

29 October 2010

Committee Secretary
Select Committee on the Scrutiny of New Taxes
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

RE: Inquiry into Carbon Tax Pricing Mechanisms

The National Farmers' Federation (NFF) appreciates the opportunity to provide input into the Select Committee on the Scrutiny of New Taxes inquiry into Carbon Tax Pricing Mechanisms.

The NFF recognises the Australian Government's intention to limit man-made greenhouse gas emissions and understands that placing a price on carbon, either through a carbon tax mechanism or a cap and trade system, may play a role in achieving this outcome. Similarly alternative policy drivers, such as a standalone carbon offsets program rewarding carbon mitigation activities by the farm sector, may also play an effective role.

However, the NFF has serious concerns about any mechanism if it risks putting Australian farmers' ability to compete on international markets (or indeed against imports on the domestic market) in jeopardy.

The NFF recognises that a price on carbon in reality means higher costs for energy and energy dependent inputs such as fuel, electricity and fertilizer – inputs that Australian farmers and their supply chains are highly dependent on. It is this perspective that causes the most concern for farmers, as price takers in the marketplace, in relation to having a price on carbon.

Australian agriculture is a sector that has spent considerable effort over many years to extract costs from our system in order to remain competitive on the international markets for which we depend. On the most part, agriculture has been overwhelmingly successful at achieving this, delivering an average annual productivity growth rate of 2.8% over the last 20 years. It can clearly be argued that developing new mechanisms which unilaterally add costs for Australian farmers would fly in the face ongoing efforts to stay ahead of declining terms of trade for agricultural commodities. Effective trade exposure compensation provisions for sectors such as agriculture will therefore be vital to any carbon price policy discussion in order to ensure that carbon leakage issues are avoided.

However, the NFF does realise that having a price on carbon may also provide opportunities for farmers, particularly through the potential for linkages to bio-sequestration offsets through vegetation and soils and other abatement activities on-farm. Unfortunately due to faults in the international carbon accounting rules, these opportunities are currently limited and in NFF's view would be unlikely to outweigh any of the costs emerging from the emissions side of the ledger under a scheme such as the Carbon Pollution Reduction Scheme. The NFF's view is that in the interests of providing a balanced position, this Inquiry should also consider the required changes to these international agreements that would allow farmers an opportunity to continue to produce food and fibre whilst participating in a carbon market.

The question for the NFF therefore is focussed more on the design of proposed mechanisms to impose a price on carbon, rather than the price on carbon itself. At this stage, the NFF has not seen a mechanism that does not pose risks for farmers' ability to compete internationally.

The NFF looks forward to continuing our engagement on this important issue and trusts that Government deliberations will take strong account of the factors facing the Australian farm sector.

Yours sincerely

DAVID CROMBIE
President

Appendix 1

Climate Change (Emissions Trading) Act 2008 (NZ)

The clauses relevant to the planned treatment of trade exposed food processing sectors in the NZ Emissions Trading Scheme are those below.

Essentially firms become participants in their scheme either compulsorily under Section 56 or voluntarily under Section 57.

Voluntary participation covers firms who are large buyers of energy in the form of natural gas or coal under Schedule 4

The industry allocation plan (which is separate to the agriculture plan for farm level free permit allocations) then allows for free permits to be given to participant companies who meet a trade exposure test. The allocation percentage and the exposure test are set out in Section 73. Large NZ dairy firms will meet this test.

Section 81 then suggests that smaller NZ food processors who may not meet the test of Section 73 and new entrants should be treated in the same way as large trade exposed firms if they share a similar level of trade exposure.

The clauses are set out below.

54 - Participants

- “(1) A person is a **participant**,—
 - “(a) in respect of an activity listed in Schedule 3, if the person—
 - “(i) is required under section 180 or 204 to be treated as the person carrying out the activity; or
 - “(ii) if subparagraph (i) does not apply, carries out the activity; and
 - “(b) **in relation to an activity listed in Schedule 4, if the person—**
 - **“(i) carries out the activity, is registered as a participant under section 57 in respect of the activity, and that registration has taken effect; or**
 - “(ii) becomes a participant under section 192 or 193 in respect of the activity and is not removed from the register in respect of that activity.

57 Applications to be registered as participant in respect of activities listed in Schedule 4

- “(1) **A person who carries out an activity listed in Schedule 4, or who will do so at the time that the person’s registration takes effect, may apply to be registered as a participant in** respect of the activity by application to the chief executive in accordance with subsection (2).
- “(2) An application under subsection (1) must—
 - “(a) be in the prescribed form; and
 - “(b) be accompanied by—
 - “(i) any information that the chief executive may require; and
 - “(ii) the prescribed fee (if any); and

- “(c) if the person already has 1 or more holding accounts, contain the account number of the holding account that the person wishes to use for the purpose of section 61(1).

