



The 2019-20 Australian Economic Crisis Induced by Bushfires and COVID-19 from the Perspective of Grape and Wine Sectors

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Glyn Wittwer
Centre of Policy Studies,
Victoria University

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Abstract

The unprecedented bushfires from September 2019 to January 2020 in south eastern Australia resulted in 34 deaths and destroyed homes, farmland, infrastructure, crops and conservation land. Even though most of the capital damaged was away from urban areas, substantial impacts resulted in urban areas including Newcastle, Sydney, Wollongong and Canberra, due to smoke pollution. Now the recovery phase is being hindered by the global COVID-19 pandemic.

This study uses an aggregation of TERM-WINE, a multi-regional, dynamic model of Australia, to examine the impacts of bushfires and the pandemic on the Australian economy. It places some emphasis on the grape and wine industry. In a number of respects, the industry is a loser in the crisis, due to direct destruction of vineyards and wineries from bushfires, and in some regions from smoke taint. On-premise consumption of wine will be curtailed by social isolation responses to COVID-19. At the same time, the response to the crisis may increase off-premise wine consumption.

It would appear that the modelled duration of the COVID-19 induced economic crisis in this study is optimistically short. Nevertheless, the bushfires plus a severe disruption for four months due to the pandemic are sufficient to reduce national economic welfare by \$105 billion in net present value terms. This excludes estimates of the value of conservation land and fauna destroyed by bushfires. This provides a context for the magnitude of the appropriate fiscal response of the Federal Government.

JEL: Q11, Q15, C68

Keywords: regional bushfire impacts; COVID-19 economic impacts; welfare

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1. Introduction

On 21 March 2020, the Federal Government announced additional assistance packages to small businesses. The government's current fiscal commitment is \$66 billion (Norman 2020). This package is based on the expectation that COVID-19 may disrupt the economy for more than six months.

This study uses TERM-Wine to examine the impacts of bushfires and COVID-19 on Australia's wine industry and the rest of the economy. This preliminary model assumes that significant COVID-19-related disruption will last for 4 months. Although this may now appear to be an optimistically short time for disruption, it is nevertheless sufficient to estimate the magnitude of economic disruption, and gauge how large an appropriate fiscal response needs to be.

TERM-Wine is a multi-regional computable general equilibrium (CGE) model that represents three grape and three wine types (non-premium, commercial-premium and super-premium). The master database of the model includes 195 sectors and 334 regions (SA3 level). It is not computationally possible to run such a large database in the full dimensions, now would it be practical in terms of the presentation of key results. Rather, in sectoral dimension, the aggregation has 32 sectors, including three grape and three wine types, and other sectors relevant to the industry. These include *HotelsCafes* (restaurants and hotels), *Holidays* (domestic tourism) and *ExpTourism* (foreign tourism). Each of these sectors includes wine inputs, so that downturns or booms in demand in these sectors result in changes in demand for wine.

Since TERM-Wine includes both off-premise (direct consumption by households) and on-premise (restaurants and hotels) consumption, the impacts of altered consumption patterns may be in opposite directions on the two forms of consumption. Reduction in dining out and travelling will have a negative effect on on-premise consumption and a positive effect on off-premise consumption.

In the regional dimension, this study concentrates on wine regions, including those hit by bushfires, notably the Adelaide Hills, Yass-Young near Canberra and Lower Hunter. However, severe short-term downturns in economic activity will hit the wine industry in all regions. Other wine regions represented individually in the model include North Eastern Victoria (Wangaratta and Wodonga SA regions), Yarra Ranges, Barossa, Lower North (SA) and Augusta-Margaret River (WA).

Some bushfire impacts, detailed in the next section, will affect the industry in all wine regions. This is because international tourism may suffer medium-term damage due to the impact of bushfires on Australia's image as a tourist destination. In the case of COVID-19, the impacts entail a severe short-term downturn in national and global economic activity. Even if Australian wine consumers continue off-premise consumption at usual or greater than usual levels, downturns in dining out and domestic holidays will impact negatively on domestic consumption. These downturns will arise from a temporary taste swing against out-of-home consumption of goods and services.

A severe impact on export demand for Australian wine has arisen from a short-term disruption to exports, combined with an almost complete interruption to international tourism.

2. How we depict impacts of bushfires and COVID-19 in this study

Although this study concentrates on impacts of bushfires and COVID-19 on the wine industry, the shocks to ascribed to TERM-Wine cover an array of impacts. This represents an initial attempt to cover most of the costs of the two adverse events in a dynamic CGE framework.

There are several broad types of economic costs arising from bushfires. These include:

- destruction of capital, including vineyards, other plantations, fencing, houses, outbuildings, livestock, cars, powerlines and easements and telecommunications towers;
- destruction of current crops including the impact of smoke taint;
- jobs losses in the wake of destruction;
- reductions in domestic and international visitors to regions; and
- an array of human costs.

Human costs include deaths and injuries arising from bushfires. They include various sources of lost labour productivity. Sydney suffered more than 35 days of hazardous smoke levels¹ in 2019. Rawnsley (2019) estimated that each hazardous day results in up to \$50 of lost labour productivity.² Australia's unprecedented bushfires are likely to escalate the incidence of PTSD among professional and voluntary firefighters. Already, PTSD rates among firefighters are high and will only worsen following extreme and prolonged bushfire events.³ Such costs are likely to be much more than the costs of firefighting injuries. Labour productivity in the grape and wine sectors is affected to a small extent by PTSD.

There are also costs arising from destruction of native forests, and diminution of possible extinction of fauna and flora. The framework of this study does not include this destruction, except to the extent that it may impact on tourism.

Rebuilding in communities and farm areas ravaged by fires may take several years. Restoration of pre-fire production in vineyards destroyed by fire and replanted may take five years or more. Domestic tourism, important to the wine industry in many regions, may recover relatively quickly, with public campaigns playing a role in restoration of regional demand. The impact on international tourism may last much longer.

