



Submission to

**Joint Select Committee
on Australia's *Clean Energy Future*
Legislation**

September 2011

About Growcom

Growcom is the peak representative body for the fruit and vegetable growing industry in Queensland, providing a range of advocacy, research and industry development services. We are the only organisation in Australia to deliver services across the entire horticulture industry to businesses and organisations of all commodities, sizes and regions, as well as to associated industries in the supply chain. We are constantly in contact with growers and other horticultural business operators. As a result, we are well aware of the outlook, expectations and practical needs of our industry.

The organisation was established in 1923 as a statutory body to represent and provide services to the fruit and vegetable growing industry. As a voluntary organisation since 2003, Growcom now has grower members throughout the state and works alongside other industry organisations, local producer associations and corporate members. To provide services and networks to growers, Growcom has about 30 staff located in Brisbane, Bundaberg, Townsville, Toowoomba and Tully. We are a member of a number of state and national industry organisations and use these networks to promote our members' interests and to work on issues of common interest.

About the horticulture industry

The horticulture industry is quite distinct from the broader agriculture sector. It is essential that policy makers appreciate the industry's differences when developing strategies that may impact agricultural industries.

There are two components of the horticulture industry: production horticulture which includes the fruit, vegetables, mushroom and nut industries; and lifestyle (or non-food) horticulture which includes turf, cut flowers and nursery production.

The production horticulture industry is:

- **Diverse** – well over 100 different crops are grown in a wide variety of locations and climates
- **Intensive** – growers achieve high levels of production on comparatively small areas of land through high capital investment, intense crop management methods and efficient use of water.
- **Highly productive and high value** – the market value of horticultural produce per hectare of production is very high compared to most other agricultural commodities.
- **Extremely competitive and market driven** – competition amongst growers within and among horticultural production regions is intense. The industry is highly geared towards meeting customer requirements and market trends. Growers invest significant effort to deliver high standards of quality and food safety. Yet growers are price takers rather than price makers, because the retail trade of horticultural produce is dominated by Australia's two retail giants. The concentration of market power in a small number of major retailers severely limits the ability of growers to set prices and to pass costs on through the supply chain.
- **Labour intensive** – horticulture is a highly labour intensive industry, where labour costs represent as much as 50 per cent of overall operating costs for

many businesses. There is a very strong dependence on both permanent and casual labour for the production, picking and packing of horticultural produce.

- **Energy intensive** – production, packing, transportation and maintenance of the cool chain for horticultural products from farm to consumer is highly reliant on electricity and diesel power.

In the development of agricultural policy, it seems horticulture is often positioned as a minor industry, very much in the shadow of broadacre agriculture. In fact, **horticulture is Australia's second largest primary industry** (see Table 1). Across Australia, there are approximately 22,500 horticultural farms occupying over 465,000 hectares growing produce valued over \$7 billion per year (ABS 2010).

Table 1: Value of selected agricultural commodities (\$ million).

Commodity	2008	2009	2010
Total grains	9,164.60	8,906.90	6,897.60
Total production horticulture	7,813.80	7,096.30	7,083.00
Cattle and calves	7,353.30	7,451.70	7,267.70
Sheep and lambs	2,167.90	2,492.20	2,627.00
Whole milk	4,571.70	3,987.60	3,371.30

(Source: ABS, 2010. *Agricultural Commodities, Australia, 2008-09*, Australian Bureau of Statistics).

Climate change and the horticulture industry

Growcom supports action on climate change due to the very serious potential consequences for our industry. Many fruit and vegetable crops have highly specific requirements for temperature and other climatic conditions, and are often especially vulnerable to extreme weather events such as cyclones. In fact, within the agriculture sector, the horticulture industry is likely to be affected first and hardest by future climate change.

In response to these risks, Growcom has developed a substantial climate change program and probably has more capacity in this area than any other agricultural industry body in Australia. We have fostered research collaborations with Horticulture Australia Limited, State Government Departments and other research institutions. Growcom's activities cover issues related to mitigation, adaptation and climate policies. For example, some of our projects have included:

- Demonstrating the effects of farm management practices on greenhouse gas emissions.
- Conducting vulnerability and risk assessments for key horticultural commodities and regions.
- Developing appropriate adaptation strategies.
- Producing a review of national priorities for climate change RD&E.
- Developing an industry-specific carbon footprint calculator.
- Information and extension services to producers.