73 Allocations to industry

- “(1) The Minister must exercise his or her powers under this subpart to ensure that an allocation plan that provides for the matters in this section and section 78(2) is in force for each of the following periods—
 - “(a) the first commitment period:
 - “(b) each subsequent commitment period, but expiring no later than 31 December 2029:
 - “(c) if there is no subsequent commitment period,—
 - “(i) the 5-year period commencing on 1 January 2013; or
 - “(ii) each subsequent 5-year period after the period specified in subparagraph (i), but expiring no later than 31 December 2029.
- “(2) The matters that an allocation plan must provide for are—
 - **“(a) an allocation of New Zealand units free of charge to persons who—**
 - **“(i) the Minister considers are likely to be trade-exposed; and**
 - **“(ii) meet any tests or thresholds that are specified in the allocation plan; and**
 - **“(iii) in any year or years specified in the allocation plan—**
 - **“(A) are participants in respect of an activity listed in Part 4 of Schedule 3 or Part 4 of Schedule 4, unless the person does not face any obligations under section 63 in respect of the emissions from the activity in any year for which the allocation plan is in force; or**
 - **“(B) as a result of the obligations imposed by this Act on participants who carry out an activity listed in Part 3 of Schedule 3, face increased costs in respect of the person's direct use of coal, natural gas, or geothermal steam, direct combustion of any used oil or waste oil for the purpose of generating electricity or industrial heat, or direct consumption of electricity; and**
 - “(b) if the allocation plan is in force in any year from 1 January 2010 to 31 December 2018, **a total number of New Zealand units available for allocation free of charge under the allocation plan, in each year that the allocation plan is in force, consisting of—**
 - **“(i) 90 New Zealand units for each 100 tonnes of emissions that the Minister is satisfied resulted from the persons specified in paragraph (a)—**
 - **“(A) carrying out any activity listed in Part 4 of Schedule 3 in 2005:**
 - **“(B) directly using any coal, natural gas, or geothermal steam in 2005:**
 - **“(C) directly combusting any used oil or waste oil for the purpose of generating electricity or industrial heat in 2005; and**
 - **“(ii) a number of New Zealand units that the Minister is satisfied is sufficient to compensate the persons specified in**

paragraph (a) for 90% of the electricity cost increase that the Minister estimates those persons would face, due to the obligation imposed by this Act on participants to surrender units, in the period for which the allocation plan is in force, as if those persons purchased and consumed the same amount of electricity per year in that period as those persons did in 2005; and

- **“(c) if the allocation plan is in force in any year from 1 January 2019 to 31 December 2029, a total number of New Zealand units available for allocation free of charge under the allocation plan that is equal to eleven-twelfths of N in 2019, and then declining in each subsequent year at a linear rate to reach a number equal to one-twelfth of N in 2029, where N equals the total number of New Zealand units available for allocation under paragraph (b) in 2018; and**
- **“(d) the matters that the Minister must have regard to when considering if a person is likely to be trade-exposed, including (but not limited to)—**
 - **“(i) whether the person competes with a firm or firms that operate from outside New Zealand in respect of—**
 - **“(A) products the person sells into the New Zealand market; or**
 - **“(B) products the person exports into overseas markets; and**
 - **“(ii) if the person does compete with firms that operate from outside New Zealand, whether the person—**
 - **“(A) faces higher costs in respect of the person’s emissions than the firm or firms with which the person competes face in respect of their emissions; and**
 - **“(B) is unable to pass-on some or all of the person’s costs due to the competition the person faces.**
- **“(3) If, after 31 December 2018, a person becomes eligible for an allocation of New Zealand units in accordance with an allocation plan providing for the matters in this section, the allocation plan may provide for the matters in subsection (2)(c) as if the person had been eligible for an allocation of New Zealand units in accordance with an allocation plan providing for the matters in this section that was in force in 2018.**
- **“(4) Nothing in subsection (3) entitles a person who becomes an eligible person after 31 December 2018 to an allocation of New Zealand units free of charge in any year before the year in which the person becomes an eligible person.**

81 Content of criteria and methodologies in allocation plans

- The Minister must, when considering the criteria and methodologies to be included in any draft allocation plan or allocation plan providing for the matters contained in sections 73 and 76, have regard to the following general principles—
 - **“(a) the allocation of New Zealand units free of charge under any allocation plan should lead to the avoidance of—**
 - **“(i) economic regrets:**
 - **“(ii) significant, regionally-concentrated job losses:**
 - **“(iii) perverse behavioural incentives, including with respect to decisions about investment and output levels:**

- **“(b) it is desirable to treat firms or individuals who are intending to begin operating within a sector or industry (new entrants) in a similar manner, with respect to the allocation of New Zealand units under any allocation plan, as firms or individuals who are already operating within that sector or industry (incumbents) and who are intending to grow their operations:**
- “(c) criteria and methodologies should be included in an allocation plan that provide as much certainty as practicable about the number of New Zealand units to be allocated under the allocation plan and the number to be allocated to each person:
- **“(d) it is desirable to treat firms or individuals that are in the same sector or industry in a similar manner with respect to any allocation of New Zealand units free of charge if the firms or individuals have a similar degree of trade exposure:**
- “(e) the application of any criteria or methodologies included in an allocation plan, and the application of the allocation plan more generally, should minimise administrative and compliance costs as much as practicable:
- “(f) criteria and methodologies to be included in an allocation plan should ensure that firms and individuals considered to be trade-exposed only receive New Zealand units free of charge in respect of the parts of their business operations that are involved in the production of goods that are trade-exposed:
- “(g) any other general principles that the Minister considers appropriate

Schedule 4

Activities with respect to which persons may be participants

Part 4 - Stationary energy (applies on and after 1 January 2009)

Purchasing coal from 1 or more participants who mine coal where the total coal purchased exceeds 250 000 tonnes per year.

Purchasing natural gas from 1 or more participants who mine natural gas where the total natural gas purchased exceeds 2 petajoules per year