COVID-19 presents a different crisis than bushfires, affecting a larger proportion of the national economy in the short term, yet with the possibility of rapid restoration. At present, we do not know whether the most severe of COVID-19 impacts will stretch beyond one quarter. In dynamic TERM-Wine, in which we use annual time intervals, we assume the following:

¹ <https://www.dpie.nsw.gov.au/air-quality/air-quality-concentration-data-updated-hourly/annual-exceedences>

² <https://www.smh.com.au/national/nsw/the-economic-cost-of-bushfires-on-sydney-revealed-up-to-50-million-a-day-and-rising-20191212-p53jbq.html>

³ As an example of an almost routine expectation of PTSD among firefighters, see <https://www.cfa.vic.gov.au/documents/20143/3557932/Firefighters-Recovery-Booklet.pdf/1ee13bbc-9a19-d66b-cf94-c35a155a673c?t=1555377204291>.

- a virtual cessation in international demand for all goods and services for more than quarter, equivalent to a 35% decrease in international demand over the year;
- a decline in capital utilisation in most manufacturing and service sectors equivalent to a 10% drop over 2019-20, followed by recovery; and
- a substantial taste swing against consumer services to reflect temporary social isolation measures and towards health services, followed by a reversion to normal demands.

3. Bushfire and COVID-19 impacts on the wine industry and wine tourism in Australia

The purpose of this study is to provide a preliminary estimate of bushfire impacts over time using a dynamic multi-regional CGE model, TERM-Wine. The methodology is to concentrate on the impacts in a subset of affected regions, in this case wine regions. That is, the estimated direct impacts from a national database of fire damage will be aggregated to the regions of interest in this specific study. Changes in aggregation will do little to alter national impacts, but enable the impacts of relatively small regions to be presented individually.

In the context of the grape and wine sectors, there are three contributors to damage. First, in the Adelaide Hill, one third of vineyards were destroyed by the catastrophic fire which swept through the Adelaide Hills shortly before Christmas 2019. Second, in the Hunter Valley and Yass-Young, there may have been no vineyards destroyed by fire, but weeks of bushfire smoke resulted in around 80% of the 2020 vintage being unusable for wine. Third, in regions heavily reliant on international tourism, turnover may be disrupted for several years into the future due to an altered perception of Australia as a tourism destination, beyond the collapse in international tourism arising from COVID-19. That is, Australia's image as relatively unspoilt with ample natural assets has been damaged by the bushfires, and may take years to restore.

4. The main driver of national economic losses

Two key assumptions in this study are concern the labour market and capital utilization. Since isolation measures have been imposed, and have markedly diminished activity in some sectors, notably hotels & restaurants, transport, child care, tourism, sport and performing arts. The main shock to the labour market reflects the impact of isolation measures: a 4% downward shift in labour supply averaged over the year, equivalent, for example, to a 12% downward shift for 4 months.

Two sets of shocks to capital apply in this scenario. They include shocks to depict capital destruction by bushfires, relevant in the context of wine regions in the Adelaide Hills. The other set of shocks concerns capital rendered idle for isolation measures, which spreads over many sectors in services, manufacturing and construction.

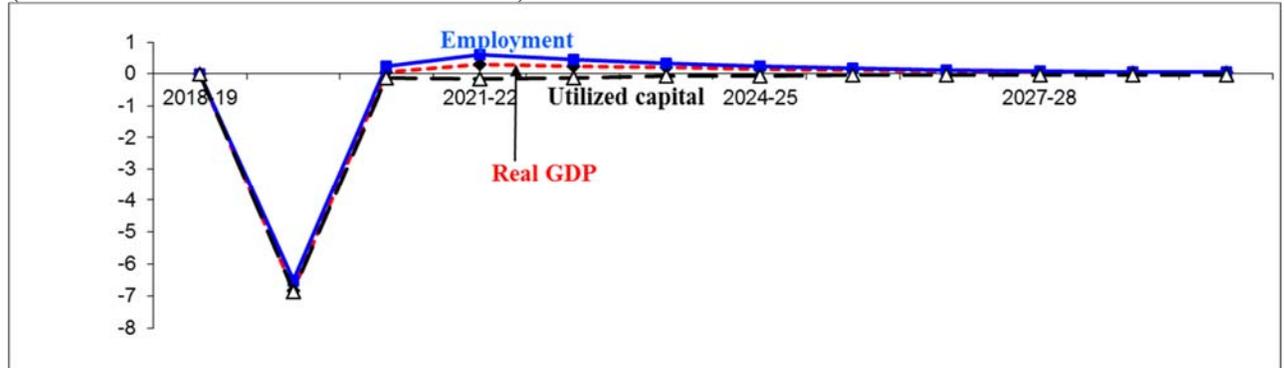
5. National and regional output losses

Figure 1 shows the national impact of COVID-19 and bushfires on the income side of GDP. Although the shocks ascribed to TERM-Wine include bushfire impacts, outlined in

section 2, in 2019-20⁴ real GDP losses are dominated by labour and capital taken offline temporarily. The modelling includes shocks to accommodate destroyed capital, destroyed output (i.e., smoke-damaged winegrapes) and health impacts, but in the short term, at the national level, these are overwhelmed by COVID-19 impacts (figure 1).

Figure 1: Real GDP, Australia, income-side

(% deviations from business-as-usual base)



Employment falls by 6.5% and utilized capital by 6.9% relative to base in 2019-20. One way of interpreting this is that without fiscal measures⁵ to alleviate negative impacts, unemployment could rise from around 5% to a yearly average of 11.5%. In a shorter time period, the impact without broad fiscal interventions (given the assumption that extreme social isolation measures are in place for between one and two quarters) would be much larger.

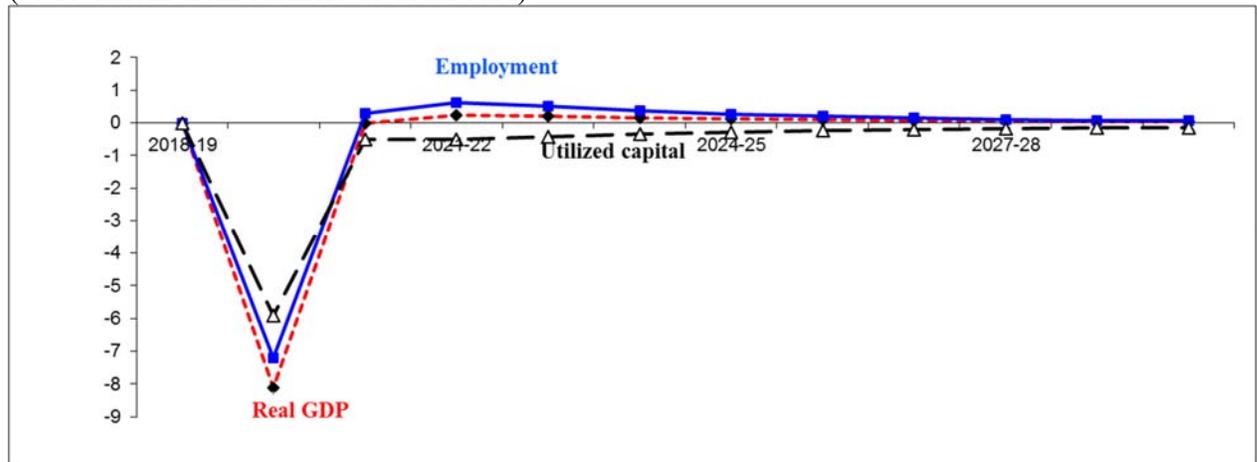
Although the TERM-Wine modelling includes shocks to depict negative labour productivity impacts arising from bushfire smoke, and increased health service requirement to deal with the bushfire-related injuries and management of COVID-19, these are relatively small shocks that have little impact at the national level.

