3 FEATURE ARTICLE


In this edition of Insights, we present a brief summary of speeches and discussions from the Institute’s recent Agriculture, Greenhouse and Emissions Trading Conference. The Conference was attended by over 100 delegates who discussed the many developments that have occurred in the last year in relation to an Australian emissions trading scheme, including the release of the White Paper outlining the design of the scheme, and the exposure draft Carbon Pollution Reduction Scheme Bill introduced to Parliament.

As AFI Executive Director Mick Keogh stated in his Conference conclusion, there is ‘need for the agriculture sector to establish some direction on emissions trading, and to establish a taskforce that covers right across the sector from the processors to the farm level. The sector needs to reach broad agreement about its approach to agriculture’s involvement in emissions trading. It seems to me really obvious that unless the sector establishes some momentum and some cohesion, that other sectors will take whatever advantages they can and the agriculture sector will end up worse off.’

He continues to say that he doesn’t think there’s been enough very open discussion about the potential impacts, the sectoral nature of some of those impacts and the sort of things that might flow on from some of those. It’s all very well to model thirty years in the future and to claim the impacts won’t be too bad based on the assumption the sector will have adapted, but that adaption could involve quite a deal of pain and disruption over the next two decades, and this needs to be much better understood than it is at present.

2 INSTITUTE ACTIVITIES

A brief overview of the Institute’s key activities from February to April.

7 FOLLOWING ON

ABARE has released a new modelling analysis of the potential impact of the Australian Government’s proposed Carbon Pollution Reduction Scheme (CPRS) on Australian agriculture. The latest modelling looks at near rather than long-range projections. Not surprisingly, the near-term implications are projected to be much more significant than the longer-term implications.

8 FARM POLICY PROGRESS

A review of farm policy developments within Australia and internationally. In this edition: researchers warn that ‘landgrabbing’ in developing nations could have dire consequences; the G8 farm ministers’ meeting; South American grain production falls; US dairy subsidies; and the climate change bill in the US.

10 INSTITUTE RESEARCH AND EVENTS


11 FARM POLICY JOURNAL

The May edition of the Farm Policy Journal examines the development of agriculture in northern Australia: discussing government initiatives, climate change, and untapped potential.
Out and about

Recently the Institute’s Executive Director, Mick Keogh, has spoken at:

• Beef Spectacular, Dubbo
• Climate21 Conference, Western Australia
• CSIRO and Australian Institute of Agricultural Science and Technology Conference, Canberra
• Graingrowers Association
• Graingrowers Workshop at UNISYD
• Growers Meetings for Delta Agibusiness, Young and Grenfell
• Meat Industry Strategic Planning Workshop, Sydney
• Mildura Landcare
• Ministerial Advisory Committee
• Mutual Trust Client Conference, Melbourne
• NSW DPI Climate Change Conference, Griffith
• NSW DPI Soil Carbon Awareness Days, Inverell and Narrabri
• QDPI&F Leading Sheep: Webinar
• Senate Select Committee
• WAFF Conference, Lathain WA

Corporate support

The Institute would like to welcome Landmark as our newest corporate member. For more information on how you can support the Institute’s work (individual and corporate opportunities available) please contact the Institute on (02) 9690 1388 or visit the website www.farminstitute.org.au

In the news

The Institute has featured in the Australian media on the issue of the potential cost of emissions trading for Australian agriculture, with the release of modelling by The Centre for International Economics. The results of the report appeared in The Australian, The Age, The Sydney Morning Herald and ABC Radio.

The Agriculture, Greenhouse and Emissions Trading Conference also featured in Rural Press, with articles by Matthew Cawood highlighting some of the major points raised by speakers.

A recent report completed by the Institute regarding costs and benefits of alternative selling arrangements for Australian wool has been the focus of stories in The Australian, Rural Press, Business Spectator, The Weekly Times and ABC Radio.

Call for papers

The August 2009 edition of the Farm Policy Journal focuses on world agricultural policy. The deadline for papers is 6 July 2009.

