



National Farmers'
FEDERATION

**SENATE SELECT COMMITTEE ON CLIMATE
POLICY**

NFF SUBMISSION

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Inquiry Terms of Reference

- a) On 11 March 2009, the Senate established a Select Committee on Climate Policy to inquire into policies relating to climate change, with particular reference to:
- b) 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;
- c) 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;
- d) 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;
- e) an appropriate mechanism for determining what a fair and equitable contribution to the global emission reduction effort would be;
- f) 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
- g) any related matter.

The National Farmers' Federation

The National Farmers' Federation (NFF) was established in 1979 and is the peak national body representing farmers, and more broadly agriculture across Australia.

The NFF's membership comprises of all Australia's major agricultural commodities. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations collectively form the NFF.

Each of these state farm organisations and commodity council's deal with state-based 'grass roots' issues or commodity specific issues, respectively, while the NFF represents the agreed imperatives of all at the national and international level.

Introduction

The NFF welcomes the opportunity to provide comments to the Senate Select Committee on Climate Policy.

As sustainable farming is dependent on accommodating and adapting to climatic variability farmers have a vested interest in minimising bona fide pollution and taking a hands-on proactive approach to environmental stewardship. From this background farmers are well positioned to make a further significant reduction to Australia's greenhouse gas emissions in addition to the efforts already undertaken by farmers to mitigate emissions.

Achieving new levels of relevant best practice will depend substantially on the development of a comprehensive range of policies designed to provide new opportunities and incentives aimed primarily at increasing productivity as well as complementing efforts to reduce greenhouse gas emissions - particularly emissions of atmospheric carbon.

It is widely recognised that an emissions trading scheme is an inappropriate policy mechanism for the Australian agricultural sector at this time. In addition to the potential for perverse economic impacts (outlined within the NFF submission to the Senate Economics Committee inquiry into the exposure drafts of the legislation to implement the CPRS) and social impacts from the CPRS, the NFF is concerned about the potential for the CPRS to lead to significant perverse environmental outcomes in areas such as water runoff, biodiversity, and Australia's ability to continue to make a contribution to global food and fibre supplies. The NFF also believes that regulatory means are also inappropriate for the sector.

Therefore, the NFF believes that in conjunction with the development of new technologies that can be applied on-farm, work must commence immediately to

develop alternative, win/win, complementary measures that correct the current policy hiatus and give farmers clarity on the public benefit of undertaking actions on-farm that have positive abatement outcomes.

The NFF believes that it is the national interest for Government to closely examine voluntary, incentive-based, market mechanisms that provide positive incentives to farmers that link increases in productivity with a reduction in their emissions. The NFF believes that top priority must be given to the full examination of the carbon cycle with a view to developing a range of options, in addition to forestry, by which agriculture can maximise its ability to capture atmospheric carbon and have that capture appropriately recognised.

Alternative mechanisms that may be more appropriate for driving a positive response from Australian farmers include Greenhouse Best Management Practice (BMP) programs, environmental quality assurance programs, stewardship programs, certification schemes, R&D investment, transport infrastructure improvements, utility level renewable energy development and grant schemes.

The NFF is looking to work with Government in working through these, and other options to identify an appropriate climate policy mix for the agriculture sector.

Is an ETS appropriate for agriculture?

It is widely recognised (by Government, the Productivity Commission, Professor Ross Garnaut, etc) that it is currently impractical for agriculture to be covered by an ETS. This is due to a number of obstacles that mean that covering agriculture within an ETS at this time would lead to significant perverse outcomes. These include:

1. *A lack of accurate, verifiable and cost effective emissions measurement and reporting mechanisms for agriculture* - Reportable emissions for agriculture must be a true reflection of actual emissions. Furthermore, measurement and reporting of emissions across Australia's 155,000 farmers, must not involve excessive transaction costs. The NFF also notes that the National Carbon Accounting System (NCAS), in its current form, is not an appropriate carbon measurement mechanism for agriculture. Industry has concerns that it does not effectively account for the complexities of agricultural land use. Indeed, we must be careful in contemplating any type of 'rule of thumb' measure for estimating agricultural emissions that may not take the complexities of the sector's emissions into account.
2. *A lack of demonstrable commercially viable abatement and sequestration options for all agricultural sectors*
Without practical options for reducing net emissions, the CPRS represents a simple tax on production. It cannot act as an incentive for abatement if options to achieve a reduction in net emissions do not exist.
3. *International greenhouse gas accounting rules do not appropriately reflect the net emissions contribution of agriculture* - The current Kyoto Protocol accounting rules