A different picture emerges when we turn to income-side impacts in some important wine regions. Yass-Young, adjacent to Canberra, suffered from many days of hazardous pollution in the wake of bushfires that burnt over several months in New South Wales.

⁴ Since we assume a 4 month severe dip in economic activity due to COVID-19, the year 2019-20 represents a time period that might end on 31 July 2020 rather than 30 June 2020.

⁵ The only exception to no fiscal response in this scenario is to increase government spending on health services by 10%.

Figure 2: Real GDP, Yass-Young, income-side
 (% deviations from business-as-usual base)



At the macro level, real GDP is a function of primary inputs (labour, capital, land) subject to underlying technology. If technology is unchanged, real GDP is the share-weighted sum of primary inputs. In figure 2, we see that in the case of Yass-Young, in which the much of the economic value of the winegrape crop was destroyed by smoke damage, the percentage fall in real GDP is larger than the percentage fall in both employment and utilized capital. The gap reflects technological losses arising primarily from smoke damage to winegrapes, in a region whose international reputation for fine wines has grown over the past three decades.

A similar story is evident at the macro level in Lower Hunter, in which smoke damage also led to much of the winegrape being unusable in the 2020 vintage (figure 3). In North Eastern Victoria, there was considerable destruction on farms due to bushfires, including livestock losses and destruction of other forms of farm capital (figure 4).

Figure 3: Real GDP, Lower Hunter, income-side
 (% deviations from business-as-usual base)

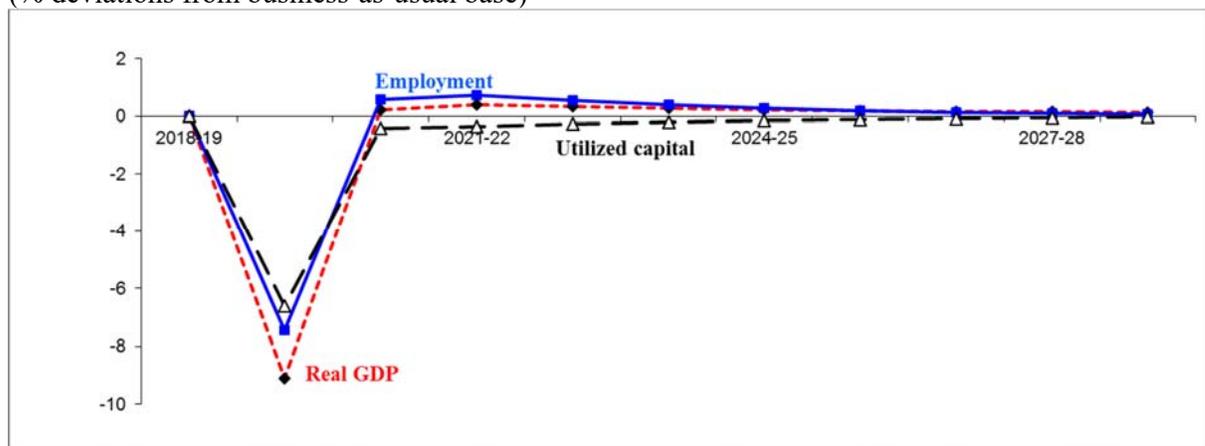


Figure 4: Real GDP, North Eastern Victoria, income-side
(% deviations from business-as-usual base)

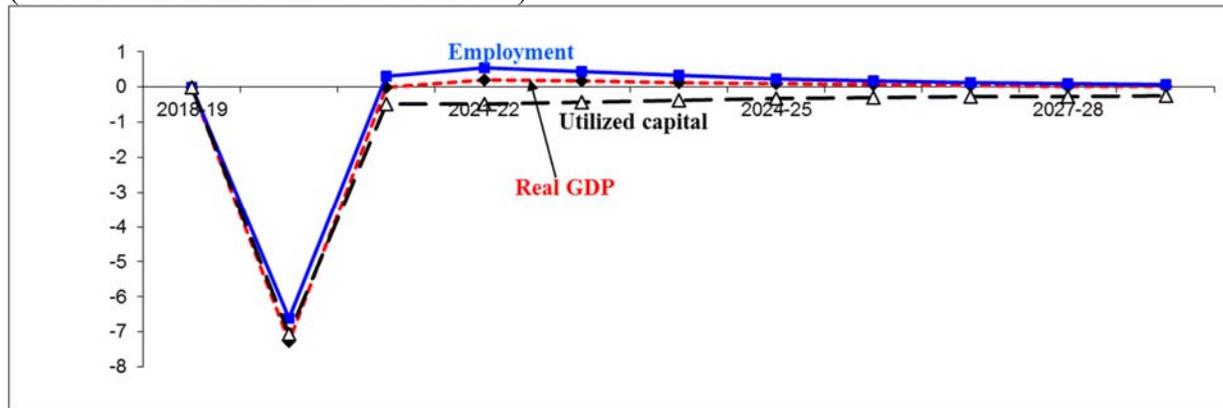
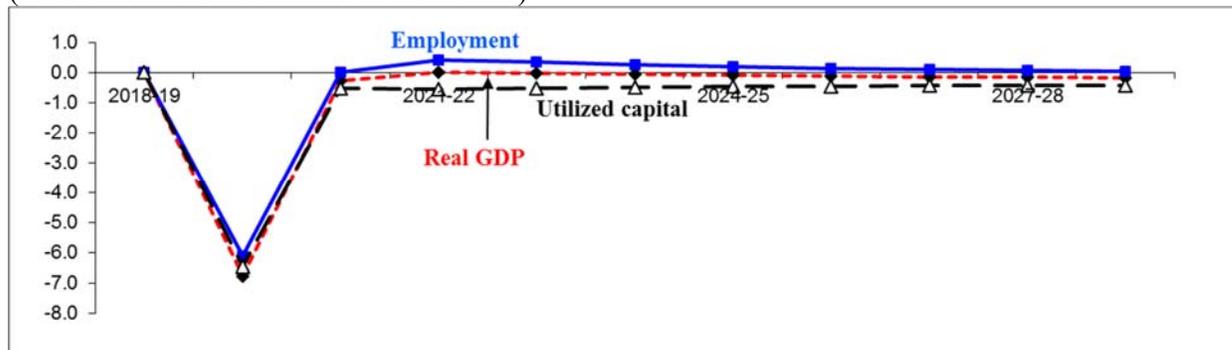


