



John Hawkins
Committee Secretary
Senate Select Committee on Climate Policy
PO Box 6100
Parliament House
Canberra ACT 2600
April 8, 2009

Dear Mr Hawkins,

Re: Response to the Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme

Grain Growers Association Ltd (GGA) is a not-for-profit, member based, industry association operating for the promotion and development of agricultural resources in Australia. GGA represents the interests of 17,000 members, the majority of whom are active producers in the grains industry.

Grains Council of Australia (GCA) represents and promotes the interests of its members and the Australian grains industry nationally and internationally. GCA's aim is to foster and initiate the development and implementation of policies that promote the economic and environmental sustainability of the Australian grains industry. The current membership of the GCA is;

- AgForce Queensland,
- South Australian Farmers Federation,
- Victorian Farmers Federation,
- Council of Grain Grower Organisations,
- WA Grains Group,
- Tasmanian Farmers and Graziers Association.

It is our view that the grains industry can continue to improve productivity as well as developing win:win outcomes for both climate change adaptation and reducing greenhouse gas emissions. As an industry we believe we have an obligation to reduce our sectorial emissions in line with the targets set by the Federal Government where possible and practical from the commencement of the scheme. In many cases there should be opportunities for improving input efficiency which will reduce costs to our sector, but we cannot achieve this potential without a significant investment in innovation. The Carbon Pollution Reduction Scheme (CPRS) in its proposed form is not an

appropriate mechanism for diffuse source emissions, particularly given the international rules on these issues. The White Paper proposition for agriculture creates market uncertainty for our sector, is counter productive and sends a confused policy message to farmers and to agriculture in general.

It is important for all nations and industries to take very seriously the threat of global climate change and for all nations to be developing risk management approaches to dealing with this problem. Agriculture, as the industry charged with providing the sustaining nutrients to the human population must be supported to maintain this supply, which it is estimated will need to double within the next 40 years in order to support the ever increasing human population of the world. Australian agriculture will be the industry most severely affected by adverse climate change and we will need enormous Government and community support to face this challenge. However, we need systems that continue to encourage the resourcefulness and innovation that has been an historic characteristic of our industry since inception. There is a need for a complete and diverse Government response to the challenge of climate change but the CPRS is not part of that portfolio for agriculture. We look forward to an industry partnership approach to a new low carbon farming future which will seek to place Australian agriculture as a major world leading contributor to the solution to the management of global CO2 concentrations at sustainable levels.

Thank you for the opportunity to make a submission. We would welcome the opportunity to discuss these points with the Inquiry at any time.

Yours sincerely



John Eastburn
Chairman, Grain Growers Association



Murray Jones
Chairman, Grains Council of Australia

Specific responses to the Inquiry Terms of Reference:

(a) the choice of emissions trading as the central policy to reduce Australia's carbon pollution, taking into account the need to:

- (i) reduce carbon pollution at the lowest economic cost,*
- (ii) put in place long-term incentives for investment in clean energy and low emission technology, and*
- (iii) contribute to a global solution to climate change;*

Climate change and global warming will impact most heavily on the Australian agricultural sector through potential changes in rainfall and temperature across the country. Agriculture, as a sector, is acutely aware of these issues and wishes to contribute not only to reducing the emission of greenhouse gases at source, but also contributing to lowering the global concentration of CO₂ through carbon capture and sequestration opportunities and the development of renewable energy sources that may be new enterprise opportunities for Australian farmers. Such a holistic approach should include innovative new energy provision opportunities which may provide alternate revenue streams to Australia's farmers, which in turn will lead to increased sustainability of agriculture as well as renewed investment in rural and regional Australia.

In broad terms we support the Government's climate change policy which is built on three pillars:

- reducing Australia's greenhouse gas emissions
- adapting to climate change that we cannot avoid
- helping to shape a global solution that both protects the planet and advances Australia's long-term interests.

We acknowledge that achieving these policy goals will be difficult and will require a flexible approach to accommodate Australian circumstances which encourages an *innovation in the face of adversity* approach that Australians have always demonstrated.

While we support the general thrust of the Carbon Pollution Reduction Scheme in that it is designed to contribute to reducing Australia's greenhouse gas emissions in total and uses a market based approach to encourage the most efficient mechanism for firms to act, we are concerned that the practical application of the scheme will have dire consequences for our economy and specifically the agricultural industries. We recognise and support the Government's position of leaving agriculture out of the scheme at this point in time but we believe that the position of continuing consideration creates undue uncertainty for the agriculture sector which will result in perverse outcomes and some degree of market failure.