both misrepresent agricultural emissions and are a barrier to increasing the carbon storage potential of agricultural lands. Under these rules, farmers are restricted from gaining credit for sequestration through cropping and grazing land management practices. As a result, greenhouse emissions recorded for agricultural activities are gross emissions rather than net emissions. These international rules, that place an undue emphasis on reforestation as the primary tool for achieving sequestration, are likely to underpin the greenhouse gas accounting rules for any Australian ETS and, therefore, limit Australian farmers' capacity to make an equitable contribution to reducing greenhouse gas levels in the atmosphere. These same rules also have broader ramifications for global food security. A priority is changing the rules to allow a distinction to be made between human and natural emissions from land systems, such as occur in relation to soil carbon losses.

4. *The international competitiveness of Australian agricultural production cannot be jeopardized* - Agriculture must have assurances that our export competitiveness will not be placed at risk as a result of the implementation of an ETS, particularly in the absence of a global agreement. Similarly, import exposed sectors should not be placed at a disadvantage on the domestic market. Compensatory provisions are necessary to ensure that agriculture does not face such outcomes that lead to disproportionate loss being incurred by the sector. It also must be remembered that even as an uncovered sector, agriculture is significantly exposed to higher energy-dependent costs that will emerge following the ETS. The ETS design and supporting policies must also take into account the international competitiveness of trade exposed sectors that are uncovered by the ETS. It should also be mindful of the increasing potential for development of greenhouse gas related non-tariff trade barriers as being flagged recently within ETS design proposals in other countries.
5. *Proposed ETS emissions caps must reflect a business as usual operating environment while acknowledging agriculture's previous contribution* - Proposed emissions caps for agriculture must reflect emissions under "normal" seasonal conditions. Furthermore, caps should take into account the significant costs incurred by the farm sector in reducing Australia's carbon profile through land use change on behalf of the entire community since the 1990's.
6. *On-farm energy reductions and abatement measures must be credited to agriculture* - In order to send effective signals to the farm sector to reduce their on-farm emissions, there must be transparent incentives to encourage farmers and other regional industries to adopt local-scale renewable technologies.
7. *The point of obligation for agriculture must have minimal transaction costs while not obscuring market signals*

Covering agriculture before these issues are addressed will lead to perverse economic, environmental and social impacts.

While an ETS is currently an inappropriate climate policy for agriculture, the NFF understands the Australian Government's intention to limit man-made greenhouse gas emissions. Indeed, the NFF recognises that the risks of climate variability are

heightened for Australia's agriculture sector due to its direct and significant exposure to the impacts of any change in the climate.

The NFF also recognizes that market-based mechanisms, such as an ETS, can be appropriate for driving least-cost greenhouse emissions abatement across the entire economy. However, Government must ensure that the ETS design is appropriate and flexible to ensure that sectors, such as agriculture, are not disproportionately affected and that the international competitiveness of agriculture is maintained. This principle applies to agriculture either as a covered or uncovered sector, within an ETS.

It is the NFF's view that an equitable ETS would ensure that agricultural sector is compensated for the impacts on its international competitiveness until such time as its competitors are also subject to an equivalent ETS. Not doing so will lead to 'leakage' of agricultural production.

Similarly, the NFF believes that an equitable ETS will recognize the differences between the natural carbon cycle of agricultural systems and emissions that result from fossil fuel use. The NFF believes that natural carbon cycling and re-introduced fossil fuel carbon should have different greenhouse warming accounting status that acknowledges the cyclical nature of emissions and sequestration through biological systems such as agriculture. The NFF believes that treating methane from enteric fermentation in the same way as fugitive methane emissions is an inequitable means of accounting for the global warming potential of each emissions source.

What are the risks of a poorly designed ETS?

Australian farmers risk being forced into a position whereby the only way that they can meet their liabilities under the Australian ETS is by reducing production, which would further fuel the global food shortage and increase food prices. Australian agriculture is a low intensity greenhouse emitter in comparison with agricultural sectors internationally. Therefore, as the Garnaut Report found, it is in the best interests of the global community to have more of the world's food and fibre production met from countries like Australia, where modern farmers are implementing cutting-edge technologies and greenhouse efficient farm systems.

It is also important that the costs of an ETS are distributed fairly across the Australian community. Farmers, as price-takers in the marketplace, are extremely vulnerable to increased costs that may result from the implementation of an ETS – even as an uncovered sector.

What are appropriate climate policies for agriculture?