Figure 5: Real GDP, Adelaide Hills, income-side
(% deviations from business-as-usual base)



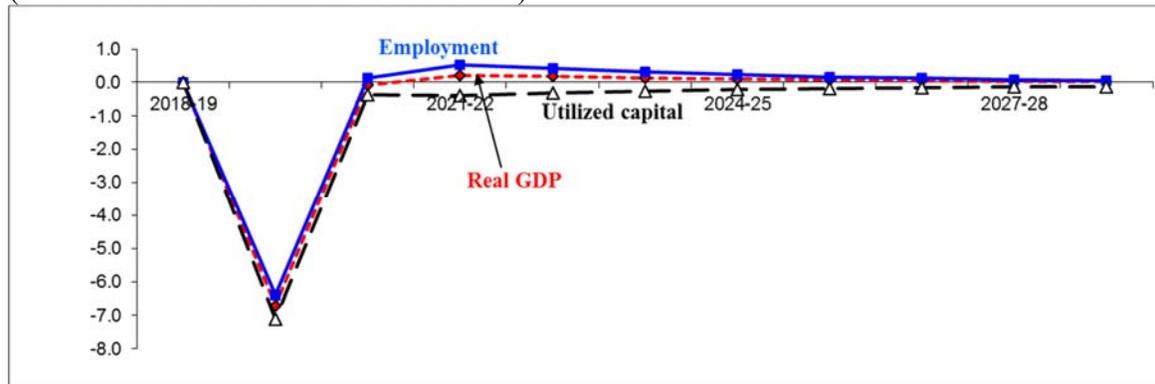
Similarly, in the Adelaide Hills, in which fires ravaged 25,000 hectares, one third of vineyards or around 800 hectares were destroyed. The value of the Adelaide Hills vintage prior to the fire event was around \$20 million per annum. It would appear that at least some smoke taint has occurred (Adams 2020). Additional destruction of capital in the Adelaide Hills included 86 houses, around 500 outbuildings, hundreds of vehicles and around 3800 livestock. Assuming that around 20,000 hectares of farmland were burnt, 1630 kilometres of fencing may have been destroyed.

The percentage loss in utilized capital in the region in 2019-20 consists of capital destruction due to fire plus idle capital due to isolation measures in response to COVID-19. Employment in the Adelaide Hills falls by around 6.1% below base and utilized capital by around 6.5% in 2019-20, whereas real GDP falls by a larger percentage, 6.8%. The latter reflects productivity losses arising from fire-related PTSD, injuries and housing destruction. What distinguishes North Eastern Victoria and Adelaide Hills from other regions is that in recovery from 2020-21 onwards, utilized capital remains below base even after a number of years. This is despite insurance payouts being included in the model in fire-affected regions. However, these come at a cost, in that annual insurance premiums for industries and households in fire-affected regions increase 50% by assumption from 2020-21 onwards.

The results for three regions that were not affected by fires but are somewhat tourism-dependent follow. The Yarra Ranges at the macro level do no better than the Adelaide

Hills in 2019-20 (figure 5). Although not directly affected by bushfires, the region suffers from a downturn in international and domestic tourism. The proximity of the region to Melbourne makes it heavily dependent on tourism and day-trippers, which have a higher base economic activity than in some other regions. Turnover in hospitality sectors falls due to isolation measures.

Figure 6: Real GDP, Yarra Ranges, income-side
(% deviations from business-as-usual base)



The Barossa Valley's employment, utilized capital and real GDP losses in 2019-20 are smaller than those at the national level (real GDP falls 5.4% below base compared with 6.8% nationally). Although the region is tourism-oriented, the smaller state population implies that business-as-usual tourism turnover is smaller, for example, than in the Yarra Ranges. The Lower North wine region is a little further from Adelaide, and consequently has smaller tourism turnover than Barossa Valley. Its economic losses due to COVID-19 isolation measures are therefore smaller, with real GDP falling 4.8% below base in 2019-20 (figure 7).

Figure 7: Real GDP, Barossa Valley, income-side
(% deviations from business-as-usual base)

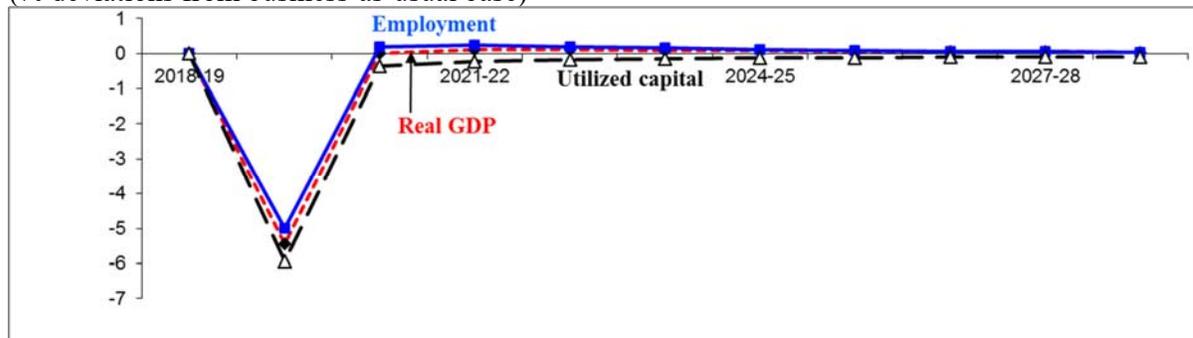


Figure 8: Real GDP, Lower North SA, income-side
 (% deviations from business-as-usual base)