Over 100 delegates attended the Australian Farm Institute’s second Agriculture, Greenhouse and Emissions Trading Conference on the 6th and 7th of May 2009. The conference was held at a time when there are many developments occurring in relation to an Australian emissions trading scheme. The government’s White Paper outlining the preferred design of the scheme has been released; the exposure draft Carbon Pollution Reduction Scheme Bill has been introduced to Parliament; the Senate is conducting several inquiries into the issue; and Australian agriculture is now engaged in debate about the role of the sector in the scheme.

On the international stage, negotiations for a post-Kyoto Protocol international agreement are taking place in December 2009, at a time when the global financial crisis has changed the focus of many governments which are struggling with economic and political challenges that did not exist twelve months ago. However a new President of the United States has heralded a new era of US engagement with the international community, especially in relation to climate change policy.

In opening the conference the message from Australian Farm Institute Director John Keniry was that there’s a lesson for Australian agriculture in these developments: politics and economics are the major drivers of policy change, and as such the sector cannot afford to concentrate only on the science. Agriculture needs to bear in mind the big picture in its engagement in the emissions trading debate; to consider the full implications of its decisions and to hopefully find ways to minimise the negative impact of climate change policies.

Potential models for agriculture’s inclusion in emissions trading

The proposed design of the Carbon Pollution Reduction Scheme (CPRS) has been detailed in the Australian Government White Paper, with some additional transitional arrangements announced in early May. The main change in the May announcement is that the scheme will not commence until 1 July 2011 which is one year later than originally planned. Anthea Harris, Assistant Secretary of the Department of Climate Change outlined this and other changes to conference delegates, including the ability for forestry to start counting sequestration from 2010–11. Forestry enterprises can opt to be included in the proposed CPRS, so their inclusion is voluntary. Also under the changes announced by government, for the first trading year (2011–12) there will be a fixed price on emissions of $10 per tonne carbon dioxide equivalents (CO₂-e).

From the 2012–13 trading period onwards, the price of emission permits will be established by the market; although the price of emission permits will be capped from 2012–13 through to 2015–16. During the period of fixed price for emissions (2011–12) there won’t be any linking of the CPRS to other international cap-and-trade systems, however the scheme is designed to link with the international carbon market after that time.

A decision on agriculture’s inclusion in the CPRS is scheduled for 2013 with potential that the sector will be included from 2015. The government has stated that if agriculture is not included in the CPRS from 2015, other cost-equivalent alternative measures will apply. For companies included in the scheme a minimum 25,000 tonne CO₂-e emission threshold applies; however if agriculture is included in the CPRS farm businesses inclusion won’t necessarily be subject to a threshold, and if it is the threshold won’t necessarily be 25,000 tonnes of emissions.

The nature of any ‘alternative measures’ (in the event that farm businesses do not have to become direct participants in the CPRS) has not been revealed, nor a decision made about the point of the supply chain where emissions will be calculated if agriculture is included in the CPRS.

Putting the point of obligation at processor level might be administratively simpler and potentially cheaper, but isn’t going to provide farmers with incentives to reduce farm emissions and runs the risk of simply ending up a tax on production. This was the message delivered to the conference by Tom Maguire from Teys Brothers, one of Australia’s largest beef processors. He expressed support for making farms the point of obligation once the industry is able to accurately measure and monitor emissions at this level, once farmers can cost-effectively report their emissions; or when there...
are suitable complementary measures agreed by the agriculture sector.

The process of designing a cap-and-trade scheme to include agriculture is one New Zealand went through in 2008. What became very obvious to Suzi Kerr from MOTU as a consequence of this process was that the research and academic knowledge necessary to make these systems work for agriculture is lagging behind what the policy-makers require.

If the point of obligation under the New Zealand emissions trading scheme is set at the processor level, the expectation is that the cost of goods produced by these businesses will increase, as the processors will be able to pass some of their costs on. The big disadvantage of making processors the point of obligation is that the only available method to reduce emissions is to reduce output; because all the information available for agriculture at present is simply the linkage between output and emissions. There is very little known about what can be done to reduce the intensity of emissions per unit of output, and just as importantly how reduced intensity could be recognised in an emissions trading scheme. Farm level point of obligation overcomes this hurdle, however mitigation options which reduce greenhouse gas intensity all have to be monitored on-farm; which is a research area which requires significant attention.