We are concerned that a decision whether or not to include agriculture as a covered sector will not be made until 2013. This position creates a five year (and possibly longer) period of uncertainty for Australian farmers and agricultural industries, which will lead to:

- reduced farm viability through lower terms of trade;
- confused investment in research to cover the possibilities of both coverage and non coverage;
- potential underinvestment from farmers in the face of uncertainty in which approach will be taken;

- potential for adverse outcomes for the environment as farmers, land and natural resource managers speculate on the impact of an unknown decision
- confused policy implementation as other policies influence activity in the agriculture sector and take precedence over carbon and emissions management
- greater speculation in terms of the likely activities and services required under an uncertain decision environment;
- inconsistency with other international approaches and our international trading partners
- opportunity for countries to consider the imposition of trade distorting measures on goods from countries not participating in equivalent carbon management systems in contravention of WTO agreements; and
- that Australia's negotiating position in the development of the new phase of the Kyoto agreement will be ill-defined in respect of land use and land use change and biological systems including agriculture.

Cap and trade schemes can be effective as a means to creating a market based system of penalties and incentives to achieve certain outcomes. Despite the Government's three pillar policy framework, to date most of the efforts appears to have been in the design of the CPRS and in directing all Government activity to achieving "broad coverage" – as a one size fits all solution. As with all markets, caution needs to be exercised in the recognition of the limitations of such "market based" systems in that the market is not capable of considering all aspects of the related issue. In this way there will be areas of "market failure" and these areas will need alternate complementary measures within a comprehensive response portfolio.

The difficulty in including agriculture within the scheme can largely be related to market failure issues – not just at a domestic level but also at a global scale. To date the global international agreement has generally ignored biological function issues with the exception of forestry. In many ways this is because deforestation, particularly in developing countries is a major contributor to both direct emissions and the capacity of the globe to sequester carbon. However, some of this deforestation is related to global food security in that the forests are being removed, for one off commercial gain, but with the longer term view of providing increased land for food production, as well as urban development, as the global human population grows.

The Exposure Draft Bill has aspects which will have ramifications for agricultural production and the participation of the agricultural sector in provision of least cost abatement measures for the whole economy. Principally this relates to the sections covering reforestation¹ and allowed removal units². The provision of emissions credits from reforestation creates a tension between the uncovered food and fibre production process land use and the potential for land use change through forestry investment to create carbon credits. Under some circumstances, this may mean that there is a perverse outcome where land used for food and fibre production is reduced in favour of the creation of carbon credits. Current consideration of emissions and agriculture will lead to a tension between food production and carbon credit creation. We believe there is a strong nexus between global food security, renewable fuel production and the management of the global atmospheric concentration of CO₂ which need to be considered concurrently to ensure the best outcome.

¹ CPRS Exposure Draft Bill Part 10

² CPRS Exposure Draft Bill Part 4, Division 3, item 106 - Issue of Removal Units

The Inquiry should consider the ramification of this potential land use change given unequal incentive arrangements and the need to develop appropriate responses to global food security. The inquiry should be aware that a complying Kyoto forest may occur on just 0.2 ha of land³. Therefore every farm in Australia is available for a level of land use change to carbon credit forestry if sufficient incentive is provided in the absence of alternate incentives to maintain food and fibre production, and given the uncertainty created by the Government's White Paper predisposition towards agriculture, where historic production methods may be financially penalised.

(b) the relative contributions to overall emission reduction targets from complementary measures such as renewable energy feed-in laws, energy efficiency and the protection or development of terrestrial carbon stores such as native forests and soils;

Agriculture as a sector is made up of a myriad of individual enterprises conducted within the farming business unit across Australia. Vast areas are dedicated to extensive livestock production through the arid regions of Australia and also the higher rainfall zones on steeper land gradients. Cropping occurs in the reliable rainfall zones and is usually conducted in conjunction with a mixed farming enterprise. Cropping covers a wide basket of crops and seed products and is generally a component of a rotational system that involves pasture for livestock as well as forage systems and may in some cases be irrigated in whole or part depending on water availability and location of the farm.

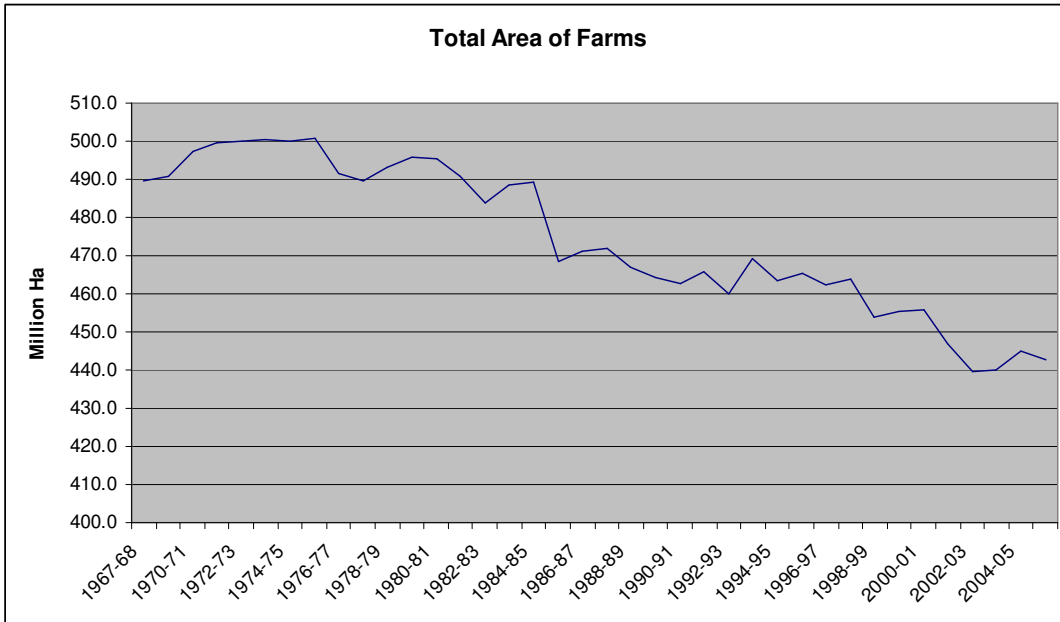
This huge variation in the nature of the farming enterprises across Australia give rise to the issues identified in the green paper concerning the complexity of attempting to apply the CPRS at an enterprise level for agriculture.

