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Senator Glenn Sterle
Chairman
Senate Rural and Regional Affairs and Transport Committee
Department of the Senate
PO Box 6100 Parliament House
Canberra ACT 2600

Dear Senator Sterle

Having reviewed the transcript of the Additional Estimates hearing conducted by the Senate Rural and Regional Affairs and Transport Committee on 23 February 2009, I would like to make the some corrections to my responses to some the questions by Senator Boswell, Senator Heffernan, Senator Williams and Senator Colbeck.

The first correction relates to a question by Senator Boswell, which can be found on page 30 of the Proof Hansard:

Senator Boswell—Having established those figures you have given me, are you doing any work on policies that would help rural communities through such a crisis arising out of an ETS?

Mr Glyde—Just as an example: the work that Mick did earlier on did not take into account the fact that there is going to be a fuel tax credit for the agricultural sector for the first three years of the operation of the scheme from 2010.

I wish to advise the Committee that since the hearing it has been drawn to my attention that some of the work undertaken by Mick Keogh of the Australian Farm Institute did take into account a fuel tax credit.

This correction also applies to the question on pages 31 and 32 of the Hansard:

Senator Boswell—But it is not a government subsidy. It is an industry subsidy which the industry pays for by paying for permits. The money from the permits gets rebated back to the farmer.

Mr Glyde—But the point I am trying to get to is that the assumptions that Mr Keogh made, in the earlier work that he did, did not include that there would be that shielding, or that there would be a similar shielding for the transport sector for the first year of operation.

I would like to correct the terminology I used in my response to Senator Boswell's question on page 41 of the Hansard:

Senator Heffernan—Are you going to model a series—60, 40, 20—because there is a different effect altogether as you disproportionately decrease or increase the cost of the tax?

Mr Glyde—We are planning to model the two scenarios that the government has put forward in the white paper, which are CPRS5 and CPRS15.

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I wish to advise the committee that the correct terminology for these scenarios is the CPRS - (minus)5 scenario and the CPRS -(minus)15 scenario. This also applies to my response to the question by Senator Williams below.

I also would like to make another correction to my response to a question by Senator Williams. The relevant dialogue is on pages 37 and 38 of the Hansard:

Senator Williams—My concern is this: the people living in limbo do not know what their future is. What does ABARE predict on the effects of an ETS when it comes in next year, with agriculture excluded, and the effects in 2015 with agriculture included? What is the difference to the aspect of exporting beef, for example?

Mr Glyde—First of all, we are still working through some revisions of the work that we did last year. We published some work at the beginning of 2008, before the white paper settings had come out. Now that we have got the white paper settings and the policy designs and the like, we are within a couple weeks away from publishing some work about what we think the initial impacts might be in 2010 and what the impacts might be right through to 2030 and 2050. I cannot give you that information at the moment, but I think by the next estimates it will be well and truly out there. We are still working through that because, as I mentioned before, our modellers had been working with the Treasury until November last year and, since then, we have started to look in more detail at what it is going to mean for the agriculture sector. It is important that we get this stuff right—

Senator Williams—It is.

Mr Glyde—given, I completely agree, the concerns that are around in the sector and the large number of claims at various ends of the spectrum about what is or is not going to happen to the farm sector. We are engaged in that work. What I can refer you to, if you want specifics in relation to what the impact might be, is the Treasury's work, the best up-to-date thing at the moment. In the back of that, in a table, it has what they estimate to be the impacts on the gross output of various sectors by 2050 depending on a variety of different assumptions. If you take what they call the CPRS5 scenario, you have the sheep and cattle industries going down by 6.7 per cent, which is 6.7 per cent from what it would otherwise have been in 2050—so down by six per cent. That is still very significant growth from where we sit today. You have dairy cattle at 3.5 per cent and grains at 1.5 per cent.

I wish to highlight to the Committee that at the end of the fifth sentence in the above paragraph I mistakenly rounded the estimate of the impact on the sheep and cattle industries of 6.7 per cent to six per cent, instead of seven per cent. I also wish to advise the Committee that the estimated impact on dairy cattle is 3.9 per cent, rather than 3.5 per cent, as stated in the last sentence in the paragraph above.

Lastly, I would like to clarify my response to a question by Senator Colbeck, which can be found on page 39 of the Hansard:

Senator Colbeck—My question goes back to the initial proposition put by Senator Milne that we get an overview of the impact of the CPRS on agriculture. At the last estimates I asked a question—it is question ABARE 03—as to whether there had been any modelling done on the impacts of the manufacturing portion of the agricultural sector. The response that I received was: No work has been done on the impact on the manufacturing portion of the agricultural sector.

If there has been no work done on the impact on the manufacturing portion of agriculture, how can you, in any reasonable sense, give us any idea of the impact on agriculture, given that there is a direct feed in? As Senator Heffernan has already indicated, 30 per cent of the cost of the manufacturing sector in dairy is direct energy costs. Perhaps it gives us an understanding as to why there is so much difficulty in giving us an overview when some of the fundamental inputs have had no research work done on them.

Mr Glyde—That is one of the things I mentioned earlier on—ABARE working on further developing our modelling capacity. What we have done previously in the dairy processing area was just included it as part of the manufacturing sector in our model. What we have been doing over the last few months since we got our modellers back is to expand that out and pull that out of that particular sector and represent it more directly in our model so that we can be more accurate about what the impacts will be on that particular side of the sector. As far as the public accounts are concerned, even though it is a vital part of the agricultural food chain, they treat it as in the manufacturing sector. That is how our model has been established—on the basis of the data we have.

I wish to advise the Committee that at the time of the hearing, the dairy processing sector was included in the other food processing sector within the manufacturing sector in our model. Since the hearing we have separated the dairy processing sector from the other food processing sector, as planned.

Please bring this additional information to the attention of the members of the Committee. I apologise for any misunderstanding that may have arisen as a result of my incomplete responses at the hearing.

If you have any questions please contact me on 6272 2100.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P Glyde', written in a cursive style.

Phillip Glyde
Executive Director
29 April 2009