The conclusion in New Zealand was that farm level emission obligation is the best long-term option as it creates incentives for emission reduction, and the issue then becomes how best to manage the transition to this system. Some transitional options include putting taxes on fertiliser at the manufacturer level, going to farm scale point of obligation only for dairy, or rewarding the use of nitrogen inhibitors directly.

The final option is to change land use, and modelling done in New Zealand indicates that at a carbon price of $50 per tonne there might be land use change creating somewhere in the order of a 10 per cent reduction in emissions. If that land use change is to forestry as is likely, there will be additional sequestration to be considered. There are very few mitigation options recognised under the international rules of the Kyoto Protocol and therefore able to be included in the national inventory. As such land use change is one of the major potential avenues for agriculture to enhance its position.

At the conference, delegates heard that in the USA, agriculture and forestry offsets will be the oil that enables an emissions trading scheme to run smoothly. This is according to David Miller, Director of Research and Commodity Services for the Iowa Farm Bureau.

The United States has not ratified the Kyoto Protocol, and as such emissions trading schemes established there are voluntary, though the emission reduction targets contracted by companies or individuals when entering the voluntary market are legally binding. This is in contrast to Australia, where the proposed Carbon Pollution Reduction Scheme is Kyoto compliant, so is bound by the accounting rules associated with the Protocol.

The Iowa Farm Bureau established the first licensed aggregator of carbon credits on the Chicago Climate Exchange, which is North America’s only voluntary market for greenhouse offsets. Today the Iowa Farm Bureau handles about 6 million tonnes of carbon credits annually through its entity AgraGate.

According to David Miller, as the carbon market matures, more opportunities will emerge for agriculture and forestry. Protocols for no-till, rangeland and afforestation management have been developed and implemented under the Chicago Climate Exchange, which has allowed the farm sector to learn by doing. Today over 9,000 landowners are involved across 35 states. David Miller suggests that under the proposed cap-and-trade emissions trading scheme in the US there will be a threshold like that suggested under the Australian Carbon Pollution Reduction Scheme, which will result in less than 2 per cent of American farms being included. Despite offsets reducing the overall cost of a trading scheme, David says shots have been fired at agriculture and forestry offsets because there’s scepticism that they should be included and questions over whether there should be separate systems established for these offsets.

**Economic implications of emissions trading**

The farm sector faces significant uncertainty in the implementation of an Australian emissions trading scheme. For farmers to be able to absorb a carbon price, the sector needs the tools to manage uncertainty, and economic modelling provides important information on the pressure enterprises will face to adapt to market forces. While a decision on the inclusion of agriculture in the CPRS has been postponed, the indirect costs of implementation of the CPRS will begin the day the scheme starts.

David Pearce, from the Centre of International Economics (The CIE) has modelled the likely affect that the CPRS will have on various sectors of agriculture. The results of the modelling showed that whether agriculture was covered or not the effects are likely to be quite substantial.

The graph below shows the results of CIE modelling of the effect of a CPRS at the farm level. The red bars show the projected percentage increase in costs of the representative farm in each of those different farm categories. The blue bars on the other side represent the increase in receipts. What this shows is that there’s anticipated to be a substantive increase in costs as a consequence of even a
$25 a tonne permit price and most of that comes about from the requirement to purchase permits to cover emissions (assuming farm businesses are required to after 2015). The blue bars represent the amount of those cost increases that the farmer is estimated to be able pass on, that is how much farm produce is expected to increase in price.

David Pearce discussed a number of options for farmers as to how they could deal with CPRS. For mixed livestock/crop farms the easiest way to reduce their emissions would be to move away from animal enterprises and into more cropping production. Planting trees is obviously an option for farmers, however this poses a set of risks within itself. Also important is that the farm sector has tools in place that can help farmers deal with the risk of uncertainty associated with the cost of carbon.

