

14 April 2009

Committee Secretary  
Senate Select Committee on Climate Policy  
PO Box 6100  
Canberra ACT 2600

Dear Committee

**RE SENATE SELECT COMMITTEE ON CLIMATE POLICY SUBMISSION**

The Australian Meat Industry Council (AMIC), being the nationally recognised Peak Council representing the red meat processing sector, welcomes the opportunity to make the following submission to the Senate Select Committee on Climate Policy.

This submission focuses on the red meat processing sector, and in particular the reasons why the Government's current Carbon Pollution Reduction Scheme is not an appropriate mechanism for processors to participate in reducing Australia's overall emissions. AMIC has provided considerable input into both the National Farmers Federation and joint red meat industry submission by Cattle Council of Australia, Sheepmeat Council of Australia, Australian Lot Feeder Association and ourselves and we support the position taken by the integrated livestock value chain.

This submission references independent research commissioned by the red meat industry and undertaken by the Centre for International Economics (CIE). The research entitled *Impacts of the CPRS on the Australian red meat and livestock industry* is nearing completion and will be provided to the Senate Select Committee upon completion.

It is our strong view that the Carbon Pollution Reduction Scheme (CPRS) Bill should not be supported by the Senate in its current state. The CPRS it is not an appropriate mechanism for the red meat industry for the following reasons:

- There is no way a CPRS can be applied to beef and sheepmeat production and achieve cost effective carbon emission reductions, consistent with the objective of the Bill;
- A CPRS does not adequately recognise the industry's acute trade exposure combined with its small profit margins of 1 to 3 per cent;
- By setting arbitrary thresholds, it will create significant distortions, which will disadvantage some supply chains; and
- The Kyoto methodology is antiquated, and unless improved, is not the most appropriate accounting system for Australia.

Independent research commissioned by industry demonstrates that the proposed CPRS will have major detrimental impacts on all points of the red meat industry supply chain. The research concludes that if both Agriculture and processing are included in a CPRS, the effects by 2030 would include:

- production relative to the business as usual (BAU) level will fall by 12 per cent for grass fed beef, by 7 per cent for grain fed beef and by 5 to 6 per cent for sheepmeat;
- exports will fall by 12 to 14 per cent relative to the BAU level for beef, and by 8 per cent for sheepmeat; and
- the gross operating surplus (GOS) on farm will fall by 62 per cent relative to the BAU level for grass fed beef, and by 27 to 32 per cent for grain fed beef, lamb and mutton.

Alternate, complementary measures need to be developed if the industry is to contribute to Australia's emissions reduction objectives while remaining viable and continuing to contribute to national economic growth and meeting national and global food demand.

The proposed Emissions Trading Scheme (ETS) is not appropriate for the red meat processing industry to make a meaningful contribution to reducing greenhouse gas emissions due to a number of unresolved factors that would lead to significant perverse outcomes. These include:

1. *A lack of accurate, verifiable and cost effective emissions measurement and reporting mechanisms*

- The current data and methods for estimating emissions cannot reflect the variations in greenhouse gas sources and sinks between individual enterprises. These variations arise due to different production systems (eg grain versus grass fed), the wide range in management practices and due to regional differences in climate, vegetation and landscapes that affect the production of red meat. There are 213,000 properties registered to 203,000 entities registered on the Livestock Production Assurance database producing beef and sheepmeat across 48% of Australia's land mass. To ask the relatively fewer meat processing facilities to administer such a Scheme is both cost prohibitive and impractical.
- Consideration of any type of 'rule of thumb' estimate would not provide any incentive for good practice in emissions management and create appropriate market signals.
- Emissions from the treatment of meat processing wastewater cannot be accurately or precisely determined with the existing technologies used by the industry. The Scheme provides three methods for calculating methane release that require confidence levels of 95% and can produce differences in methane release rates by three times. With this level of uncertainty in measuring more than half the emissions of a processing facility it would be unjust to include wastewater into the CPRS.