The NFF agrees with the Government's finding that it is currently impossible to include agriculture as a covered sector within an ETS. Further, the NFF does not support a regulatory approach to dealing with climate change. Such practices have

been utilised by State Governments in Australia in the past, through the restrictive regulations of land clearing that have enabled Australia to meet its Kyoto targets. This regulatory practice has come at significant cost to Australian farmers, led to numerous perverse outcomes and has created significant limitations to future farm productivity.¹ However, the agriculture sector is willing and able to make a further contribution to reducing greenhouse gas concentrations in the atmosphere. The question for agriculture is therefore – *if an ETS is not appropriate policy for the sector, then what is?*

The NFF believes that work must commence immediately to develop alternative, complementary measures that correct the current policy hiatus and give farmers clarity on the public benefit of undertaking actions on-farm that have positive abatement outcomes. Failure to act in this area would mean missing a real opportunity to send a positive market signal to agriculture. Until such policies are developed, this may potentially create a disincentive for some farmers to reduce emissions and confusion about how to reduce their business exposure to carbon risk.

The NFF proposes the following criteria for assessing the potential of such complementary measures. Effective complementary measures must:

- Provide investment certainty and clarity about the ultimate treatment of agriculture so that farmers can immediately start preparing for the low carbon economy.
- Provide positive financial incentives for adopting low emissions and high sequestration farming technology and practices. Where possible, this should include a variety of options that allow farmers to choose the most appropriate mitigation pathway for their enterprise, and also recognise broader environmental benefits, e.g. for biodiversity or water quality.
- Acknowledge previous good practice.
- Be based on sound science but entail a low administrative burden.
- Support partnerships with the renewable energy and waste sectors.

Complementary policy options may include:

- Additional investment in R&D for technologies that deliver both productivity and emissions abatement.
- Financial support for best management practices that deliver emissions abatement. Such on-farm practices often provide other sustainability benefits (such as reducing runoff or fuel inputs). Recognition of such practices within a carbon accounting system (this may be done through mechanisms including Greenhouse Best Management Practice [BMP] programs, environmental quality assurance programs, stewardship programs, certification schemes or grant schemes) would further enforce other Government natural resource management objectives such as those encapsulated in *Caring for our Country* or other similar programs.

¹ Australian Farm Institute 2007, The new challenge for Australian agriculture: How to Muster a Paddock of Carbon.

- Investment in low emissions transport. This may include logistical support for freight matching (i.e. matching available trucks with freight loads that need to be shipped), investment in improved intermodal transfer, drive chain substitution (new engine technology), extension of the rail network, or regional renewable power stations to enable electrification of the rail network.
- Alignment of water and drought policy programs to support abatement and sequestration goals without jeopardizing productivity.
- Examining the potential for utility scale renewable energy as a new business sector in regional Australia. This may include development of a robust integrated least-cost planning model for regional Australia's transition to solar-thermal, geo-thermal, wind and other renewable energy supply.

Is an ETS the appropriate central policy response?

Market based instruments that penalise polluters have proven effective in addressing some forms of pollution. However, it must be noted that this has largely been in circumstances where the emitters are relatively small in number, readily identified, and the emissions are point source. The Nitrous Oxide and Sulphur Dioxide market in the USA is a good example of how a narrowly focussed ETS can achieve cost effective results.

Greenhouse gas pollution, however, is a fundamentally different and more complex problem. Greenhouse gas emissions are diffuse as well as point source and, most problematically, occur globally. There is no uniform international legal framework for regulating such emissions or for putting a price on 'carbon pollution'. The primary problem facing carbon markets therefore is that of free riders (carbon leakage).

The free rider problem is difficult enough to address within the boundaries of a nation with a stable legal system – such as Australia. As Professor Garnaut has acknowledged it may be impossible to solve at international scale, at least in the foreseeable future. The complicated compensation measures for “trade exposed” firms proposed in the CPRS White Paper cannot be regarded as a satisfactory solution to this problem.

Successive reports commissioned by the previous and present Federal Governments have been disparaging about policy responses based on “picking winners” and have argued that the most economically efficient way to reduce carbon pollution is to let the market find the most efficient solutions. This may be the case if it were possible to establish a market with universal coverage and a technically perfect and comprehensive measurement, monitoring and accounting system for emissions.

In light of the above, the NFF recommends that the select committee revisits the assumptions that have been made about the economic efficiency of relying solely on an ETS for mitigating greenhouse gas emissions. The NFF reinforces the need to examine additional policies and mechanisms, particularly for biological systems

with sequestration elements such as those within agriculture, that complement any ETS while providing scope for all sectors in the economy to maximise their capacity to contribute to this challenge.

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