Horticulture and the *Clean Energy Future* policy

There is a significant risk that **horticultural producers will be inadvertently penalised by the *Clean Energy Future* policy.**

We acknowledge there are positive elements of the *Clean Energy Future* policy and that the complete package includes some elements that are favourable for agricultural industries. However, it appears that important characteristics of horticulture and other intensive agricultural industries were overlooked during the formulation of this policy and the associated assistance packages. For example, the cost of electricity will increase substantially despite the concessions. Growers with on-farm packing sheds and large refrigeration units, essential for the delivery of fresh and healthy food to market, are heavy users of electricity. In some cases, electricity consumption can exceed \$20,000 per week. The starting price of \$23 per tonne of CO₂-e will result in an increase in electricity costs of approximately 2.5c per kilowatt-hour. For some growers, **the introduction of a carbon price will lead to increases in electricity costs of up to several thousand dollars per week.** Other energy intensive inputs, such as fertiliser and chemicals, will also increase in cost. In addition, freight costs will increase from July 2014 when the exemption for the heavy transport vehicles is removed.

As described earlier in this submission, producers within the horticulture industry have little or no opportunity to pass on these cost increases through the supply chain. As a result, these cost increases will have direct negative impacts on a farm's profitability and viability.

Horticulture and the *Carbon Farming Initiative*

The *Carbon Farming Initiative* (CFI) has been promoted as the primary mechanism to compensate farmers for increased input costs. As we clearly demonstrated in our presentation to the *House of Representatives Standing Committee on Climate Change, Environment and the Arts* Inquiry into bills supporting the *Carbon Farming Initiative* and related legislation, the methodologies and mechanisms are primarily suited to graziers and broadacre crop farmers. There appear to be negligible opportunities for fruit and vegetable growers to gain an additional income stream from the CFI. For similar reasons, the Biodiversity Fund is also unlikely to deliver benefits to horticultural producers.

Growcom has provided in-principle support for CFI, fully described in our earlier submissions during consultation on the policy. We acknowledge that the agriculture sector has a role to play in emissions mitigation. However, the *Carbon Farming Initiative* is not likely to provide that solution for horticulture and other intensive industries. Further, we believe that the Government is over-confident about the ability of the CFI to provide income for all industries across the agricultural sector, and in particular, its ability to provide effective compensation for the proposed carbon price in the horticulture sector.

The intensive nature of horticultural industries seems to have been ignored during the identification of possible methodologies which are more suited to grazing and broadacre industries. Horticulture involves the intensive use of relatively small areas of land and few potential methodologies will be compatible with ongoing, intensive food production.

Growcom is conducting a project that will demonstrate the effect of different farm management practices on emissions of nitrous oxide and other greenhouse gases (funded by the Climate Change Research Program). As a member of the Department of Climate Change and Energy Efficiency's Nitrous Oxide Technical Working Group, we are well aware of possible methodologies and the development process. While there are several activities that may reduce nitrous oxide emissions, the most promising activities for abatement in intensive horticulture are likely to involve improved fertiliser management. However, available data indicates that the level of potential abatement per hectare is low, and the potential level of income is unlikely to meet the costs associated with initiating and conducting the project activity.

All of the available evidence suggests that these activities are unlikely to be cost-effective for producers, at least in the short to medium term. While many of these activities are worth doing for other reasons, and may already be common practice in some sections of the industry, the **CFI is unlikely to add value to any of these mitigation activities for horticultural producers.**

In addition, the CFI regulations limit the possible income across the sector according to the maximum abatement potential. According to the National Greenhouse Accounts, the horticulture industry contributes approximately 1 million tonnes of CO₂-e per year. If the industry could cut emissions to zero *and* obtain credit for the whole amount under the CFI, the **maximum potential income across the entire sector would be approximately \$25 million per year** (at a carbon price of \$25/tonne CO₂-e). That equates to an average of about \$1110 per year per farm business (less the costs associated with participation in the initiative), or less than 0.4% of the value of agricultural production for the horticulture sector. **The income potential is negligible.**

The bottom line is that the CFI is unlikely to provide any real opportunities for horticultural producers, and will certainly not provide compensation for the level of cost increases resulting from the carbon price. As a result, **the proposed climate policies are likely to have direct negative impacts on farm profitability and sustainability.**

Carbon Farming Futures is one of several programs within the *Clean Energy Future* package that are designed to assist rural industries. However, given that the CFI itself will provide few opportunities for fruit and vegetable growers, the Carbon Farming Futures package is of little value to our industry. As the full eligibility criteria and application processes for all of these programs are yet to be announced, we are unable to estimate their true value for our industry at this time.

Generous assistance and compensation packages are available to many other sectors. For example, Emissions-Intensive Trade-Exposed industries such as manufacturing will not only receive assistance to cover the permit costs for their direct emissions, but also receive assistance to meet the costs of upstream emissions from electricity generation and some other sources. The horticulture industry shares several critical characteristics with these Emissions-Intensive Trade-Exposed industries:

- Widespread reliance on electrical energy.
- Exposure to the carbon price through increased input costs.
- Highly competitive.
- Limited or no control over product prices.
- Inability to pass these increased costs through the supply chain.