The Government will need to be very careful in the approach it takes so that it doesn't inadvertently advantage or preference one agricultural enterprise over another, when all are necessary to provide the resilience and flexibility of the farming sector to remain viable and respond to the normal range of market signals.

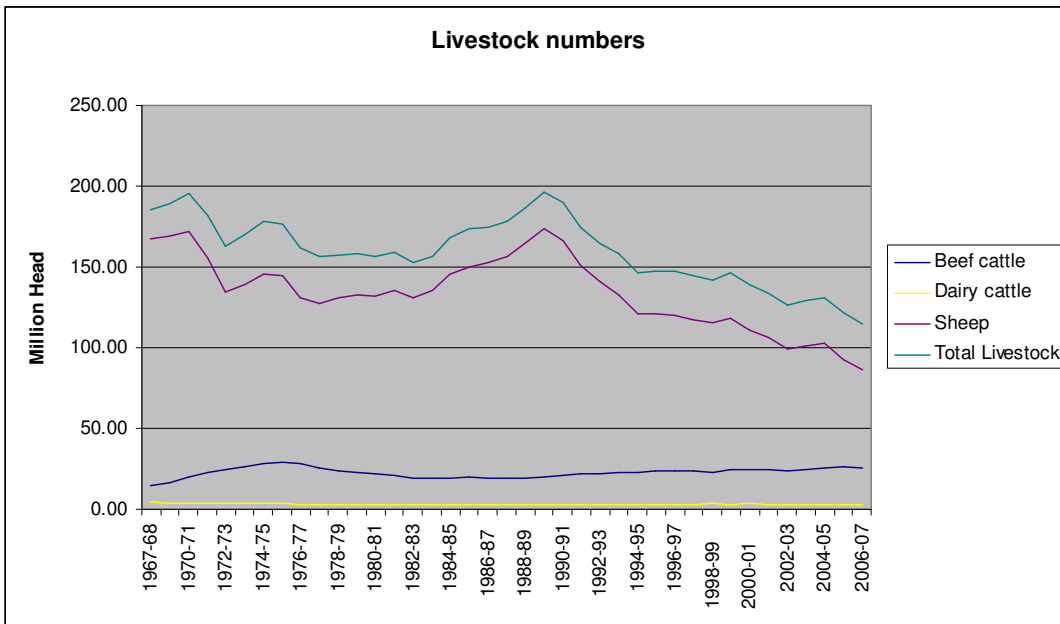
The design of the current scheme, if applied to agriculture would seem to advantage cropping over livestock, yet healthy, resilient farming systems generally will rely on a pasture phase for improved soil health and other risk management and cost control reasons. So a pasture phase relies on the presence of livestock within the system.

Similarly, increasingly livestock are a very large source of demand for grain as a feedstock. So any scheme that results in reduced competitiveness of livestock will have a potentially adverse impact on the market dynamics for grain.

