Submission by Westpac Banking Corporation

Climate Change and the Australian Agricultural Sector

March 2008

Background

Westpac is pleased to provide input into the Senate Standing Committee on Rural and Regional Affairs and Transport Inquiry into climate change and the agricultural sector (the Inquiry).

This submission draws upon the bank's considerable experience in the agri-business sector and active participation in existing environmental markets, as well as Westpac's global leadership position in managing climate change issues within our business.

Westpac has been committed to the agribusiness sectors in rural, regional and remote Australia for over 190 years. Westpac's recognition of the importance of this market and its customers is demonstrated by a dedicated management structure for all regional and agribusiness customers, tailored banking products and services and partnerships with government, industry and community groups.

Westpac also provides industry specific product and services and holds partnerships with key agricultural bodies including the National Farmers Federation and Charles Sturt University (CSU). Additionally Westpac is involved in a range of activities dedicated to building a sense of community in rural areas.

Westpac has been examining and addressing the impact of climate change on our business for well over a decade. Our response to date has been fourfold:

- reducing direct environmental impacts,
- anticipating and responding to changes in trade and regulatory frameworks;
- identifying and responding to emerging business risks and opportunities; and
- advocacy in the community.

In that time, Westpac has reduced its own emissions by over 40%, begun trading in environmental markets, launched a number of environmental products and services, promoted the application of ESG issues in risk assessment and investment considerations and publicly advocated for greater certainty in climate change policy and regulation in the wider community.

In 2007, Westpac was one of just four companies and the only bank globally to achieve a Climate Disclosure Leadership Index score of 100 and a AAA rating under the Carbon Disclosure Project.

Summary of this submission

Westpac's submission provides feedback on the terms of reference for the Inquiry, as well as some general comments on additional topics for consideration.

Westpac believes that climate change issues for the agricultural sector broadly fall into two key areas of impact:

- The physical impacts of changing climatic conditions; and
- The economic impacts of carbon markets.

While recognising that the focus of this Inquiry is on the capacity of the agricultural sector to adapt to the impacts of climate change and supporting measures likely to assist in this transition, Westpac believes that the expected impacts of emerging carbon markets also needs to be considered in this context.

In summary, Westpac's recommendations fall into the following categories:

- Opportunities for global leadership;
- The need for further research and modelling on future climatic conditions and projected economic impacts;
- Emerging commercial risks and opportunities for the agricultural sector;
- The need for an integrated approach to land, water and carbon policy; and
- Implications of an Australian Emissions Trading Scheme.

This submission concludes with a short summary of the flow-on implications of climate change for the finance sector.

Opportunities for global leadership

The Australian agricultural sector is one of the most efficient and well-managed in the world. Australian farmers, given the volatility of climatic conditions and the landscape have become highly experienced at land and water management practices. They continue to innovate in terms of land management practices, with due consideration of their operations towards sustainable and environment best practice.

Analysis of the Westpac-NFF Commodity Index, released in June 2007, found that environmentally-sustainable farming is making modern farming more productive than ever before. Farmers have become much more adept at managing and preparing for extreme conditions, such as drought or floods. They are employing practices which include conservation till, zero or minimal tillage, direct drilling, geo-positioning, stubble retention and a variety of on-farm water management strategies.

Government policy needs to support and further this position, in both examining the impacts of changing climatic conditions and implementing supporting policy frameworks. As such, Westpac supports recent announcements by the Government promoting supporting initiatives for the agricultural sector, such as investigating the potential for soil carbon.

In addition is the export potential of Australia's expertise in effective and efficient agriculture. A recent study by New Zealand's Lincoln University that found that 2,849kg of CO2-e is produced for every tonne of lamb raised in Britain, while just 688kg is released with imported New Zealand lamb, even after it has travelled the 11,000 miles to Britain.

Whilst researchers and farmers have raised concerns over the specific figures they concede that New Zealand sheep farming is generally more efficient. This is in part due to different climatic conditions and management practices leading to a lower dependency on feed.

The focus on air miles, particularly in Europe as an indicator of environmental performance may indicate a need to promote the overall efficiency of the Australian

agriculture industry abroad. There is an emerging focus on buying local which has the potential to impact export markets. However, as demonstrated by the New Zealand lamb example, buying local does not always ensure lower carbon intensity. In addition, the intellectual property surrounding our techniques given emerging concerns over emissions associated with fertiliser use and other practices can be promoted to gain competitive advantage in overseas markets.