*2. A lack of demonstrable commercially viable abatement and sequestration options*

- Without practical options for reducing net emissions, an ETS is merely a tax on production. It cannot act as an incentive for abatement if options to achieve emissions reduction do not exist. Current investment in R&D to develop mitigation strategies is strongly supported.

*3. International greenhouse gas accounting rules are being reviewed by the United Nations Framework Convention on Climate Change*

- It would not be appropriate to base a decision on current accounting rules without knowing the detail of the rules that may apply from 2013.

*4. The international competitiveness of red meat production must be maintained*

- Our competitiveness will be at risk if we incur greater costs than our competitors assuming they do not adopt a similar scheme. In 2007-08, Australia exported 65% of its total beef and veal production, 45% of total Australian lamb production and 77% of total Australian mutton production (DAFF/ABS). Remaining competitive in international markets is imperative to the red meat industry; under the proposed CPRS this will be in jeopardy.

It has been widely commented and documented that a CPRS will impose a significant cost upon Australian businesses and consumers. Without any effective mitigation strategies for the red meat industry these costs will be unavoidable and have the potential to cripple the industry. Simulations reveal that by 2030, 94 per cent of the impacts of a CPRS on the red meat industry that would be incurred by 2030 (if both agriculture and processing were included), would be due to coverage of the Agriculture sector in the scheme from 2015. Independent CIE research has concluded the following impacts on the economy, consumers and the industry:

***Effect on Consumers***

Wholesale prices under a CPRS will be 6.6 per cent higher than the BAU level in 2030 for grass fed beef, 5.6 per cent higher for grain fed beef, 6.8 per cent higher for lamb and 4.9 per cent higher for mutton.

***Impact on Production***

It is projected that by 2030 meat production will be 12.4 per cent below the baseline or business as usual (BAU) level for grass fed beef, 7.3 per cent for grain fed beef, 5.4 per cent for lamb and 6.4 per cent for mutton.

***Impact on Exports***

It is projected that exports will be 13.7 per cent below the baseline (BAU) level in 2030 for grass fed beef, 12.4 per cent below BAU level for grain fed beef, and about 8 per cent below BAU level for both lamb and mutton.

### ***Impact on Profitability***

The gross operating surplus on farm would be 62 per cent below the BAU level by 2030 for grass fed beef, 28 per cent for grain fed beef, 27 per cent for lamb and 32 per cent for mutton. A reduction in profitability of this magnitude would result in the majority of livestock producers becoming economically unviable.

It is estimated that the processing margin would be 6.6 per cent below the business as usual (BAU) level by 2030 for grass fed beef, 3 per cent for grain fed beef, 3.2 per cent for lamb, and 3.8 per cent for mutton. Given processing profit margins are typically between 1 to 3 per cent this analysis indicates that a significant number of processors will be rendered uneconomic by a CPRS.

### ***Impact on Jobs***

It is estimated that the above reduction in the processing margin would lead to between 3600 and 4600 job losses by 2030 compared to the employment level that would have otherwise been for beef and sheepmeat processing. The vast majority of these jobs will be lost in regional Australia.

### ***Carbon Leakage***

CIE research concludes that as a direct result of the CPRS there will be a leakage of meat production to other countries of between 15 and 20 per cent. The risk of carbon leakage is a documented and expected side effect of a CPRS, however, the impact on the red meat industries is two to three times as high as for the overall economy for which leakage is predicted to be only between 5 to 10 per cent.

Australian agricultural systems are acknowledged to be amongst the most greenhouse gas efficient in the world (e.g. Garnaut Interim report). The global solution to the threat of dangerous climate change needs more, not less, of total production from countries with efficient systems supported by R&D programs for continuous improvement in greenhouse mitigation. Therefore, the CIE data demonstrating the risk of leakage adds further emphasis to the fact that the CPRS is not appropriate for the red meat industry.

AMIC is pleased to be able to provide comment to the Senate Select Committee on Climate Policy. We understand the Committee is due to report by the 14<sup>th</sup> May 2009 and are at the Committee's disposal to provide evidence at a public hearing where appropriate.

Yours faithfully



T Maguire  
Chair – AMIC Climate Change Committee  
Australian Meat Industry Council