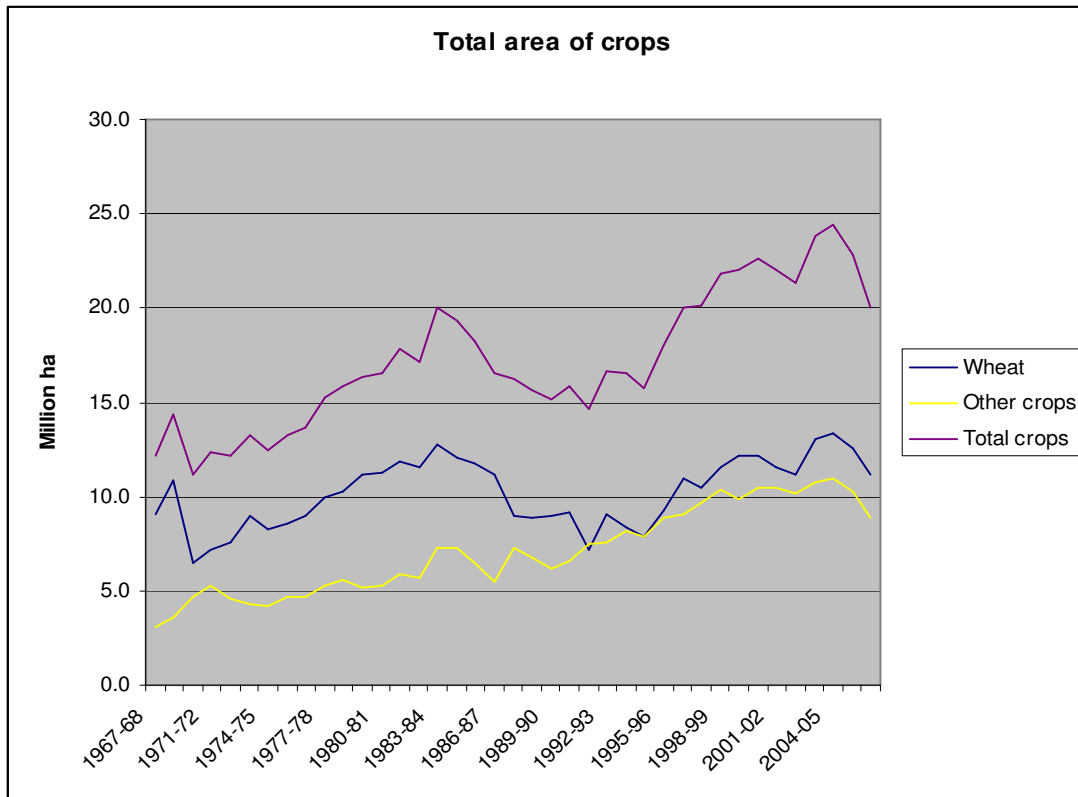
³ Carbon pollution reduction scheme bill 2009 commentary p 168



Source: ABARE Farm land use and livestock numbers in Australia



Source: ABARE Farm land use and livestock numbers in Australia



Source: ABARE Farm land use and livestock numbers in Australia

The graphs above demonstrate the dynamic nature of Australian agriculture showing an overall reduction in the area devoted to agriculture over time, and decreasing livestock numbers and increasing cropping areas which should mean that the relative contribution of emissions from agriculture over time is in decline. We would be very concerned if a CPRS resulted in an adverse reaction in the agricultural economy that significantly reduced our capacity to produce food and fibre and participate in international markets.

To date the Governments scheme has been focussed on the 1000 largest emitters. We would like to see greater emphasis placed on the opportunity for Australia's small business sector to participate and contribute directly to this challenge. We would also like to see a change in emphasis away from a strategy that seems to be solely based on the control of emissions to one which considers the full range of management options and opportunities including:

- Sequestration opportunities in soil and plants other than trees. Carbon can be captured and stored in many ways not only trees and all options should be considered and encouraged.
- Continued development of, and support for, renewable fuel sources such as biofuels as part of a wider strategy of energy security. Australia should encourage the use of biofuels and if necessary continue to mandate these into the fuel system. Farmers should be encouraged to use biodiesel on farm, which can be locally produced as an alternative to petrochemical diesel from the oil industry. The government should reconsider its approach to fuel excise to facilitate such developments.
- Rail should be the preferred means of transport to bulk freight within Australia to reduce fuel use and emissions from the transport sector. Such an initiative needs to reverse the historic underinvestment in rail infrastructure in regional Australia as well as improve intercity and metropolitan services.

- Diffuse energy generation opportunities across Australia, should be encouraged, particularly on farms, including solar and wind power generation and small scale biofuels production. Australia's farmland corresponds well with the natural energy sources of solar and wind. We need to consider ways to harness renewable energy farming at a small and diffuse scale. That is, as well as large scale investments, that individuals be encouraged to have household or small business generation sets to cover the immediate site power requirements and may be able to contribute back into the power grid. Such a strategy would relieve the need for new coal powered systems and make greater use of the natural resources of wind and sun available to Australia.
- The opportunity for Australia to offer sequestration credit opportunities to other countries as a new export income source.
- The potential for Australia to offer services to other countries in terms of management of agriculture under harsh conditions.

The government needs to consider the total set of issues associated with agriculture and the inherent tension in the proposals within the scheme and other current policy issues in respect to agriculture. An example is water management. At present the Federal and State Governments are implementing the \$10 billion National Water Plan. This plan seeks to improve the efficiency of water use in agriculture as part of the response. In doing so, many of the efficiency measures to improve irrigation rely on the conversion of historic gravity fed, low energy water management systems to piped and pressurised delivery systems. This change will require that the energy and emissions profile of irrigated agriculture increases as a result of these actions. This is in conflict with the aims of the CPRS.