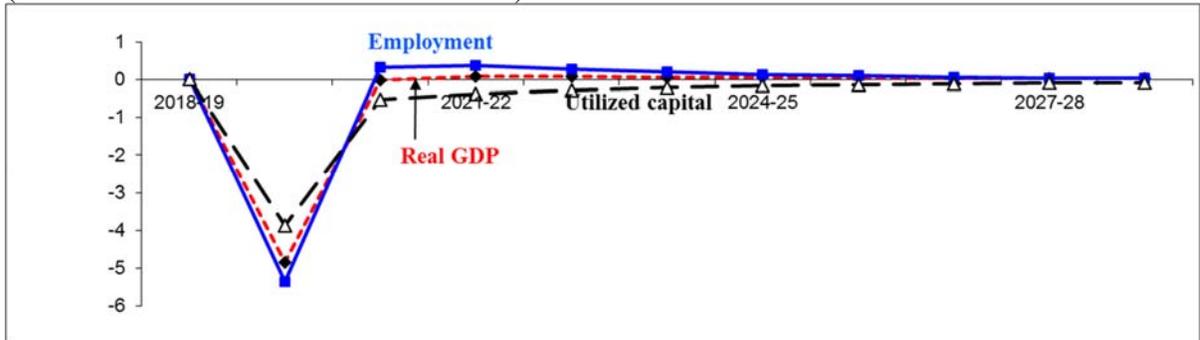


Figure 9: Real GDP, Augusta-Margaret River, income-side
 (% deviations from business-as-usual base)

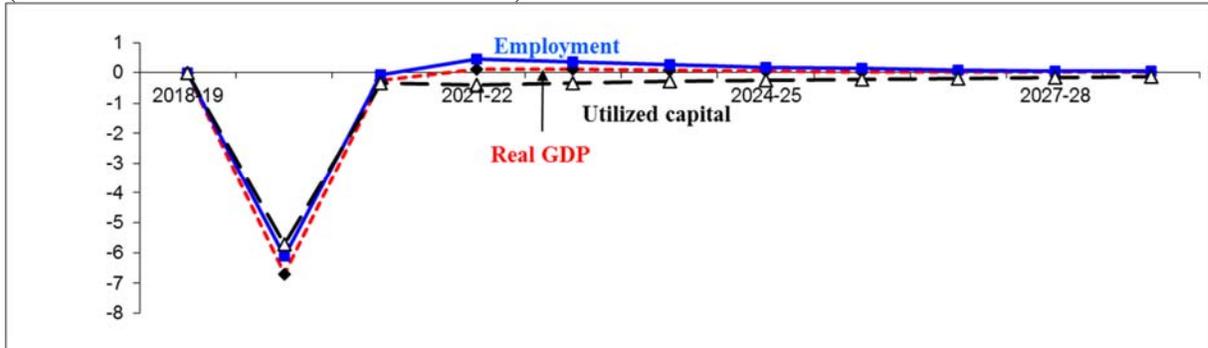


Table 1: National industry outputs
(% deviation from base)

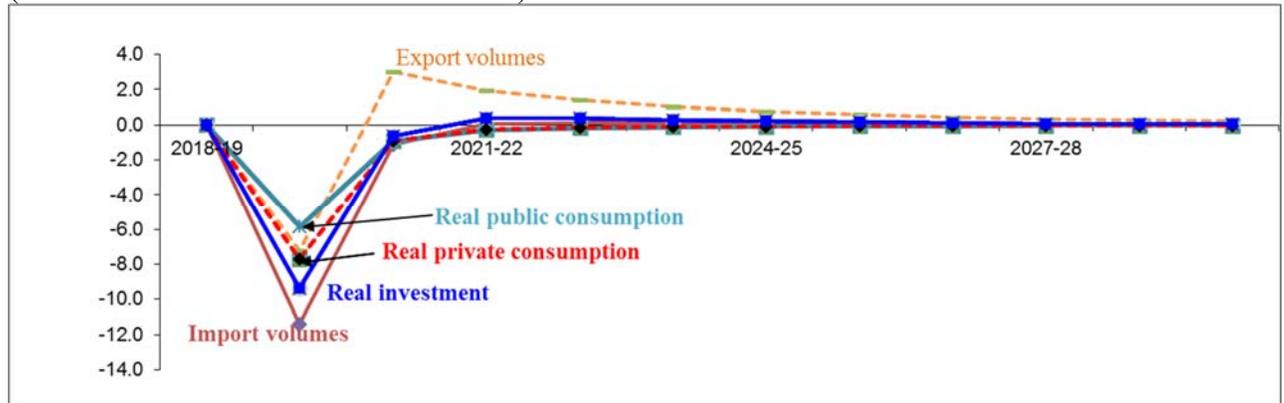
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
AnnualHort	-3.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
NPgrapes	-7.5	1.8	1.2	1.0	0.8	0.7	0.6	0.5	0.4	0.3	0.3
CPgrapes	-8.4	1.6	1.1	0.9	0.7	0.6	0.5	0.4	0.4	0.3	0.2
SPgrapes	-6.6	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TableGrapes	-1.8	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
PerennialHrt	-2.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Livestock	-2.8	1.1	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1
BroadAcreCrp	-2.8	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1
FishFrstAgSv	-2.6	1.3	0.8	0.6	0.5	0.5	0.4	0.3	0.3	0.3	0.2
Mining	-3.4	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2
MeatDairyPrd	-2.0	2.2	0.7	0.5	0.3	0.2	0.2	0.1	0.1	0.1	0.0
OthFoodDmk	-3.1	1.9	0.8	0.6	0.4	0.3	0.2	0.2	0.1	0.1	0.0
NPWine	-9.9	2.1	1.4	1.1	0.9	0.7	0.6	0.5	0.4	0.3	0.2
CPWine	-10.5	2.0	1.3	1.0	0.8	0.7	0.5	0.4	0.3	0.3	0.2
SPWine	-8.0	0.7	0.3	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
TCFs	-1.6	4.8	2.0	1.4	1.1	0.8	0.6	0.5	0.4	0.3	0.3
WoodPapPrd	-5.2	1.8	0.9	0.6	0.5	0.4	0.3	0.2	0.2	0.2	0.1
OthManufact	-3.6	3.2	1.5	1.1	0.9	0.7	0.6	0.4	0.4	0.3	0.2
Utilities	-1.5	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Construction	-9.5	-0.5	0.2	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0
Trade	-6.1	0.4	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1
HotelsCafes	-25.3	-1.1	0.2	0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.2
Transport	-10.2	0.2	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0
OthService	-8.2	0.0	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1
OwnerDwelling	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
GovAdmDefOrd	-7.9	-0.7	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Education	-5.4	0.7	0.8	0.7	0.5	0.3	0.2	0.2	0.1	0.1	0.1
Health	3.0	-0.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CommChldCare	-9.1	-0.7	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Holidays	-34.8	-2.0	-0.5	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
ExpTourism	-38.5	-8.0	0.6	-0.8	-1.4	-1.8	-2.1	-2.3	-2.4	-2.5	-2.6