Clearly, the horticulture industry should be awarded the same level of assistance that has been directed to the Emissions-Intensive Trade-Exposed industries for the increased cost of indirect emissions from electricity use and other energy sources. The CFI will not deliver this assistance to our producers.

A more effective policy

We strongly encourage the Government to consider the true increases in costs facing the horticulture industry as a result of the *Clean Energy Future* package, and to investigate alternative mechanisms that may provide more effective financial assistance to the horticulture industry and other intensive agricultural industries. More efficient and transparent assistance packages can encourage on-farm emissions reductions while maintaining farm profitability and financial sustainability. For example, there are elements of the assistance provided to Emissions-Intensive Trade-Exposed industries that may provide an appropriate model for effective assistance for the horticulture industry.

For example, it is quite straightforward for a policy to address the increase in cost for electricity, the major cost impact of the *Clean Energy Future* policy. While it can be difficult, expensive and time-consuming to measure emissions relative to a baseline (as demonstrated by the difficulties experienced in developing CFI methodologies), it is relatively simple to identify a suite of best management practices (BMP) that are known to minimise emissions of greenhouse gases within a given agricultural system.

Growers employing a minimum set of identified management practices should be eligible for a rebate on a proportion of the additional electricity cost resulting from the carbon price. Businesses that can demonstrate that they are following established best management practices to minimise nitrous oxide emissions should be exempt from facing the full cost impact of the carbon price. This exemption provides the direct incentive for individual growers to employ management practices that are known to reduce farm emissions.

Industry groups and research institutions are in the best position to identify the suite of management practices that would apply for each commodity and region. Individual growers could apply for exemption status based on the number of recommended practices that are currently applied in their business. For example, if a grower is employing all recommended practices, then he/she is taking all reasonable steps to reduce greenhouse emissions and should be eligible for a 100% exemption from the increased costs. A sliding exemption level is possible – for example, a grower employing three out of five recommended practices may be eligible for, say, a 50% exemption. Clearly, the ideal level of the rebate and possible adjustments based on practices will require detailed analysis and refinement.

The assessment of exemption status could be performed either by industry officers via extensions to existing Farm Management Systems, incorporated into existing quality assurance schemes (such as Freshcare Environmental) or via an electronic return direct to the Department of Climate Change and Energy Efficiency (DCCEE). There will need to be occasional auditing of individual growers to ensure that they are indeed complying with their BMPs, and of industry assessors to ensure that they are complying with the standards of assessment required by the DCCEE. The ideal frequency and nature of these audits require further investigation and discussion.

The information requirements would be modest, particularly in comparison to the information required to develop, register and audit a CFI project. Information required on an annual basis would be limited to the eligibility status of individual enterprises, the differential cost attributable to the carbon price, and the amount of electricity consumed in agricultural activities.

Such a scheme could run in parallel with the CFI, with individual growers given a choice of initiatives in which to participate. Clearly, an individual project or activity should be eligible for only one initiative.

While the details of such a rebate incentive scheme will require considerable refinement, this style of scheme has several advantages over the current arrangements in the *Clean Energy Future* package and the *Carbon Farming Initiative*:

- It will provide a genuine economic incentive for growers to reduce on-farm emissions of greenhouse gases. As described above, the CFI provides little or no additional value for mitigation activities and does not provide an effective incentive for intensive agricultural industries. As a result, the CFI will fail in one of its primary policy objectives and the carbon price will have unintended negative consequences for intensive agricultural industries.
- It will provide effective compensation for increases in input costs resulting from the introduction of the carbon price, but only for those growers who undertake the necessary behavioural change. It will reduce the cost burden on growers taking action to increase efficiency and reduce emissions.
- It is more equitable than the CFI – the benefits are available to all growers undertaking the management actions regardless of when the practices were adopted. Many growers in the Australian horticulture industry are already applying recognised best management practices that reduce emissions and maximise carbon sequestration. For other agricultural industries, the CFI provides the greatest opportunities to those who have delayed employing best management practices and effectively penalises early adopters.
- The level of assistance provided is proportional to the true cost impact on farm businesses.
- It has much lower information requirements than the CFI, resulting in a more efficient incentive scheme.
- The mechanism is more streamlined and transparent than the CFI, with a lower administrative burden for both growers and government.

Conclusions

We strongly encourage the Government to address the true impact of the *Clean Energy Future* package on intensive agricultural industries. Alternative policy initiatives may provide more effective financial assistance to the horticulture industry and other intensive agricultural industries. More efficient and transparent assistance packages can encourage on-farm emissions reductions while maintaining farm profitability and financial sustainability.

We invite the Government to engage with representatives of intensive agricultural industries to develop these more effective mechanisms.