Another example is trade policy where Australia has been relatively effective in negotiating positive outcomes for the Australian economy in an otherwise generally protectionist global trade environment. We would be very concerned if the discussions in relation to a global effort on climate change resulted in increased protectionism and the development of a suite of non tariff trade barriers.

We have also seen a marked depreciation in the transport networks across regional Australia caused by chronic underinvestment in rail infrastructure and cost shifting between the various levels of Government in respect to road funding. Almost all of the agricultural produce in Australia is produced in regional areas and needs to be transported to domestic markets or ports by either road or rail. Rail freight is known to use only 1/7th of the energy of road freight, yet we are rapidly reaching a point where rail services won't be available at all and so all rural commodities will need to be transported by road, thus increasing the greenhouse footprint relative to rail freight. The Melbourne based CERES group recently considered this issue and commented as follows: "In considering emissions differences across the 4 scenarios, emissions reductions came from moving A-Existing All Road freight to B-Existing Intermodal freight: a 39% reduction."⁴

It is important that the Government not rely solely on the CPRS but recognize the implications for other areas of policy and also ensure that adequate investment in alternate energy related solutions is also being made.

⁴ Food Miles in Australia: *A comparison of emissions from road and rail transport*
The Centre for Education and Research in Environmental Strategies,

(c) whether the Government's Carbon Pollution Reduction Scheme is environmentally effective, in particular with regard to the adequacy or otherwise of the Government's 2020 and 2050 greenhouse gas emission reduction targets in avoiding dangerous climate change;

The CPRS legislation provides that an unlimited amount of international units⁵ will be acceptable into the Australian scheme. This means that depending on the relative cost of domestic activity relative to the price of international units and development projects, there would be some scenarios where there is in fact no domestic activity towards emissions abatement as it could be more cost effective for Australian emitters to continue business as usual and obtain the required permits from international sources. In this way the only aspect of the scheme which is capped is the availability of Australian permits.

Given that there is an unlimited potential for international credits, we think it desirable to encourage the development of the widest and least cost range of credits within Australia as well. In our view this can be achieved through the validation of the voluntary market where all emissions reduction and sequestration opportunities can be explored and rewarded with financial incentives. In our responses to the Green Paper and the National Carbon Offset Standard discussion paper, we have advocated that the approach developed by the Chicago Climate Exchange⁶ in relation to agricultural emissions may be an appropriate precedent for a voluntary market based system where agricultural industries can engage in a similar but separate scheme while still providing least cost abatement measures into the compliance market. The inquiry should consider the definitions of Removal Units and other tradable financial instruments related to voluntary actions by farmers to incentivise carbon sequestration as well as emissions reduction on farms where possible and practical from the commencement of the scheme.

Australian farmers should be provided with an avenue to provide domestic offsets from the commencement of the scheme as a means of generating domestic credits equivalent to international CDM generated credits.

Illustrative ABARE analysis⁷ which assumes a unilateral carbon penalty of \$40 a tonne of carbon dioxide equivalent emissions in Australia is estimated to result in:

- agricultural production costs rising by 3 per cent for livestock and 4.5 per cent for cropping in Australia if agriculture is **excluded** from the scheme; and
- agricultural production costs rising by 18 per cent for livestock and 6 per cent for cropping in Australia, if agriculture is **included** in the scheme.

Under the proposals agriculture will not participate in the scheme until at least 2015. This means that from the proposed commencement of the scheme in 2010, Agriculture will experience an increase in costs from exposure to the covered sectors yet not be able to participate in either the provision of offsets, nor the scheme. There will be some opportunity to participate in a voluntary market but this will be limited, and only of small value, due to the uncertainty of potential inclusion within a short period. This situation will result in reduced viability of the farm sector during this period and potentially longer.

⁵ carbon pollution reduction scheme bill 2009 commentary p 89

⁶ See www.chicagoclimatex.com

⁷ Climate change: Opportunities and challenges in Australian agriculture
Don Gunasekera, Catherine Tulloh, Melanie Ford and Edwina Heyhoe
Australian Bureau of Agricultural and Resource Economics, (ABARE), Canberra, ACT 2601. Email don.gunasekera@abare.gov.au

(d) an appropriate mechanism for determining what a fair and equitable contribution to the global emission reduction effort would be;

The Green Paper in places refers to measures of efficiency such as per capita, per \$million of economic activity and at least once refers to emissions relative to GDP. We need to use efficiency measures with caution to ensure they don't distract us from the real issue.

Global warming and associated climate change are an environmental response to the absolute concentration of CO₂ (and other gasses) in the atmosphere. Thus the global response needs to be to manage the absolute atmospheric concentration. The efficiency measures are useful tools in considering equity and the efficiency of comparative actions.