Paul Balfe from ACIL Tasman gave the conference an interesting update on developments in the energy sectors arising from the CPRS, and what the likely flow-on effect to the agriculture sector might be, given that energy is such a large component of input costs for agriculture. The government’s renewables target, which aims to have 20 per cent of generated energy sourced from renewable generation technologies by 2020 is one of the main issues facing the energy sector at the moment. Paul talked the conference through the various options that the sector is likely to use in an attempt to meet this target, for example wind, geothermal, solar and hydro. This will mean that many current power plants will be closed and a lot of investment into new infrastructure will be needed in order for the sector to be able to meet the target. Paul speculated that all these changes will certainly mean an increase in the cost of energy services for agriculture. He also said that is hard to know what the effect of likely increases in energy imports will be, especially if these come from non-carbon taxing countries.

**Source:** TheCIE

**Figure 1:** Likely affect of the CPRS will have on various sectors of agriculture.
Robert Poole, from Murray Goulburn (one of Australia’s largest dairy processing companies) offered a lively analysis of the impact of the CPRS on dairy processors and the dairy sector as a whole. Robert argued that for research and development and gains in productivity to be at all effective, what the sector needed first was a level playing field. He believes that the dairy sector should receive free emission permits from the government until the rest of world catches up on emissions policy, otherwise the result will simply be ‘international carbon leakage’, emissions won’t reduce and the Australian economy will suffer. What Robert highlighted was that under a CPRS, even if the government covers the emissions-intensive trade-exposed industries, the medium emitters are going to be extremely disadvantaged – especially those like dairy which are very trade exposed.

**Mitigation and sequestration options for agriculture**

Options available to mitigate agricultural greenhouse gas emissions are limited, especially because any mitigation to be included in the national inventory must be compliant with the emission accounting rules associated with the Kyoto Protocol.

The same can be said for sequestration, particularly on the issue of soil carbon. International accounting rules don’t necessarily reflect the reality of mitigation or sequestration activities in a dynamic production system, and in order to get recognition for these practices significant research needs to be carried out.

Carbon sequestration through forestry, biochar and soil management, and mitigation activities for livestock were all discussed in great detail at the conference.

Under the proposed design of the CPRS, deforestation (or land clearing) is not included, nor is native forest management. However, landholders can opt in to the scheme for reforestation activities (planting new areas of plantations). There are policy pressures to include forestry in order to minimise the overall cost of the scheme through broad coverage of sources and sinks, and provision of bridging abatement; and maintaining consistency between the Australian and New Zealand trading schemes. However according to Richard Stanton from A3P, on the flipside there are pressures for exclusion including accounting difficulties, permanence and international consistency. With the administrative costs and risks associated with inclusion in the CPRS, Richard says there is consensus in the sector that there will be limited commercial timber plantation expansion to provide carbon credits. The CPRS isn’t the only policy option measure available, and while it doesn’t provide overwhelming incentives for forestry to be included, overall climate change policy does provide some opportunities.

**Enteric methane is the source of two-thirds of total Australian agricultural emissions, and the major contributor to this is emissions from beef cattle. Roger Hegarty from NSW DPI outlined that more efficient production systems can produce emissions savings per unit of product, through simple things like pasture improvement. However with pasture improvement comes increased ability to carry more livestock, so for economic reasons farmers are likely to increase the number of livestock on their property. This will then increase the overall emission profile of the enterprise. This example from Roger highlights the need to clearly define the goalposts in terms of the generic term ‘emission reduction’, as either reduction per head, per unit product, or net reduction of the enterprise; to ensure policies achieve these aims.**

Soil carbon is a potential sequestration option that is receiving a lot of attention, and Dr Evelyn Krull from CSIRO has done a significant amount of research in this area. The carbon storage capacity of soils is 2.7 times more than the entire world’s biomass and as such there is great opportunity to utilise the carbon storage capacity of soils. Biochar is a product which has been mentioned a lot of late, being charcoal produced by pyrolysis of biological materials, forming a very stable form of carbon which has benefits including the ability to increase soil productivity, sequester carbon and indirectly decrease non-carbon dioxide greenhouse gas emissions.

There are significant gains to be made from biochar; however biochar produced from one type of organic waste isn’t the same as that produced from another form of waste and its effects on different soils won’t be the same. These effects need to be fully investigated before biochar is accepted under emissions trading rules, as once it is applied to soils it is so stable that it’s hard to remove. The international emission accounting rules also impose limits on the recognition of soil carbon and as such it is not currently included in the proposed CPRS.