Table 1 shows industry output relative to base. The three wine sectors (non-premium, commercial-premium and super-premium wine) all fall relative to base by more than 6.8%, the fall in national GDP (a national measure of output). The main reason the wine sectors do worse than the industry average in 2019-20 is because wine is a significant input into three sectors which suffer from isolation measures, namely *HotelsCafes* (restaurants and hotels), *Holidays* (domestic tourism) and *ExpTourism* (foreign tourism). Bushfire damage although severe in some important wine regions has a relatively modest impact on national wine output. With the decline in on-premise and holiday-related wine consumption, there is a small increase in off-premise wine consumption, but it only partly offsets diminished sales elsewhere. The reason off-premise wine consumption increases in 2019-20 relative to base, despite a decrease in national aggregate consumption, is because a taste swing against various services requires a taste swing towards other commodities, including wine.

That is, subject to a budget constraint (i.e., nominal aggregate consumption), the average taste swing across all commodities is zero.

Due to a sharp reduction in employment and utilized capital, there is no offsetting switch in sales to exports. At the national level, export volumes fall by a similar percentage as real GDP in 2019-20 (figure 10).

Figure 10: Expenditure-side macro outcomes, national
(% deviations from business-as-usual base)



ExpTourism recovers more slowly than other sectors. This assumes that Australia suffers lasting damage to its image as a tourism destination due to the impact of bushfires. In the wake of the global COVID-19 crisis, it is possible that the damage as modelled in this scenario is larger than what eventuates. However, the trauma of travellers returning home after foreign travel, may in the medium term, itself have a negative impact on global demand for foreign tourism. That is, such losses may result in a medium-term downturn in tourism destinations around the world after recovery.

Figure 11: Wine exports, national
(% deviations from business-as-usual base)

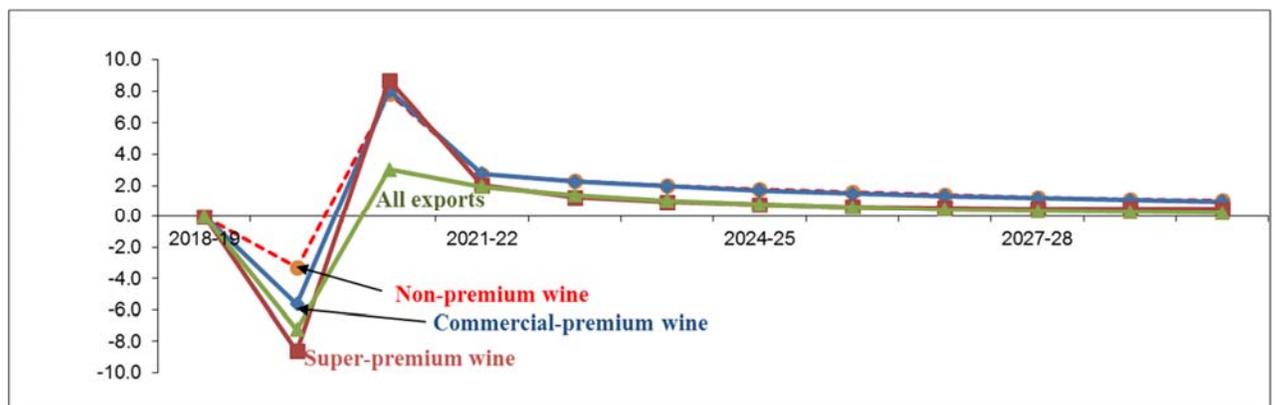


Figure 11 shows wine export volumes relative to overall exports. Non-premium and commercial premium export volumes fall by a smaller percentage than overall export volumes, reflecting the relative bias of social isolation measures globally against consumption of services and towards merchandise. In the case of super-premium wine, the export share of total sales is smaller than for the other wine types: the fall in export values in the sector is relatively small.

6. No fiscal measures other than increased health spending

In this scenario as presented here, we assume no fiscal response by government outside the health sector. Rather, public consumption in non-health spending moves with shrinking private consumption in 2019-20. The modelled additional health spending in 2019-20 is \$7 billion. Already, the Australian government has already announced substantial fiscal responses to the COVID-19 crisis. The reason for presenting results without a fiscal response is to reveal the base against which fiscal impacts can be assessed. The net present value of national welfare losses in this scenario, which approximate four month disruption, is \$105 billion, equivalent to an annuity of minus \$2.6 billion, or a permanent loss in spending power of \$105 per person per annum. With interest rates at an all-time low, alleviation of an economic and social crisis through timely intervention will far outweigh the burden of an increase in government debt. The Federal Government has announced a fiscal response totalling \$66 billion (Norman 2020). Given the welfare loss modelled in this study, on an economic disruption of a shorter duration than that anticipated by the government, this fiscal response appears to be of an appropriate magnitude.

The bushfires and COVID-19 followed three years of drought in eastern Australia. Wittwer (2020) estimated that the welfare loss of this drought was \$43 billion. Drought presented a compelling case for a fiscal response, at least in the regions most severely affected by drought.

Appendix A: Estimating direct bushfire losses

Fires started in southern Queensland and northern New South Wales in early September and ignited in more southerly regions in the following weeks and months. The Gospers Hill (north west of Sydney) fire started on October 26 2019. It was eventually contained in mid-January after burning through 512,000 hectares. The Adelaide Hills fire that destroyed one third of the region's vineyards and over 80 houses started on December 20. Fires ruined the plans of thousands of holiday-makers on the south coast of New South Wales and in East Gippsland, Victoria. Fires also started in North Eastern Victoria at around the same time near the New Year.