However the figures are often used as political instruments which risk us ending up at the wrong answer. For example, it is sometimes quoted that Australia needs to take action because it is a large emitter on a per capita basis as a nation. The reality is that Australia is responsible for about 1% of global emissions in total. The per capita efficiency measure adds 2 variables into the equation and so one response is to maintain emissions but increase population. To demonstrate, if emissions were say 100 units with a population of 10 people, this results in a per capita emissions calculation of 10 units / person. Thus one reaction would be to reduce emissions to say 80 units yet the population remains static, resulting in an improvement in the emissions profile per capita. However, if the emissions remained static and the population grew to 12 people, then the efficiency measure of 8 units / person is also achieved, however in this case there is no improvement in absolute emissions.

Similarly the percentage of GDP relationship allows for expansion of emissions so long as GDP is increasing faster than emissions.

We need to ensure that the main aim of the CPRS is to reduce the absolute global concentration of CO₂ and other gasses and not be captured by relative efficiency measures.

The construction of the Australian scheme has implications if agriculture is either covered or uncovered which will increase costs yet have no real impact on emissions from the sector without also creating a reduction in productivity. Applied at a global scale this outcome would be disastrous to global food supplies and human nutrition.

It does, however, lead us to consider what an appropriate response might be and in global response terms, Australia should take a leading position on the challenge of global food and renewable fuel security in the face of a changing climate. One way to look at this problem is to consider the global aspects of a cap and trade scheme applied to agriculture at a global scale along with the implications for favourable treatment of forestry.

The Australian scheme will allow internationally developed credits – some of which may come from forestry initiatives. If developed countries provide payments to less developed countries to maintain or increase tree cover, in favour of local food production in the developed countries, an increasing tension will develop on the domestic food supply in the less developed world. Thus these countries will rely more heavily on international food supply sources – particularly from developed countries – yet we could have developed schemes that incentivise reduced food production to reduce the emissions profile from our industries.

The introduction of a CPRS in Australia and similar schemes in other part of the world, if applied to agriculture, will potentially result in a reduction in agricultural production, or at least a significant shift in the component enterprise in response to the relative carbon price impacts as one potential

response from growers to an increase in cost of inputs or the presence of livestock would be to reduce inputs or livestock numbers. Reduction of fertiliser inputs, notwithstanding that improved nutrient efficiency may be possible, could lead to reduced crop and pasture productivity. Similarly, reductions in livestock numbers will reduce the overall availability of meat and milk products. Such an outcome would place serious pressure on global food supplies and presumably further increase soft commodity prices.

Clearly, with global incentives to maintain or improve tree cover, we also need to be ensuring that global food supply related trade facilitation continues to be liberalised. We implore the Government not to approach the international negotiations on Kyoto II, and hence the domestic response, in a naïve way in the pursuit of a “leadership role”. Recent media reports⁸ have highlighted the negotiating stance of some other countries with China apparently seeking to place the point of obligation at the final consumer of products and that the United States legislature is considering the imposition of carbon tariffs on countries not participating in similar schemes. In agricultural terms, international trade is already heavily distorted and many countries around the world have incentive schemes that support their domestic agricultural systems in favour of international competitors. The Government’s enthusiasm for international leadership on climate change must not cloud nor compromise our international trade competitiveness, nor inadvertently see the development of inappropriate responses from other nations.

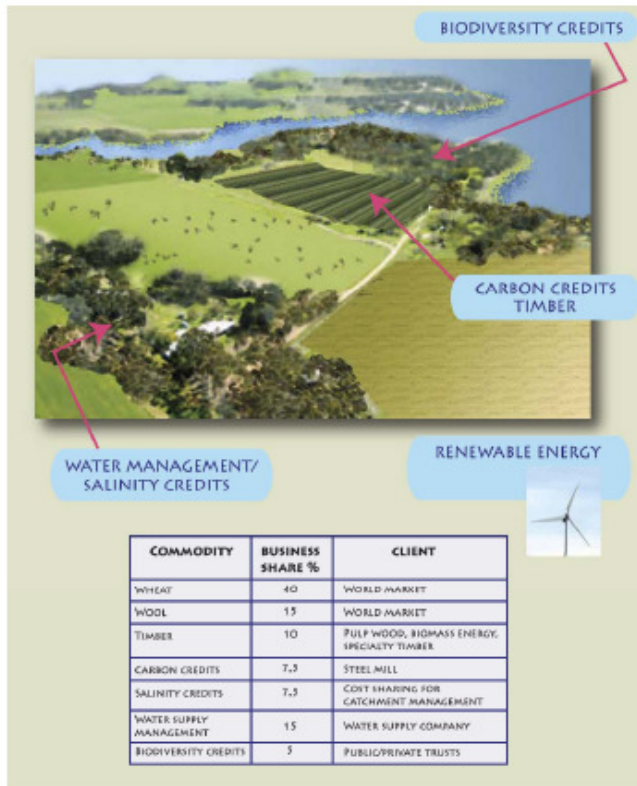
Agriculture is a solar powered, renewable, carbon cycling industry which has the potential to provide many solutions to greenhouse gas management as well as continuing to play an important role in the national and international economy. Climate change should provide the impetus for us to be investing in and developing new farming systems that will be responsive to the changing climate as well as continuing to provide economic opportunity to both farmers and regional Australia.

