

AERIAL AGRICULTURAL ASSOCIATION OF AUSTRALIA LTD.

ABN 13 002 501 886 • ACN 002 501 886



8 August 2011

Committee Secretary
Select Committee on the Scrutiny of New Taxes
PO Box 1600
Parliament House
Canberra ACT 2600

SUBMISSION TO THE INQUIRY INTO CARBON TAX PRICING MECHANISMS

The Aerial Agricultural Association of Australia (AAAA) represents most businesses and pilots involved in the aerial application of agricultural chemicals, fertilisers, fire retardants, oil spill chemicals and related activities in Australia.

The Association has been active since 1958 and runs a comprehensive range of professional, business development and representational programs. More details on the activities of the Association can be found on the Association's website - www.aerialag.com.au

The aerial application industry has no readily available means to curtail carbon emissions, no options to change fuel types due to aircraft and fuel certification requirements, no ability to make more efficient use of existing fuel (due to years of drought ensuring the industry operates as efficiently as possible), and the potential for unfair competition to damage the industry's market share for no positive environmental outcome.

AAAA made a submission during the development of the previous government's carbon pollution reduction scheme. Many of the issues raised in that submission are still relevant to the proposed introduction of a carbon tax and related measures announced by the current Government and AAAA relies on that submission for more detailed coverage of the issues. A copy of that submission is attached at Appendix 1.

The key issues for AAAA are:

- Aerial application cannot be characterized as 'one of the 500 big polluters' as aerial application business owners are all small to medium size enterprises with many being family owned and operated small businesses.
- Australian aviation activities account for approximately 1.5% of total Australian carbon emissions. Aerial application accounts for approximately two percent of the total hours flown by Australian aircraft and the engines used consume considerably less fuel than those in use by major airlines. Therefore, aerial application accounts for less than 0.03%

of Australia's carbon footprint. This should not qualify the aerial application industry for targeting with the aviation fuel levy increase as a 'big polluter'.

- The aerial application industry, as an integral part of agriculture, is a highly seasonal industry where aircraft may not operate for months at a time, and not at all during drought.
- Aerial agriculture is more accurately categorized as a part of agriculture, not aviation, and therefore should be exempt from the proposed 5-6 cents per litre fuel levy increase on all aviation fuels. Aerial application of chemicals, fertilizer and other agricultural products is a direct contributor to agricultural production and is an essential tool for the nation's farmers.
- Introduction of a tax on agricultural aviation introduces a direct skewing of the market where ground application of identical agricultural products will not be subject to any carbon tax or related initiatives.
- Aviation has no ability to change behavior to reduce the industry's carbon footprint due to the long lead times required for the introduction of certified aviation fuels and engines, the lack of availability of biofuel certified engines, and the already very high fuel efficiency of the sector.
- The aerial application industry will have no option, after years of drought, but to pass on the increased aviation fuel levy to clients.
- In an international commodity marketplace, Australia will be competing against countries that have no carbon tax and a range of government initiatives that actively support both agriculture and aviation. For example, the US agricultural aviation sector is exempt from aviation fuel tax and can access accelerated depreciation, neither of which is available to the Australian industry. The carbon related increase in the aviation fuel levy will serve to increase costs for Australia's agricultural industry.
- Firebombing and other emergency services use of aircraft play a fundamental role in lowering carbon emissions from bushfires and oilspills. Application of the aviation fuel levy increase to aerial firebombing and oilspill control is a direct tax on carbon emission reduction activities and therefore directly counter to the stated intention of the Government to reduce carbon emissions.

In reconsidering the impacts of carbon tax on the aerial application sector, the Government should:

- Categorise all aerial agricultural operations as 'agricultural' and therefore exempt from the proposed aviation fuel levy increase.
- Provide aviation fuel levy exemption, relief or protection for aerial firebombing and oilspill control operations

If you require any further information on the impacts of the proposed carbon tax increase of the aviation fuel levy on the aerial application industry, please do not hesitate to contact me on 02 6241 2100.

Yours faithfully

Phil Hurst
CEO

Appendices

1. AAAA 2008 submission to Government on the proposed Carbon pollution reduction scheme
2. Correspondence to the Prime Minister – July 2011
3. Media Release – Carbon Tax on Firebombers – July 2011

Appendix 1 – AAAA Submission to Carbon Pollution Reduction Scheme

10 September 2008

CARBON POLLUTION REDUCTION SCHEME SUBMISSION

The Aerial Agricultural Association of Australia (AAAA) represents most businesses and pilots involved in the aerial application of agricultural chemicals, fertilisers, fire retardants, oil spill chemicals and related activities in Australia.

The Association has been active since 1958 and runs a comprehensive range of educational, training, and representational programs. More details on the activities of the Association can be found on the Association's website - www.aerialag.com.au

Overview

AAAA is greatly concerned at the possible impact of the proposed scheme on the operations of members and the costs the sector will be forced to pass on to clients in agriculture in particular, but also in emergency services and related sectors.

The scheme and Government announcements provide some indication that consideration has been given to the difficulties involved with accurately assessing agricultural industries for inclusion in the scheme, but it remains unclear what outcome is envisaged for industries such as aerial application that principally provide services to agriculture.

Unless the aerial application sector is included into the agricultural sector's delayed take-up in the scheme until 2015, it is likely that the industry will be significantly damaged by the proposed scheme.

The aerial application industry has no readily available means to curtail use, no options to change fuel types due to aircraft certification issues, no ability to make more efficient use of existing fuel (due to years of drought ensuring the industry operates as efficiently as possible), no ability to offset emissions through the scheme and the potential for unfair competition to damage the industry's market share for no positive environmental outcome.