Fires wrought destruction on the western third of Kangaroo Island in mid-January, destroying more livestock (mainly sheep) than any fire event over the summer.

Various links listed below provided state-wide estimates of farm losses due to bushfires. Destruction included over 3 million hectares of conservation land, more than 1.5 million hectares of forests and plantations and over 820,000 hectares of agricultural land. Fire destroyed or damaged telecommunications towers and electricity transmission lines. Victorian livestock losses were around 7,100, while an estimated 43,000 sheep were killed on Kangaroo Island.⁶

Based on farmland destruction of over 820,000 hectares, an estimated 67,000 kilometres of fencing were destroyed, with a replacement cost of \$600 million, based on \$7500 per kilometre for fence replacement plus \$1500 per kilometre for clean-up costs. Other capital replacement costs include around 3,000 homes at \$1.2 billion, 5,800 other buildings at \$870 million, 14,000 cars at \$210 million and 3,000 items of farm machinery at a replacement cost of \$180 million.

Based on limited information, estimated telecommunication towers damage was \$33 million with damage of \$110 million to electricity infrastructure.

In this preliminary study, not all crop losses have been included in model shocks. Agriculture Victoria estimated destruction of around 22,000 tonnes of hay and silage.⁷

In the Adelaide Hills, fire destroyed one third of vineyards. Smoke damage to a large proportion of the grapes in the Lower Hunter and Yass-Young regions made them unsuitable for wine production.

The tragic C-130 Hercules crash on 23 January 2020 cost three lives. The replacement cost of a C-130 amount to tens of millions of dollars.⁸

⁶ Online sources used to compile estimates include:

<https://www.agriinvestor.com/agricultural-land-comprises-14-of-total-area-burned-by-australian-bushfires/>
<https://www.abc.net.au/news/2020-01-05/fire-bushfire-dead-livestock-farmers-agforce-animal-carcasses/11841868>

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⁷ From <http://agriculture.vic.gov.au/agriculture/emergencies/recovery/current-incidents/agricultural-impact-assessment-data>

⁸ https://en.wikipedia.org/wiki/Lockheed_C-130_Hercules

Costs arising from health, injury and trauma

The capital losses from fires over 2019-20 may amount to less than \$4 billion, leaving aside native flora and fauna losses. But the costs of bushfires extend far beyond capital losses.

In the absence of data on the number of firefighting injuries, we assume that there 1,800 injuries, with \$5000 of medical costs and \$5000 of labour productivity losses. These costs total \$18 million.

Firefighters suffer a high rate of post-traumatic stress disorder.⁹ There are approximately 20,000 professionals and over 150,000 volunteer firefighters in Australia. Let us assume that the trauma of firefighting efforts results in PTSD in one quarter of professional firefighters and one fifth of volunteers, and that it impacts adversely on their well-being for three months. A disruption equivalent to 40% of wages for three months, based on earning capacity of \$80,000 per annum, would amount to \$280 million. Additional counselling costs for PTSD sufferers, at \$1000 per person, would be \$35 million.

Health costs due to smoke pollution are high. For months, large populations around Sydney, Newcastle, Wollongong and Canberra suffered from air quality reported at hazardous levels by the New South Wales Department of Planning, Industry and Environment.¹⁰ Up to 60 days of hazardous levels were recorded after the fires started. The calculations used in this study were based on one tenth of the population suffering from asthma and losing half of their labour productivity on hazardous days. This calculation, though it may understate the number of days that adversely affected health, amount to labour productivity losses of \$1.6 billion.

Arriagada *et al.* (2020) estimated that bushfires impacts included 417 additional deaths, 1124 additional hospital admission for cardiovascular cases, 2027 additional hospital admission for respiratory cases and 130 emergency department attendances for asthma. These median estimates may results in additional medical costs of over \$30 million (based on \$10,000 per admission). Value of human life calculations could be added directly to the welfare calculation from CGE modelling. The estimate of smoke-related deaths provided by Arriagada *et al.* far exceeds the number of direct deaths (34) in the fires.

Many people were left homeless by the fires. Emergency accommodation costs estimated in the present study, based on homes lost, are around \$24 million.

The aftermath

The role of insurance is to spread losses among many who are at risk of losses and to spread losses over time. In this study, insurance payments made in 2020-21 are \$1.5 billion, reflecting partial coverage of capital losses. Thereafter, industries and households in regions suffering capital losses are doubled. Annual insurance premiums rise by \$300 million but are limited to directly affected regions.

The greatest single potential economic in the future arises from the impact of bushfires on international tourism. How long this last is debatable, and in any case, COVID-19 impacts may diminish the marginal impact of bushfires on international tourism demand. To put the impact of a slow international tourism restoration into perspective, a 20% downturn

⁹ <https://www.verywellmind.com/rates-of-ptsd-in-firefighters-2797428>

¹⁰ <https://www.dpie.nsw.gov.au/air-quality/current-air-quality>

with full recovery only after two years results in a welfare loss, as modelled in TERM-Wine, of \$6 billion.

There is no attempt in this study to estimate the cost of losses of Australia's unique habitats and native flora and fauna. Such estimates could be included in the welfare calculation outside of the model.

Appendix B: Direct impacts of COVID-19 isolation measures

To depict isolation measures, the assumed national labour supply shrinkage in 2019-20 is 4%. This is equivalent to a 12% shrinkage applying for 4 months or an 8% shrinkage applying for 6 months.

Consumer demands switch away from services that are adversely affected by isolation measures, including restaurants and hotels, holidays, transport, entertainment and sports sectors, and childcare. Demands switch towards health services. Since the average expenditure-weighted taste swing across all commodities must equal zero in keeping with a budget constraint, there is a taste swing towards some commodities, including off-premise wine consumption.

There are temporary sharp declines in capital utilization across an array of sectors in manufacturing and services. Although some health services continue to operate at full capacity, dealing with increased private and public demands, other health services, such as dental and optometry services, operate at reduced capacity.

Export demands fall across all commodities, although export volumes for some commodities increase. Meat & dairy export volumes increase in the modelled outcome, but the negative agricultural impacts arising from drought are not included in the scenario. Therefore, the way to interpret this result is that although meat & dairy export volumes increase in the scenario, inclusion of drought in the baseline would show drought-diminished baseline export volumes relative to a normal year.