We must take this opportunity to consider how we can maintain current productivity and in fact make productivity improvements as well as addressing the imperatives of climate change management. We need to consider how we can structure viable economic opportunities for rural Australia through best use of our natural advantages of plentiful resources such as wind and solar energy.

Dr John Williams, the NSW Natural Resources Commissioner presented the following slide to the Agriculture Australia conference in July 2008, which provides a succinct view of a potential future low carbon farming system.

⁸ The Canberra Times, March 21, Forum article “Fresh CO2 formula: consumer onus, too”

The future form of sustainable agriculture



(Credit: Dinah Johanson. Modified from Wayt Gibbs, *Scientific American*, 2005)

This type of approach which integrates precision agriculture to ensure that the productive areas for traditional agriculture are maximised and the less productive areas are utilised for land use change and economic gain through the provision of environmental services and diffuse renewable energy generation should be pursued with much vigour.

Agriculture should be encouraged to participate in the national effort to reduce greenhouse gas emissions through a balance sheet approach which considers both the emissions and sequestration from biological systems. Agriculture should be able to provide offsets to the covered sector and other participants in voluntary markets. We believe that the approach developed by the Chicago Climate Exchange offers a potentially workable mechanism for the development of an internationally acceptable market based system for agricultural emissions management.

The system that has already been developed by the Chicago Climate Exchange is⁹:

- **CCX's integrated greenhouse gas (GHG) reduction and trading system includes a full portfolio of offset projects. CCX issues tradable Carbon Financial Instrument® (CFI®) contracts to owners or aggregators of eligible projects on the basis of sequestration, destruction or reduction of GHG emissions.**
- All CCX offsets are issued on a retrospective basis, with the CFI vintage applying to the program year in which the GHG reduction took place. Projects must undergo [third party verification](#) by a CCX approved verifier. All verification reports are then inspected for completeness by the Financial Industry Regulatory Authority (FINRA, formerly NASD).
- Offset projects can be registered by [Members, Offset Providers and Offset Aggregators](#). Offset Providers and Offset Aggregators do not have significant GHG emissions. Entities that have

⁹ www.chicagoclimatex.com

significant GHG emissions are eligible to submit offset project proposals only if they have committed to commit their own emissions to the [CCX Emission Reduction Schedule](#) as Members. Offset projects involving less than 10,000 metric of CO₂ equivalent per year should be registered and sold through an Offset Aggregator. The terms of the business and legal relationships between aggregators and offset project owners are left to the discretion of those parties.

- CCX has developed standardized rules for issuing CFI contracts for the following types of projects:
 - [Agricultural methane](#)
 - [Coal mine methane](#)
 - [Landfill methane](#)
 - [Agricultural soil carbon](#)
 - [Rangeland soil carbon management](#)
 - [Forestry](#)
 - [Renewable energy](#)
 - [Ozone depleting substance destruction](#)
 - Other project types, to be approved on a project-by-project basis, may include:
 - [Energy efficiency and fuel switching](#)
 - Clean Development Mechanism (CDM) eligible projects

The CCX has also developed the European Climate Exchange (ECX)

These voluntary approaches provide an existing mechanism for agriculture to participate in the national effort and gain reward for actions in reducing greenhouse emissions.

(e) whether the design of the proposed scheme will send appropriate investment signals for green collar jobs, research and development, and the manufacturing and service industries, taking into account permit allocation, leakage, compensation mechanisms and additionality issues; and

In respect of the exposure draft legislation, we commend the Government on the specific exclusion of agriculture¹⁰ from permit liability in the draft legislation. The White Paper contained discussion on the Government's predisposition to include agriculture in the scheme no earlier than 2015. A final decision on coverage of agriculture emissions is proposed to be made in 2013¹¹. This position may still stand but it is not evident in the legislation. This position, if maintained, creates an unacceptable level of market uncertainty for our sector and so we call on the Government to confirm that agriculture will not be covered within the scheme unless there are substantial improvements in the international protocol relating to agriculture and food production.

¹⁰ Carbon pollution reduction scheme bill 2009 commentary p 34.

¹¹ CPRS white paper scheme coverage factsheet

The Bill's commentary paper includes many references to the need for investment certainty for covered sector entities¹², yet the position described in the White Paper for agriculture provides a great deal of market uncertainty for our sector. This is an unacceptable position and so we respectfully suggest that this Inquiry should seek clarification as to the permanence of the specific exclusion for agriculture. We support the specific exclusion of agriculture described in the exposure draft legislation supporting document but we propose that agriculture be provided with access to the voluntary market to provide a place for innovation and farm level activity that assists with the national efforts to reduce emissions but in a way that rewards best practice and improves farmers terms of trade.

