THE IMPACT OF THE CPRS ON AGRICULTURE

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The impacts on agriculture of the CPRS[1] in its present form, will be many facetted with major, minor, direct, indirect and subtle effects.

A decision is to be made in 2013 about including agriculture as a 'covered sector' in 2015. The Government is 'disposed' to include agriculture, which means that it is very likely to be included, and will then become subject to obtaining / buying Carbon Credits, or as they are to be known under the CPRS, Australian Emission Units (AEU's) to cover the emissions that are calculated as being emitted.

Some AEU's may be initially given to farmers, or may have to be purchased at auction, or at a fixed price determined by the government.

In any event it is proposed to reduce the number of AEU's regularly (such as annually) to reduce Australia's total emissions to meet the target it has set in the CPRS by 2020 and 2050.

The implications of this decision will be costly and dramatic.

The only options producers have are:

1. Reduce production (at a rate at least equivalent to the reduction in AEU's required each year)(or other determined interval).
2. Reduce emissions by other means. Very limited, in view of the fundamentally flawed method used to calculate livestock emissions[2].
3. Establish timber plantations on cleared agricultural land to sequester carbon. This is the only option presently available to Australian farmers.[3]
4. Buy additional AEU's at the current market price.

If property owners sequester carbon in excess of their own requirements (taking into account the escalating AEU requirements over time) they may sell surplus AEU's at the current market price. These AEU's will however be subject to the 'permanency' requirements prescribed under the Act and Regulations. (Currently 100 years).

If the carbon subject to the AEU's is subsequently 'lost' for any reason (e.g. fire, disease, drought, harvesting, clearing) the value of the carbon lost may have to be repaid at the then current market value, or the plantation may have to be replanted and maintained until the carbon levels obtaining at the time of the loss are re-established (with no further payments received), or equivalent alternative uncommitted plantations substituted.

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[1] Carbon Pollution Reduction Scheme

[2] The calculations only include the emissions from livestock. They do not include the carbon captured from the atmosphere by the plants (by photosynthesis) that the livestock ate, thereby incorrectly ignoring half of the carbon cycle.

[3] Australia elected to exclude soil carbon under Section 3.4 because the current United Nations Framework Convention on Climate Change (the Kyoto Protocol) rules do not allow a distinction to be made between human and natural soil carbon losses. Including soil carbon would expose Australia (and farmers) to significant carbon liabilities resulting from drought and other natural disturbance over which they have no control.

There are obvious significant costs and risks involved with this strategy, and while insurance cover may be viable in the early growth stages, it would become prohibitively expensive as the forest matured and the value of AEU's escalated[4].

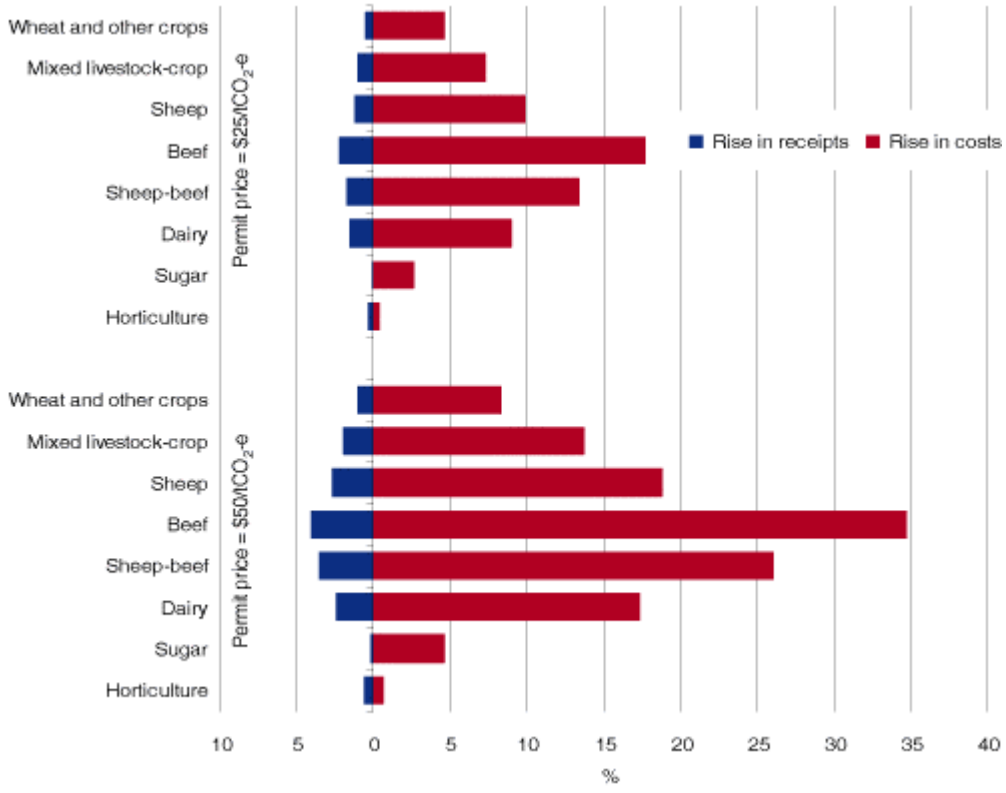
The rate of growth of plantations is closely related to rainfall, soil quality, species, management practices etc. with the highest growth rates obtained on the best country with the highest rainfall. This is normally the most productive agricultural land.

