



May 3, 2011

The Committee Secretary
Senate Committee on the Scrutiny of New Taxes
Parliament House
CANBERRA ACT 2600

Re: Inquiry into Carbon Tax Pricing Mechanisms

On behalf of the Australian dairy industry, the Australian Dairy Industry Council (ADIC) welcomes the opportunity to provide input to the Committee's inquiry into carbon pricing mechanisms.

The ADIC is the national peak policy body for the Australian dairy industry and represents all sectors of industry on issues of national and international importance. Our member organizations – the Australian Dairy Farmers Limited and the Australian Dairy Products Federation - represent the interests of dairy farmers, manufacturers, processors and traders across Australia. The ADIC's role is to bring together these members to establish present a unified dairy position on issues that affect the industry's future across the entire value chain.

Dealing with change has been a constant experience of the Australian dairy industry over the past two decades. The drivers of change have been many and varied – changes in policy, the impact of drought, emerging markets, changing consumer and community expectations. Regardless of the challenge, dairy's approach has been to work proactively with government to identify and implement responses that support our ongoing operation as a market-oriented, energy-efficient and socially responsible industry.

Climate change poses an important challenge for Australia and Australian agriculture. The ADIC broadly supports a comprehensive government and industry response to climate change.

In the case of greenhouse gases we recognize the government's intention to reduce man made emissions and that placing a price on carbon (either via a tax or an emissions trading scheme) may play a role in achieving this outcome. We also recognize the difficulty of developing a carbon pricing mechanism that will contribute effectively to a reduction in emissions but which will not unduly damage Australia's national and regional economies.

As a livestock-based, market oriented industry that involves a high level of processing (value adding) across regional Australia the dairy industry faces some unique challenges from the taxing of carbon, particularly if these mechanisms operate in advance of, or differently to those employed by our major competitors.

The ADIC recognizes that the proposed carbon price framework may differ to the previously proposed Carbon Pollution Reduction Scheme (CPRS). It strongly supports the exclusion of the direct emissions from agriculture from any future carbon pricing scheme.

The absence of specific detail regarding key elements of the proposed carbon price framework (rate of tax, coverage, compensation arrangements etc) makes it difficult to

precisely estimate the likely impact of a carbon tax on dairy production. However, in many ways the impact of imposing a price on carbon via a tax or an ETS is likely to be broadly similar for dairy producers.

Therefore, the ADIC would like to reinforce some concerns raised in relation to the earlier CPRS as a starting point for this discussion on carbon taxes.

Even if direct farm emissions are excluded from the tax, dairy farmers will be affected by imposing a price on carbon.

The immediate impact will come through higher costs for key production inputs such as fuel, electricity and fertilizer. Across agriculture dairy is the sector most exposed to increases in electricity pricing arising from carbon pricing.

Increases to these input prices such as electricity could add \$3,000 to \$5,000 to annual operating costs per farming family (depending on the price imposed on carbon). These costs will be in addition to the impact of any carbon tax on the living costs of dairy households.

A price on carbon will also impact on the processing / manufacturing sector of Australian dairy through its direct effect on energy input prices and its indirect effect on the price of other inputs such as packaging, chemicals, distribution etc.

Dairy farming and dairy processing are two segments of the one integrated - trade-exposed - value chain. This 'trade-exposed' status means the industry cannot pass on the costs of a carbon scheme on to local consumers or world markets unless similar arrangements are in place with all major international competitors.

As a result, the majority of costs imposed on to the dairy processing sector are expected to be passed back onto farming families and regional communities. The estimated impact of this cost pass back to farm families could be between \$5,000 and \$10,000 per year (subject to the prices set for carbon).

The dairy industry previously sought Emissions Intensive Trade Exposed (EITE) status under the CPRS model. As part of this process it calculated and submitted emissions intensity data for the most energy-intensive dairy products (dried milk powders). Despite the clear case for trade-exposure, the emissions intensity of dairy processing did not meet the CPRS thresholds for support.

Without EITE status, dairy farmers and companies remain exposed to a significant cost under a carbon pricing system.

The ADIC believes that food processors and dairy farmers are inextricably linked and therefore processors should be afforded the same emissions intensity as their primary commodity. For example dairy, beef and sugar processing would therefore receive support under a future carbon price framework and this would protect farming families from these adverse outcomes.

An issue in relation to trade exposure risks and the associated risk of carbon leakage (i.e. a transfer of production and associated emissions across regions without any net reduction in aggregate global emissions) is the arrangements in place in major competitor countries. In the case of dairy, Australia's major trade competitors are New Zealand, the European Union, the USA, Latin America and, potentially, India.

Of these countries, only New Zealand and the EU have ETS systems in place and this is likely to be case for the next few years.

Importantly, the EU has explicitly acknowledged the risk of “carbon leakage” for dried milk products by providing free permits for EU processors in this sector within its ETS. This provision represents a real risk to Australian export competitiveness if our firms are subject to different carbon tax arrangements.

New Zealand is currently undertaking a statutory review of its ETS arrangements. Their industry, there is actively the modification of the current ETS arrangements - and the EU situation is one factor that industry has cited as requiring a more balanced approach to trade exposed sectors.

These factors highlight that, in the absence of a global agreement, there are real risks for trade exposed food processing industries like dairy under a carbon pricing mechanism if local firms face greater obligations than most other major international competitors.

The ADIC believes there is insufficient understanding of the linkages and cost flows in food processing sectors like dairy. This is a real and early risk associated with carbon pricing. This risk also extends to regional communities. Dairy is a major employer and value adding sector across regional Australia. So regional communities where dairy farming and manufacturing is a major local industry are also heavily exposed to the cost impacts of a carbon pricing framework.

The ADIC recognizes the dairy industry has a responsibility to contribute to national efforts to reduce greenhouse emissions. But we stress the need to provide appropriate support for local businesses through any transition phase.

The ADIC cannot support any carbon pricing legislation which results in a less competitive Australian dairy industry or which leads to unnecessary shifts of dairy production to other parts of the world (carbon leakage).

Finally, it is important to recognize that a carbon pricing mechanism will have important overlaps with other national policy initiatives (such as water and food security, innovation and regional development. These linkages and potential interactions must be carefully thought through in order to achieve a successful transition to a carbon constrained future and to ensure that Australia retains its capacity as a safe, sustainable producer of staple foods.

Thank you for considering our views on this important issue. The ADIC would welcome the opportunity to discuss any of the issues raised in this submission at your convenience.

Yours sincerely,



Adrian Drury
Director