The ramification of agriculture as an uncovered sector is that input costs for primary production will increase due to the flow through of CPRS costs on inputs such as electricity, fuel, fertiliser, chemicals, and steel which will erode farmers terms of trade and will mean that our agricultural industries will be adversely affected in terms of international competitiveness - a position which is exacerbated when coupled to the logistics and processing sectors in the food and fibre value chains. The Government is proposing to provide assistance to Emissions Intensive, Trade Exposed sectors¹³, however, farm production is not eligible for such assistance. The Inquiry should consider how the Government will address adverse outcomes in terms of international trade competitiveness of uncovered sector participants to ensure that our industries remain viable in the presence of an Australian initiative without complementary international initiatives in our competitor countries.

We support the inclusion of removal units in the Bill as an acceptable offset credit. This would appear to provide a mechanism whereby offset credits from a wide range of sources may be able to be developed and utilised. We note that at least one of the carbon trading groups have interpreted the availability of Removal Units as being applicable to domestic soil carbon improvements. The Inquiry should provide guidance and confirm that removal units can be generated from domestic voluntary soil related initiatives in an Australian context given that soils are not a component of our national compliance accounting methods due to Article 3.4 of the Kyoto Protocol.

We also contend that agriculture, as a sector, is trade exposed within the definitions provided in the green paper. If agriculture is to be included in the scheme based on the total sectorial contribution to national emissions, despite it being made up of small businesses each responsible for emitting less than 1000 tonnes of CO₂e, then all of the businesses within the sector need to be recognized as being trade exposed as the corollary of the argument.

Agricultural products are reliant on export markets for many of the major products and also exposed to imports from other countries. In both cases, Australian agricultural products compete in global markets with producers from other nations in price sensitive markets.

¹² Carbon pollution reduction scheme bill 2009 commentary p 15

¹³ CPRS Exposure Draft Bill Part 8

Australia's top 10 agriculture export markets

Partner Country-All countries	FY2006	
	A\$'000	Rank
- All countries	28,460,832	
Japan	5,407,133	1
United States	2,939,501	2
China	2,832,698	3
Republic of Korea	1,203,542	4
United Kingdom	1,196,061	5
New Zealand	1,039,842	6
Indonesia	945,940	7
Hong Kong	844,566	8
Taiwan	728,010	9
Singapore	630,359	10

Source: DFAT, STARS database

Value of Australian agricultural exports (fob), by destination

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	average	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
Africa	992	1 292	1 544	908	1 174	743	1 034	623	1 039	4%
Americas	2 786	3 864	4 252	3 843	3 781	3 890	3 835	3 624	3 734	13%
North						10	11	10		
Asia	8 378	9 928	9 555	8 781	8 840	884	216	715	9 787	34%
South East										
Asia	3 759	4 890	4 550	4 001	3 865	4 179	4 146	4 084	4 184	14%
South										
Asia	1 264	1 215	1 230	652	774	815	733	1 058	968	3%
Middle										
East	2 004	2 898	3 276	2 085	2 140	1 960	2 213	1 610	2 273	8%
Europe	2 641	3 477	3 175	3 003	2 756	2 824	2 753	2 631	2 908	10%
Oceania	1 006	1 170	1 260	1 349	1 296	1 419	1 446	1 561	1 314	5%
New										
Zealand	692	815	900	982	972	1 073	1 113	1 196	968	3%
Other	1 729	1 373	3 090	3 243	1 923	1 197	570	1 686	1 851	6%
	25	30	32	28	27	28	29	28		
Total	251	922	831	847	522	984	060	788	29 025	100%

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Agriculture is a price taking industry with little or no ability to pass on increases in the price of inputs. Australian agricultural products compete in a highly corrupted world marketplace where many countries apply trade distorting and protectionist policies despite the best efforts of the Australian government to liberalise trade. There have been recent examples of countries

¹⁴ ABARE Australian Commodity Statistics 2007

discouraging exports of products to sure up local food security and so further distort the global supply and demand equation for food products.

We see a great risk in Australia developing a system that imposed further costs on the Australian agricultural sector without first extracting complementary measures and opportunities from other trading partners across a range of issues not just related to carbon. If we can take our involvement in WTO negotiations as an example of our ability to influence global climate change debate, we need to act very cautiously to taking on too much of a leading role without first ensuring that the rest of the world is also moving at the same rate.

(f) any related matter.

1. We also note that the Government has already committed \$500 million to research industrial carbon capture and storage and a similar amount into “Clean Coal” technology. Agriculture is a solar powered, renewable, carbon cycling industry that already has available technology that can assist with this issue – these are called plants and soil. We would welcome a similar commitment from the government to investigating emissions reduction activities for farms that can maintain and increase productivity.
2. The Federal Government has recently reduced funding to the CSIRO and State Government’s have for years been under-investing in their respective Departments of Agriculture. It is essential that the Government invest in both the human capital and collateral supporting research efforts at all levels including extension capacity to ensure that research results are available across the agricultural sector.