When wrapping up the conference, Mick Keogh Executive Director of the Australian Farm Institute noted that while many attending the conference felt somewhat overwhelmed by the complexity of the issues as they apply to agriculture, it is important that leaders of the agriculture sector develop a more complete understanding of the issues as quickly as possible. Developing mitigation options for agriculture is a priority, and this requires investment in science and finding mechanisms to enable mitigation schemes to be trialled without penalty for those involved. There is also a strong need for the sector to get momentum in the policy debate, by agreeing on a broad approach and then carrying out the required research and analysis to refine that approach and to gain the support of the entire sector.
ABARE updates climate change modelling

ABARE has released a new modelling analysis of the potential impact of the Australian Government’s proposed Carbon Pollution Reduction Scheme (CPRS) on Australian agriculture. The latest modelling looks at near rather than long-range projections. Not surprisingly, the near-term implications are projected to be much more significant than the longer-term implications.

The earlier ABARE analysis (Ford et al. 2009), projected that the impact of the CPRS on agricultural production by 2020 would vary between +3 per cent (grains) and –1.6 per cent (other livestock), and by 2030 would vary between +5.3 per cent (grains) and –8 per cent (beef and sheepmeats), relative to a business-as-usual scenario.

In this most recent ABARE modelling (Tulloh et al. 2009), impacts are examined under three scenarios:

• 2011 agriculture not covered (the initial impact on the agriculture sector as a consequence of higher input costs for fuel, energy, chemicals etc.)

• 2015 agriculture not covered (the impacts on agriculture by 2015 of the increases in input costs associated with the CPRS), and

• 2015 agriculture covered (under this scenario, agriculture is impacted by both increased farm input costs, and a requirement to pay for at least some of the emissions that are calculated to arise from farm activities such as sheep and cattle production).

Another change in this most recent modelling by ABARE is a recognition that some of the major businesses in the agricultural processing sector (meat and dairy processors in particular) exceed the 25,000 tonne emission threshold, and will therefore be required to immediately become CPRS participants in 2011. Based on the criteria set by the government, these businesses are not eligible for free emission permits, and will need to pay the full cost of permits for their emissions, and will presumably pass most of these costs back in lower prices for farm products.

ABARE made a number of assumptions in their modelling about the extent to which these processors would pass-back the costs of their emissions to their farmer-suppliers. If 100 per cent of costs are passed-back by processors, the economic value of farm production is projected to decline by between 9.1 per cent (wheat and other crops) and 21.7 per cent (beef) relative to business-as-usual.

Last year, Australian Farm Institute (Keogh & Thompson 2008) modelling examined the impact of projected CPRS costs at the individual farm level, assuming agriculture becomes a covered sector after 2015, and farm businesses have to pay at least some of the cost of permits for their emissions. That research projected impacts of up to an 18 per cent reduction in farm cash margins by 2020 relative to a business-as-usual scenario, assuming a relatively passive reaction to the CPRS by farm managers.

The results of the most recent ABARE modelling are generally much more closely aligned with those projected in the earlier AFI modelling. Differences include that the AFI modelling did not attempt to calculate passed-back emission costs from the processing sector, and that the cropping farm included in the ABARE modelling was much larger in turnover than all other farms, which means that the impacts are likely to be smaller when expressed in percentage terms, despite being larger in absolute dollar terms.

The major differences between the first ABARE report and this most recent analysis is the assumption in the initial ABARE analysis of equivalent international agricultural emission policies being implemented simultaneously with the Australian CPRS timetable by developed nations, and by developing nations from 2015. This assumption is not incorporated in the most recent ABARE analysis.

These results further highlight the need for the agriculture sector to develop a comprehensive and robust position on the engagement of the sector with the CPRS. This is particularly so in view of the fact that, of all the nations in the world, only Australia and New Zealand have foreshadowed policies that would result in agriculture incurring a direct cost for the emissions estimated to arise from the sector.