The costs of this strategy are therefore high as establishing trees in (for timber plantations) low-rainfall country is expensive and risky with the possibility of high mortality rates and slow and variable growth rates.

This is added to by the loss of production of the land involved and the costs of the monitoring, assessing, verifying, reporting, etc required.

Because of the permanency rules, you can not harvest the timber as you would in a normal plantation to provide an income.

COST ESTIMATES.



This graph, prepared by the CIE (Centre for International Economics) for the NFF illustrates the early rounds of cost increases.

The initial AEU price is likely to be set at a low figure, however it will have to escalate quickly to provide sufficient incentive for industry to reduce its emissions to meet the specified targets.

[4] Possibly to as high as $250 / $tCO_{2\text{-}e}$ by 2020 (Fisher. B. 2007)

Failure to meet the targets will result in penalties being imposed, and these will have to be greater than the cost of AEU's.

The AFI[5] indicates horrendous reductions in farm profitability if agriculture becomes a 'covered' sector. Some of worst examples include, Broadacre –70.6% to –90.9% and Beef/Sheep –107% to –182.3%,

BACKGROUND INFORMATION[6]

Anticipated Energy Requirements

Energy	Coal	Oil	Gas	Nuclear	Hydro	Renewable
%	46.4	32	19.5	0	1.4	.8
Output TWh	170	3	26	0	16	2
2020	229	3	43	0	16	6
2050	331	3	106	0	19	48

	2001	2020	2050
Aust Population m	19.4	23.4	28.1
GHG Emissions $MtCO_{2-e}$	497	661	846

As the population increases, energy demand and greenhouse gas emissions also obviously increase.

A (low) 5% reduction in emissions by 2020, based on 2001 emissions, is 24.85 $MtCO_{2-e}$ (more if 1990 is used as the base year), add the calculated growth in emissions over the period of 164 $MtCO_{2-e}$ gives a total reduction required of 188.85 $MtCO_{2-e}$ or a 29% cut on anticipated emissions that would otherwise occur. To achieve an actual reduction of this magnitude in the 7 years from 2013 to 2020 would devastate the economy.

There is no way that this in fact could be achieved.

CONCLUSION

It is beyond question that the CPRS, if introduced as presently intended and strictly enforced, would have profound adverse implications for agriculture. Many farmers would not be able to survive and the impacts would spread throughout rural Australia.

As the detrimental impacts became recognised, land values would almost certainly fall precipitously. This would have severe implications for the whole Banking and financial sector, as well as for food prices and export income. This in turn would adversely impact on the States and the Nation as a whole.

[5] Australian Farm Institute. AFI Journal. November Quarter 2008. p 6.
[6] ABARE Research Report 06.7