

The Australian Agro-environmental Nexus: Pressures and prospects

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The short story

- Agricultural production and environmental protection compete for the same resource base
- Agricultural incomes have been falling – cost price squeeze
- Interest in the environment has been rising with growing national wealth
- How to match landowners' actions to this changing pattern of demand?

1. Conservationists SHOULD back the push for international agricultural trade reform
2. Governments SHOULD NOT regulate farmers in ways that effectively confiscate their property rights without compensation
3. Governments SHOULD institute policies that :
 - Mobilise taxes to pay farmers for conservation outcomes
 - Facilitate private sector initiatives to produce conservation outcomes on private land

The long version

- Agriculture and environmental protection compete for the same resource base
- Land can be cleared for grazing or the trees can be kept as a wildlife preserve
- Water can be extracted from a river and used to irrigate crops or left in situ to protect endangered fish species
- Resource use is a “question of balance” between the competing interests

The agricultural interest

- Australian agriculture (mostly) competes in (distorted) international markets
- Supply is competitive ... technological advances are quickly adopted to cut profits
- Input costs rising at least with inflation ... dependency on oil
- Demand grows slowly with population BUT access to the richest demand is restricted by trade barriers: higher prices within the barrier, lower outside.
- Cost-price squeeze

Consequences

- Lower incomes
- Lower value for the assets used for agriculture and so ... lower incentive to care for the assets
- For example ... care given to the new BMW vs the 10 year old Hyundai
- So the poorer the farmer, the less income available for soil erosion control works and the less important those works are because the sale value of the land is in decline

The environmental interest

- Public conservation reserves are limited. Supply from private land is in decline ... often irreversibly.
- Demand is growing as national income grows (more interest, more knowledge)
- Growing deficit of supply relative to demand

Will farmers supply conservation?

- It costs ... lost production plus additional inputs
- Is there a return?
 - Eco-farm stays?
 - Environmentally friendly crops?
 - Diversify to high income alternatives to free "spare" resources for conservation?
- "Win-win" options are rare! If they were there, they'd be adopted. Often merely 'romantic notions'!

- They will if:
 - They are earning enough to want to for themselves and have the incentive to care for their asset
 - They are forced to (BUT that decreases income and asset value)
 - They are paid more for that than their next best alternative use of the resources

Conflict

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| <ul style="list-style-type: none">▪ Agriculture▪ Declining rural incomes▪ Less ability and incentive to supply conservation goals | <ul style="list-style-type: none">▪ Environment▪ Higher national income (urban-based)▪ More environmental demand |
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Demand > Supply

- Usually, entrepreneurs love to step in here to increase supply and profit from it
- The market acts as a bridge between consumers and producers
- ... but not here

- Unlike “wheat and wool”, markets for “birds and trees” do not form readily
- Characteristics that restrict potential for prices to stimulate supply
- Farmers (generally) can’t make money from conservation products that are “public goods”

Government to the rescue?

- Provide network of public conservation reserves
- Often regulate farm activities (eg tree clearing laws) or confiscate rights (eg irrigation water access)
- Dangerous because:
 - Reduce farm income and asset values with negative environmental consequences
 - Increase uncertainty regarding access and so encourage short term opportunistic resource use

- But Government can help achieve the balance by mobilising consumer demand for conservation via the taxation system ... schemes to pay farmers for conservation outcomes
- The private sector (including the not for profits) can also mobilise consumer demand

Action 1

- Conservation lobbyists should be banding with free-trade lobbyists in the WTO negotiations ... greater access to agricultural demand will make farmers better off.
- Rich farmers are better conservationists than poor farmers!

Action 2

- Government should abandon policies that involve the uncompensated seizure of rights
- Needs to establish an 'institutional setting' that is well understood, consistent and settled
- Eg ... ensure that rules regarding 'off-farm' impacts (weeds, pesticides/herbicides, etc) are clearly defined and enforced

Action 3

- Government should adopt policies that link environmental service consumers and farmers via tax funded schemes that reward farmers for their production
- Many innovative schemes to ensure the link is made cost effectively
- But make sure that the environmental benefits provided are worth the costs

Action 4

- Government should act to facilitate private sector initiatives to protect the environment on farms
- Eg ... simplifying the process for setting up environmental covenants on land including allowing conservation organisations to own covenants (Land Trusts)
- Eg ... allowing the purchase of water entitlements for conservation purposes (water Trusts)

- The goal is to develop ways to reduce the barriers that currently exist between

Willing buyers (environment consumers)

AND

Willing sellers (farmers)

- to allow mutually advantageous exchange