References


FARM POLICY PROGRESS

Australian and international farm policy developments

Climate change bill in US

A US House of Representatives committee passed the draft American Clean Energy and Security Act on 21 May 2009 (the Waxman – Markey Bill) sparking a flood of commentary and speculation of its potential domestic and international impacts.

One of the most controversial aspects of the draft legislation has been the power it gives to the President to impose tariffs on foreign manufacturers and importers in order to cover carbon contained within the products.

Tom Vilsack, the Secretary of Agriculture has said that he does not support the legislation in its current form, but that he does however support the ideas behind it.

Many agricultural stakeholders believe that whilst the bill covers and accounts for many added costs to agriculture it does not create any opportunities for the sector.

American Farm Bureau Federation President Bob Stallman testified before the House Agriculture Committee regarding climate change legislation being considered by Congress. He pointed out that agriculture and forestry have a very important and unique role with regard to the development and implementation of any climate change and energy policy. He argued that increased input costs will put American farmers and ranchers at a competitive disadvantage with producers in other countries, such as China and India, that do not have similar greenhouse gas restrictions.

Another point of contention in the bill has been which executive branch agency is best suited to administer a carbon offsets program for agriculture. At the moment it has been proposed that the Environmental Protection Agency is the agency that should run the program. However those involved in the farming sector feel that the United States Department of Agriculture (USDA) would be better suited to fulfill this role. It is believed that the USDA has the institutional resources and the technical expertise required to administer a carbon offsets program, in addition supporters believe that the USDA understands the needs of farmers and will be able to work with them effectively.

The Agriculture Committee also wants the EPA to change the way which they calculate the greenhouse gas emissions from alternative fuels made from corn and other plant materials. The Committee wants to make sure that when corn and other crops are made into biofuels, they qualify as low-carbon fuels under federal mandates. The other primary concern of the Committee is the EPA proposal to include ‘indirect land use’ changes – such as the clearing of forest for new farmlands – as part of any calculations on the carbon footprint of biofuels. Under this EPA regulation, many biofuels might not make the cut.

Peterson argues there is no reliable method for accurately assessing the land changes – and associated carbon footprints – of biofuel production.

It seems that for many rural-based congressional Democrats the climate change bill is just another example of the administration’s lack of understanding of rural America and the industries on which it relies. An article on politico.com by Lisa Lerer and Jonathan Martin pointed out that these Democrats from the farm states are the ‘moderate members Obama must win to get almost any piece of agenda through the senate, without their votes the Democrats can’t move legislation’.

Researchers warn that ‘landgrabbing’ in developing nations could have dire consequences

International agriculture and food experts are pushing for stricter guidelines to be placed on the increasingly common practice of wealthy nations – mainly in Asia and the Gulf – buying land in developing nations in Africa to ensure food security. The International Food Policy Research Institute (IFPRI) say that the monetary value of land currently under negotiations is US$20–US$30 billion.

‘Many agricultural stakeholders believe that whilst the bill covers and accounts for many added costs to agriculture it does not create any opportunities for the sector’
The guidelines around the current situation are somewhat difficult to draft, given that there are huge benefits as well as many threats. Foreign land acquisitions can bring investment into farming and rural areas as a whole; however the benefits depend greatly on the terms and conditions that come with the acquisitions. One big fear is that the foreign ownership of land will make the host countries even more food insecure. Of course on the other hand foreign investment could help to increase domestic agriculture productivity therefore increasing supply, it could also additionally lead to jobs and higher incomes which could possibly allow residents to afford imported food. IFPRI believes that one of the most important provisions in the guidelines will be one which puts a stop on foreign investors exporting food out of a host country during an acute national food crisis within the host country.

The African Union are meeting with IFPRI to develop guidelines which will hopefully protect the African people in the host nations as well as providing sufficient benefit to possible investing nations.

G8 farm ministers’ meeting

G8 farm ministers met in Italy in April – one of the main proposals to come out of their talks was the idea of a world food reserve. The purpose of the world food reserve would be to act as a cushion against high prices and any sudden food shortages.

However the proposal has since come under a lot of criticism. Michael Michener, the administrator of the US Department of Agriculture’s Foreign Agricultural Service said that in particular ‘grain reserves are overly complicated. They cost too much and, in fact, history has shown they don’t work’. Michener suggested that the United Nations’ World Food Programme might instead be able to run a reserves program on a national basis, as an international one is likely to prove to be too problematic.