Further research into future climatic conditions

Westpac believes that the Government has a role in assisting rural communities prepare and manage towards for the full impact of climate change. It will be essential to understand where and when there could potentially be significant disruptions to the local economy and social structures.

Westpac supports further research into the future implications of climate change for current farm enterprises and the development of possible future industries. The research needs to incorporate a number of dimensions, including climatic and economic modelling of the impacts of changing weather conditions on a regional and commodity basis, in-depth analysis of the carbon intensity and emissions profile of various agricultural activities and the impact of emerging carbon market risks and opportunities.

In addition to examining localised weather patterns and rainfall, research is also needed to examine the implications of changing climatic conditions in relation to issues such as biosecurity, disease prevalence and the resulting impacts on farm management.

Also worthy of further consideration is the full life cycle associated with agricultural emissions, particularly in preparation of the inclusion of agricultural emissions within an Emissions Trading System (ETS). Such research will be an important precursor and cornerstone for shaping adaptation strategies and assistance.

Westpac supports recent announcements by the Government, on the proposed investment of $130 million over four years in the Australia's Farming Future initiative to help primary industries prepare for the impacts of climate change. Including:

- The $15 million Climate Change and Productivity Research Program;
- The $60 million Climate Change Adaptation Partnerships Program; and
- The $55 million Climate Change Adjustment Program.

The findings of such research should be communicated widely within the agricultural community to help members make strategic decisions about the activities they undertake. It is likely that in the short term at least that some climatic zones may become more profitable and that the nature of activities undertaken within specific regions will need to change.

Westpac believes that the findings and associated research programs could also be utilised in future planning decisions regarding land releases for domestic housing, industrial areas and other activities to ensure that they do not take place on land better suited to agricultural purposes.

Emerging commercial risks and opportunities

As with all aspects of the Australian economy, there are a number of emerging commercial risks and opportunities for the agricultural sector coming out of both the physical impacts of climate change as well as the regulatory and market frameworks implemented in response.

In 2007, Westpac became a founding member of the Agricultural Alliance on Climate Change (AACC). The AACC has commissioned research from the CSIRO examining how rural communities can promote climate change resilience and prosper from harvesting clean energy and farming carbon.

The resulting report focuses on the prospects for rural Australians becoming valued service providers in three important areas of Australia's low carbon future:

- providing clean energy and electricity;
- mobilising agricultural mitigation and greenhouse gas offsets; and
- supporting environmental stewardship on private land.

The report presents the best available information on the potential supply of each of these services from rural Australia, assesses key challenges or impediments that need to be overcome in order to realise this potential, and estimates the associated benefits for Australia rural businesses and communities.

Westpac has independently supported new innovative initiatives aimed at exploring the opportunities presented by bio sequestration through avoided deforestation and aforestation. One example is Westpac's funding for the development of Landcare's CarbonSMART program. CarbonSMART is an enterprise launched as a subsidiary of Landcare Australia Limited (LAL) to pool carbon rights from landholders for on-selling as carbon credit offsets to corporations.

Need for an integrated approach to water and carbon management

Westpac supports the need for an integrated approach to developing policy frameworks on land management, water management and carbon management considerations.

Polices and programmes on these key issues will alter the economies of farm enterprises, competitiveness and provide opportunities. An integrated framework should be adopted to ensure the economic and social consequences are fully considered, with open and transparent consultation and information.

Westpac would also support greater clarity over the measurement, valuation and ongoing management of embedded carbon in land use and land management policies, both in terms of resource and climate change policy development. This would minimise uncertainty in outcomes for farmers from a market perspective and promote greater participation in emerging carbon schemes.

