Question: ***(Hansard F&PA page 105-6, 19 October 2009)***
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Question: (Senator Abetz**)**

Senator ABETZ—In that case, if you are not aware of the details of it, could I draw your attention to it and invite you to respond on notice as to the ABARE report's assessment and as to whether you agree with their conclusions in relation to, in particular, dairy farmers and broadacre industries. It talks about the economic value of farm production declining between 0.3 per cent and 1.9 per cent in 2011, and the greatest effects in 2011 are expected in the dairy industry with the average farm income estimated to fall by around $1,800. Anyway, if you can have a look and respond to that on notice, I would be obliged to you.

Dr Parkinson—I am happy to do that…

Senator ABETZ—…What I am asking you to do is to take on notice the ABARE report. If you think ABARE are deficient because they have not factored into account less pasture growth et cetera then tell us that on notice in your answer.

[…]

Senator ABETZ—If you can give us the detailed analysis, the next time around we can ask ABARE about the way they do business.

Answer:

ABARE released the report *Effects of the Carbon Pollution Reduction Scheme on the economic value of farm production* on 1 June 2009.

The report provides some estimates of the potential impacts of the CPRS on the economic value of farm production (defined as net farm income after accounting for any change in stocks over the period of interest) in 2011 and 2015. It complemented an earlier report by ABARE that estimated impacts through 2030 (Agriculture and the Carbon Pollution Reduction Scheme: economic issues and implications, March 2009).

The report's assumptions about the commencement of the CPRS in 2011 incorporated changes announced by the Prime Minister, the Hon Kevin Rudd MP, on 4 May 2009. For 2015, the report presents two scenarios – one in which agricultural emissions are included and the other in which they are excluded from the Scheme.

The Government has recently committed to excluding the agriculture sector from the CPRS indefinitely. This means that emissions from agricultural sources will not be covered by the CPRS, and hence a number of modelling scenarios for 2015 are no longer relevant.

The report used a farm financial model to predict the impact of the CPRS on farm incomes.

– The report is not designed to incorporate interactions between various parts of the economy, possible changes in production and consumption decisions or flow-on effects of the CPRS, which would be more fully represented in a general equilibrium framework.

– The report investigates cost-price pass-through from processors to farms. Four scenarios are given – zero, 20, 60 and 100 per cent cost-price pass-through.

The results cited assume 100 per cent pass through. The sensitivity analysis provides insight into the range of effects from different levels of cost-price pass-through, but gives no insight into which is more likely – assessing this would require more knowledge of demand and supply conditions in various agricultural industry segments and further modelling.

Overall, the report acknowledges that the estimates are likely to overestimate the effects of the CPRS on agriculture. Both producers and consumers are assumed to not respond to the price signals introduced by the CPRS. This means that the key objective of the policy, encouraging behavioural change by increasing the uptake of on-farm abatement options – is not incorporated in the modelling.

8 Economic value of farm production a, and its per cent and absolute change under the CPRS, selected years, no cost-price pass-through from processors to farmers b

	economic value of production of an average farm with no CPRS (average over 2003-04 to 2007-08)	scheme coverage					
		agriculture not covered 2011	agriculture not covered 2015	agriculture covered 2015	agriculture not covered 2011	agriculture not covered 2015	agriculture covered 2015
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Emissions price							
(A$/t CO_2-e) c	na	10	28	28	10	28	28
	$	% change relative to production value in column 1			absolute ($) change relative to production value in column 1		
Industry							
All broadacre industries	61 600	–0.3	–5.1	–9.1	–200	–3 100	–5 600
Wheat and other crops	116 000	–0.2	–4.8	–5.6	–200	–5 500	–6 500
Mixed livestock	62 300	–0.3	–5.9	–8.7	–200	–3 700	–5 400
Sheep	27 400	–0.5	–7.1	–12.7	–100	–2 000	–3 500
Beef	50 800	–0.3	–4.5	–13.0	–100	–2 300	–6 600
Sheep–beef	46 900	–0.4	–4.5	–11.0	–200	–2 100	–5 200
Dairy	97 100	–0.7	–3.7	–5.4	–600	–3 600	–5 200

a The economic value of production is farm cash income (total cash receipts less total cash costs) adjusted for the economic value of the build-up in trading stocks. b This assumes a 0 per cent rate of cost-price pass-through from processors to farmers. Under this scenario the estimated economic value of farm production is determined by changes in farm input costs only. c The $10 emission price for 2011 is in 2011 nominal dollars, the price of $28 in 2015 is in 2005 dollars. To be consistent with the measure of the economic value of farm production, all these emissions prices have been converted to 2008 dollars.

11 Economic value of farm production [a], and its per cent and absolute change under the CPRS, selected years, 100 per cent cost-price pass-through from processors to farmers [b]

	economic value of production of an average farm with no CPRS (average over 2003-04 to 2007-08)	scheme coverage					
		agriculture not covered 2011	agriculture not covered 2015	agriculture covered 2015	agriculture not covered 2011	agriculture not covered 2015	agriculture covered 2015
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Emissions price (A$/t CO2-e) [c]		10	28	28	10	28	28
	$	% change relative to production value in column 1			absolute ($) change relative to production value in column 1		
Industry							
All broadacre industries	61 600	–1.9	–10.5	–14.5	–1 100	–6 400	–8 900
Wheat and other crops	116 000	–1.2	–8.3	–9.1	–1 400	–9 700	–10 600
Mixed livestock	62 300	–1.8	–10.5	–13.3	–1 100	–6 500	–8 300
Sheep	27 400	–2.9	–11.8	–17.3	–800	–3 200	–4 800
Beef	50 800	–2.4	–13.2	–21.7	–1 200	–6 700	–11 100
Sheep–beef	46 900	–2.4	–10.3	–16.8	–1 100	–4 800	–7 900
Dairy	97 100	–1.9	–9.1	–10.7	–1 800	–8 800	–10 400

a The economic value of production is farm cash income (total cash receipts less total cash costs) adjusted for the economic value of the build-up in trading stocks. b This assumes a 100 per cent rate of cost-price pass-through from processors to farmers. That is, processors are assumed to pass 100 per cent of their costs associated with the CPRS on to farmers and nothing on to wholesalers or consumers. Under this scenario the economic value of farm production is affected by changes in farm input costs as well as changes in receipts from processors. c The $10 emission price for 2011 is in 2011 nominal dollars, the price of $28 in 2015 is in 2005 dollars. In order to be consistent with the measure of the economic value of farm production, all these emissions prices have been converted in terms of 2008 dollars.

Source: ABARE, June 2009