Finally, although there is no general fiscal response, public spending on health services increases temporarily in 2020-21 relative to base.

Appendix C: TERM-WINE regional aggregation for this study

What is a computable general equilibrium (CGE) model?

A CGE model can be an economy-wide model. In the context of TERM-Wine, it is an economy-wide model that also includes small-region representation. Unlike an input-output model which solves either for quantities or for prices, but not both at once, a CGE model solves for both prices and quantities together.

TERM-Wine is a dynamic model. In dynamic models, we prepare a forecast baseline. This may include forecast increases in macroeconomic variables, technological change and taste changes. For example, agricultural productivity historically has grown by 1 to 2% per annum, so productivity growth of this magnitude is imposed on the forecast baseline.

Dynamic CGE modelling

Dynamic models trace the effects of ascribed direct impacts across time periods. The theoretical basis of dynamics is in linkages between investment and capital across time,

and the balance of trade and net foreign liabilities. Investment and balance of trade outcomes are flows that a comparative static model includes. Capital and net foreign liabilities are stocks that require a dynamic model.

In this specific study, there is capital destruction due to bushfires and idle capital due to scaling down of industry activities in response to the COVID-19 pandemic. Destroyed capital is rebuilt over time via investment. Idle capital can be brought back into use without additional investment once pandemic restrictions are lifted.

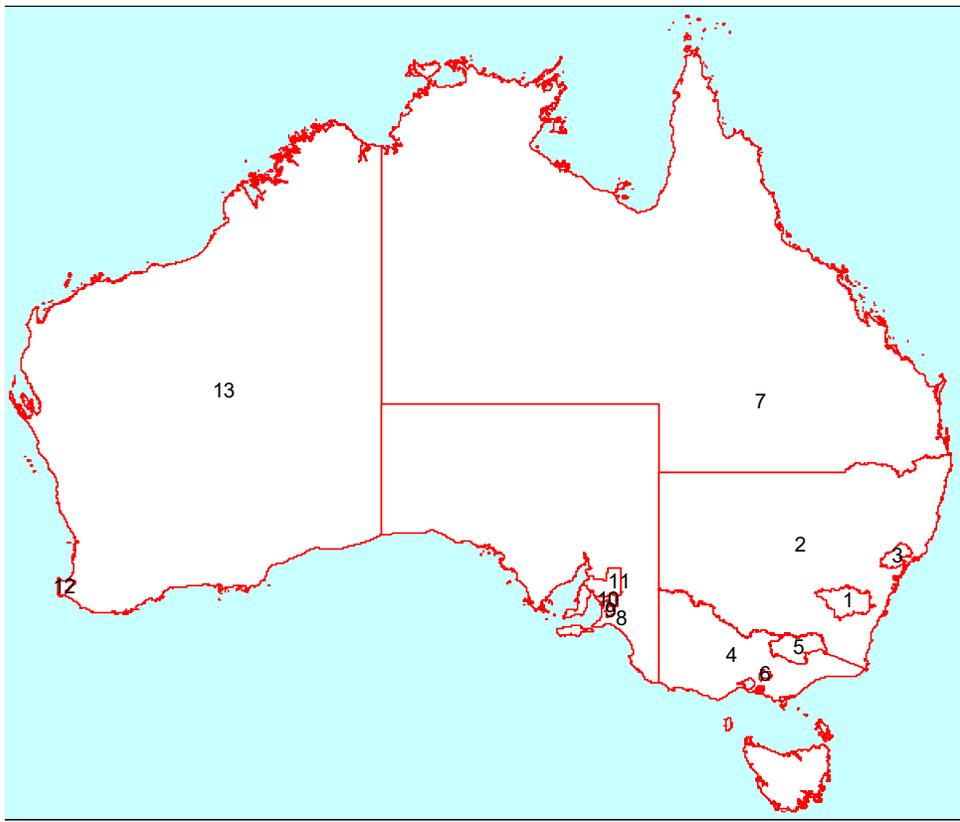
Dynamic TERM-WINE

Dynamic TERM-WINE combines much of the theory of dynamic national models (see Dixon and Rimmer, 2002) with bottom-up, regional representation. That is, each region in TERM-WINE has its own production functions, household demands, input-output database and inter-regional trade matrices. This enables us to model relatively local issues.

TERM was originally developed by Mark Horridge at the Centre of Policy Studies (see <http://www.monash.edu.au/policy/term.htm>). Since then, Glyn Wittwer has developed a dynamic version of the model, an application of which Wittwer *et al.* (2005) is an example.

In dynamic TERM-WINE, we use an underlying forecast. This may be based on the macro forecasts of other agencies. The underlying forecast or baseline gives us a year-by-year “business as usual” case.

Typical variables to be reported in the policy scenario relative to a baseline forecast are regional real GDP, employment and aggregate consumption. Industry level results are also available.

Figure C1: Regions in this application of TERM-Wine

Key 1=Yass-Young; 2=Rest of NSW; 3=Lower Hunter; 4=Rest of Victoria; 5=North Eastern Victoria; 6=Yarra Valley; 7=Rest of Australia; 8=Rest of South Australia; 9 = Adelaide Hill; 10=Barossa Valley; 11=Lower North; 12=Augusta-Margaret River; 13=Rest of Western Australia.

Figure C1 shows the bottom-up regions in this study which concentrates on some but not all key wine regions.

Labour market – forecast v. policy scenario

In the theory of regional labour market adjustment, if regional labour market conditions improve or deteriorate relative to forecast, adjustment occurs in the short term mainly via changes in employment. Regional wages adjust sluggishly, with gradual adjustment in regional labour market supply (i.e., through migration between regions). Given the isolation measures enacted in Australia, national labour supply moved in by 4% in 2019-20. This diminishes downward pressure on real wages as the labour market weakens via idle capital and diminished demand for many commodities.

Production technologies

TERM-WINE contains variables describing: primary-factor and intermediate-input-saving technical change in current production; input-saving technical change in capital creation; and input-saving technical change in the provision of margin services (e.g. transport and retail trade).

GEMPACK software

Dynamic TERM-WINE uses GEMPACK software for implementation (Harrison, *et al.* 2013; Horridge and Pearson, 2011).

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