Implications of an Australian Emissions Trading Scheme

Recent surveys of business sentiment in Australia by organisations such as PriceWaterhouseCoopers support the view that while Australian companies are generally aware of the emerging risks to business posed by the establishment of a national

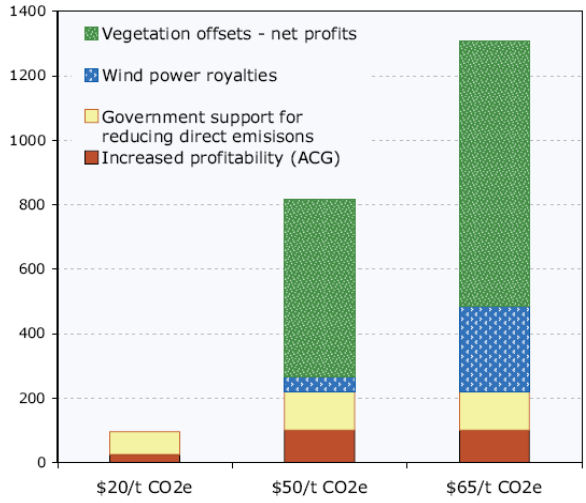
emissions trading scheme, there remains considerable confusion over the specific impacts and the actions required by business to respond and comply.

In June 2007 the Westpac and CSU Agribusiness Index, a quarterly survey providing a detailed national and state-based overview of business performance in the agribusiness sector, conducted a specific piece or research on carbon trading. It found that while 78% of agribusiness operators are aware of federal government plans to introduce a carbon trading scheme, only 41% indicated that they had some level of understanding of how a proposed scheme would operate.

Anecdotal evidence from within Westpac's own customer base would also indicate that there is growing concern around the potential impacts of the introduction of the ETS on the agricultural sector, and how the ensuing cost implications will devolve through supply and production chains.

However, modelling and analysis undertaken by the AACC has indicated that sectors of the agricultural sector also stand to gain with the introduction of a price on carbon through the generation of new revenue streams.

Figure ES1 – Net new income or profit for rural communities at different carbon prices, 2020 - 2025 (A$ millions)



Source: Agricultural Alliance on Climate Change, *Rural Australia Providing Climate Solutions*, October 2007

Greater clarity is required from Government on the coverage of the proposed Australian ETS framework. In particular is the current uncertainty about the inclusion of agricultural emissions and its impact on emerging forward markets. Further guidance, possibly by sector should also be considered as part of the implementation of the reporting system.

Furthermore, Westpac supports the recent announcement by the Australian and New Zealand Prime Ministers to work collaboratively on the advancement of emissions trading.

Implications for the finance sector

Westpac is committed to managing the emerging market and regulatory risks and opportunities from climate change within our own operations and in assisting our clients' transition into a carbon constrained world.

Both the physical risks associated with climate change, and emerging regulatory and market responses, have the potential to impact the insurance sector and financial institutions more broadly.

Increased volatility and further incidents of extreme weather events will significantly impact the provision of insurance, and potentially finance, in industry sectors vulnerable to the impacts of changing weather conditions. The need for Government assistance packages, in the form of 'Exceptional Circumstances' packages or emergency relief packages, are likely to continue to increase.

Westpac recognises that changing climatic conditions, and particularly the increasing likelihood of climatic volatility and extreme weather conditions are likely to prompt a re-appraisal of the provision of Government assistance and Exceptional Circumstances programs. However, Westpac would also caution against blurring the lines between the intent and impacts of natural disasters, notably drought and climate change.

Government has an important role to play in limiting exposure to weather damage and the ensuing costs, by explicitly incorporating climate change considerations into buildings standards and codes, by working with local governments to identify and address areas of particular vulnerability to changing weather conditions and to examine the provision of funding for mitigating measures, such as coastal protection infrastructure, in zones subject to rising sea levels or increasing storm surge.

This will also serve to address concerns in the wider financial services sector, around ensuring long life fixed assets and exposures are protected from changing weather conditions and potential earning impairments for lending and investment in impacted sectors.

Financial institutions are beginning to innovate in the provision of climate change risk management products and services, both in terms of physical risks posed by climate change, and in responding to carbon market mechanisms.

More broadly, there are a number of global collaborative research initiatives, currently focused on assessing the impact of climate change on the finance sector and the role financial institutions can play in the adaptation and mitigation of climate change related risk.

Concluding comments

Westpac welcomes ongoing research and discussion on this topic at all levels. Westpac will continue to actively engage in ongoing policy development on climate change frameworks, including those specific to the agricultural sector.

Westpac would be happy to discuss any aspect of this submission in further detail, or to provide additional detail on any of the initiatives referred to.