David Nabarro, assistant to the UN Secretary General and coordinator for the global food security crisis has said that the idea of a food reserve may prove to be too difficult even at a regional level, as food is a sector where there are many major disagreements between governments. Chris Moore, senior global public policy advisor at the UN’s World Food Programme, has said that the appealing points of a big reserve is the assistance that this provides to areas that have volatile production. But he has also conceded that physical reserves could prove expensive and reduce private sector storage.

Moore identified some other risks and challenges which included; the problem of stock replenishment, the timing of purchases, trying to find the optimal split between cash and physical reserves, transparency and visibility of reserves to the market and good communication between governments.

South American grain production falls

Farmers in Argentina and Brazil are expected to harvest 675 million fewer bushels of corn and 711 million fewer bushels of soybeans than they did in 2007–08, the forecast could prove to be even greater when the USDA releases a new updated forecast in late June.

The implications of a lower grain harvest have many far reaching consequences – particularly for US livestock producers who are facing high feed costs. Robert Wisner, an agricultural economist with Iowa State University commented that after 43 years of analysing grain markets he’s ‘never seen anything close to the decline we’re looking at in South America this year’.

The decline in grain was apparently due to the lack of timely rains in Argentina and southern Brazil in January and February, with the severe drought which plagued the region late last year also contributing.

World dairy situation

Australian dairy producers were again disadvantaged on the world market when the US made a decision to reintroduce dairy subsidies. The US strategy was a response to low milk prices and falling profit margins for the country’s dairy producers.

The decision follows a recent announcement from the European Union that they were introducing export subsidies to support their dairy producers and to encourage continued production.

The US decision is believed to be a serious backward step in terms of world trade. As with all protectionist measures, whilst the decision may secure local jobs in the short term, the long-term international effects can be potentially devastating as it means that the market will be distorted and resources won’t be allocated efficiently. Australian Government representatives have said that they will be taking the issue up with US Government representatives.
Cost-benefit analysis of alternative selling arrangements for Australian wool

Wool selling arrangements in Australia have remained largely unchanged since 1999, despite the volume of wool produced annually in Australia having almost halved since that time and there being little prospect of a substantial turn-around for an extended period. Were the wool selling industry a single business, substantial adjustments would have been made in response to the decline in wool production which would have enabled that business to retain efficiency and profitability.

The Australian Farm Institute has recently completed research into wool selling arrangements in Australia. This research was commissioned due to widespread recognition of the need for change in the wool selling industry. The objective was to analyse the costs and benefits for the wool industry of a number of different models of future wool selling arrangements in Australia.

The wool selling industry is complex, and composed of many different organisations that both cooperate and compete with each other, which generally means that consensus is required before substantial industry change can occur. The profit and investment-killing inertia this imposes on the wool industry is never more evident than at the present time, when there is widespread industry recognition of a need for change, but little agreement on the nature of that change.

The research initially involved a detailed survey of participant organisations involved in the Australian wool selling industry, seeking to gain an understanding of the implications of alternative wool selling models for their businesses. Survey respondents included wool brokers, wool buyers, wool processors, and private treaty merchants. In addition, face-to-face interviews were conducted with twenty-six wool industry organisations.

The survey examined three wool selling models: a 3-centre model, with one centre in each of the Northern, Southern and Western wool selling regions; a 2-centre model, with one selling centre in Eastern Australia and one in Western Australia; and a 1-centre model, with a single national selling centre. The results from the survey were used in conjunction with industry statistics and other relevant information to carry out a detailed cost-benefit analysis of each of these selling models.

Annual Roundtable Conference

The Australian Farm Institute will hold its Agriculture Roundtable Conference in Victoria at the Aitken Hill Conference Centre on Thursday 8th and Friday 9th October 2009. This is an important event that brings together Australian agribusiness and farm leaders, and agricultural policy-makers to discuss the strategic issues that are likely to shape the future of Australian agriculture over the next decade.

The Conference will commence with a dinner on Thursday evening, and will cover topics such as:

- The future of agricultural research and development in Australia
- Future directions for water policy and its implementation
- Meeting the future infrastructure needs of regional and rural Australia
- The future of Australian food retailing and processing, and
- The role of agriculture in future greenhouse emission policies.

As well as providing attendees with expert insights into strategic issues, the Conference also gives the Institute’s research committee valuable guidance on issues for future research. To register your interest, or to find out more call Tracey Bligh on (02) 9690 1388 or email her at info@farminstitute.org.au.
Northern Australia: unlimited potential?

Northern Australia is already a major agricultural production area, driven by innovation and evolution; but just how big a role will it play in the future of Australian agriculture. Will agricultural production drive further north and can the region prove to be a significant sustainable long term contributor to the future food needs of Australia? The May journal explores the drivers of agricultural development in northern Australia, including new government initiatives, climate change, and the untapped potential.

The May 2009 edition of the Farm Policy Journal will contain a collection of papers discussing agriculture in northern Australia. The authors examine advances in production practices that optimise outcomes and minimise potential environmental impacts, and the developments of potential markets in the north.

Chris Chilcott is the Regional Manager of the Rangelands Region for the Department of Agriculture and Food Western Australia, which includes the Kimberley and Pilbara. He has mostly undertaken research and development in rangeland management and science. He had formerly worked in Queensland in grazing land management research and extension, and lead research programs in native vegetation management, agroforestry and soil carbon modelling. Chris’ article explains the current situation in northern West Australia and how it can be improved.

The Hon. Bill Heffernan is a Liberal Senator for New South Wales. His current positions include: Chair of the Senate Select Committee on Agricultural and Related Industries; Chair of Coalition Infrastructure, Rural and Regional Affairs Policy Committee; a Member of Senate Standing Committee on Rural and Regional Affairs and Transport; and Regional Affairs and Transport. Bill’s family property in Junee in southwest NSW, is a successful diversified large-scale farm.

Don MacKay was appointed Managing Director of Australian Agricultural Company Ltd (AAco) following a 27 year career with Elders Limited, including roles as General Manager NSW and National Manager Livestock Development. In 2004 Don was promoted to Chief Executive Officer and Managing Director. Don is a Director of the International Stockman’s Educational Foundation (USA) and is Deputy Chairman of University of Queensland Veterinary School Capital Committee. He is also Past President of the Australian Council of Livestock Agents, Inaugural Chairman National Saleyard Quality Assurance Programme and past Chairman Livestock Industry advisory Committee. Don’s article looks at the history of northern Australia, its natural assets, development and potential, including the role of corporate agriculture in the region.

Stephen Yeates is a Senior Research Scientist with CSIRO’s Plant Industry division, with particular expertise in cotton irrigation and agronomy. He leads cotton water research at the Australian Cotton Research Institute in Narrabri (in western New South Wales). Stephen has 24 years professional experience, including five years private industry research and development, and 18 years working with tropical crop agronomy and researching farming systems in northern Australia and central Africa.

Between 1994 and 2004, he studied sustainable cotton production in tropical Australia with the Australian Cotton Cooperative Research Centre (ACCRC). He is about to move to the Burdekin irrigation area in north Queensland to research the feasibility of irrigated cotton/grains cropping systems. His article describes prospective cropping research that aims to highlight an effective process for new cropping industry development in north Queensland and the role of research (government and private).

The Hon. Gary Gray AO MP was elected to Australian Parliament in 2007 as the Member for Brand, Western Australia. Following the election of a new Labor Government in November 2007, Gary was appointed the Parliamentary Secretary for Regional Development and Northern Australia. In June 2009, he was re-appointed as Parliamentary Secretary for Western and Northern Australia. As part of his role he has undertaken extensive consultation across northern Australia and established a wide and varied network. In December 2008 the Prime Minister asked Mr Gray to lead the joint assessment for the East Kimberley Development Package. Gary’s article examines the many challenges that northern Australia poses, appraising the various policy responses to some of these problems.

The May Farm Policy Journal will be released in late June. It can be viewed, by members and subscribers, or purchased at farminstitute.org.au/publications/farm-policy-journal.html
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