AAAA would welcome the opportunity to work more closely with Government to provide additional information on the industry and to ensure that the scheme does not damage the industry.

A Key Part of Agriculture

The industry is closely linked to agricultural production of all types and is an integral tool for the agricultural industry. In many cases, aerial application is an essential part of production.

While often associated with the transport and aviation sectors, the industry is, in fact, both in terms of operations and location, more closely related to agriculture.

The most significant impact of the scheme on the aerial application sector will be an increase in costs that will be passed onto our largely agricultural clients, unless any increase in fuel costs is rebated back to the sector, or the sector is exempt.

From use of the Government's greenhouse emissions calculator, it appears that no aerial application company in Australia will approach the threshold emissions of 25 kt/year.

Due to the aerial application industry's close relationship to agriculture AAAA believes the industry should be categorized into the 'agricultural' category of the scheme and thereby exempt from the scheme until 2015.

Competition issues

Of particular concern is the possibility that aerial application may not be included in the 'agricultural' exemption while the ground spraying sector, including farmers' use of their own equipment, is included.

This would lead to a range of unwarranted competition issues that would unnecessarily discriminate against the aerial application industry.

In particular, the potential for commercial contract ground sprayers to operate without any cost burden due to their inclusion in the 'agricultural' delayed uptake, while aerial application might be included in the scheme and thereby have to pass on costs from upstream fuel producers and resellers, would lead to unfair competition.

Limits on Ability to Adapt

While not in principle opposed to an ETS, the scheme should take into account an industry's ability to change – especially carbon dependent industries such as aerial application – over relatively short timeframes.

As a result of the use of aircraft in this sector, there are inherent problems with speedy adaptation to different engines or fuels due to aircraft design and engine certification restrictions administered by CASA.

For example, the high costs of bringing the only ethanol certified aircraft in the world (Brazil's Embraer 'Ipanema') to Australia as 'first of type' is likely to be prohibitive due to CASA's inefficiency and policies. For most operations, there is the added problem that the aircraft is simply not large enough to be economical. At the same time, the models used to estimate the total carbon footprint of ethanol is far from settled in favour of ethanol reducing overall carbon emissions.

Depreciation Schedules a Disincentive to Upgrade

The ATO has decreased the allowable depreciation rate for agricultural aircraft in recent years, resulting in a disincentive for operators to upgrade to more fuel efficient engines and aircraft.

The Government should urgently consider providing a greater incentive, through the depreciation schedules, to all aircraft operators to upgrade their equipment.

Fuel Costs and Excise Rebates

AAAA believes that if the industry is not included in the ‘agricultural’ delayed uptake of the scheme, any increase in fuel costs or excise as a result of the operation of the scheme should be rebated back to the industry. This is based on the industry’s close relationship to agriculture and emergency services and the location of all operational bases in rural and regional Australia.

Offsets

AAAA feels that the lack of an offset program or capability within the scheme is a major failing.

This is especially the case for entities that fall below the threshold for managing their own emissions but which may be in a position to offset their carbon output by planting of forestry or grasslands, through soil sequestration or the preservation of existing vegetation.

For industries like aerial application where there appears to be little else the sector can contribute to the carbon emissions solution, offsets offer some hope of playing a positive role rather than simply being hit with increased costs from upstream and being forced to pass these on to customers.

While there are obvious considerations, as discussed in the green paper, in terms of proper accounting for all carbon inputs into any offset program, the potential remains for this to make a significant contribution, especially in terms of providing carbon credits (which should be a tradeable asset) and reducing the overall Australian contribution to carbon emissions.

The Government should reconsider its position on carbon offsets, especially in terms of providing a consistent framework for already existing and emerging offset schemes.

Firebombing

In turns of firebombing, the industry’s emissions should be exempt (i.e. the fuel should be exempt of any increase in costs passed on from upstream processors captured by the thresholds of the scheme) as aerial attack/firebombing actively combats the release of carbon into the atmosphere by extinguishing bushfires in the most effective manner possible.

Better uptake by operational commands in the State firefighting authorities of aggressive initial attack by aircraft has been proven to reduce the size of fires, especially close to the original ignition point, thereby limiting carbon release to atmosphere.

Aerial Application Contribution to Carbon Sequestration

The impact of aircraft in agriculture is to promote crop growth, protect crops from damage and to improve soil structure, leading to improved soil sequestration of carbon when combined with conservation farming techniques. This promises to play a major part in the mix of Australia’s response to carbon pollution management.

For this reason, aerial application should also be considered an integral part of agriculture and either exempt from the current proposals, or eligible to have any cost impact fully rebated.

Further Information

If you require any further information please do not hesitate to contact AAAA on 02 6241 2100 or email phil@aerialag.com.au. The Association is based in Canberra and key staff are available to consult with Government officers.

Yours sincerely

ORIGINAL SIGNED

Phil Hurst
CEO

Appendix 2 – Correspondence to the Prime Minister – Carbon Tax Package

14th July 2011

The Hon. Julia Gillard MP
Prime Minister
Parliament House
Canberra ACT 2600

Dear Prime Minister

I write to ask you to reconsider the imposition of carbon tax measures on the aviation industry, and particularly the aerial agricultural and emergency services sectors of aviation.

Aerial application plays a vital role as a direct contributor to agricultural production. The previous 12 months of heavy rains after years of drought have underlined the critical role of aviation in agriculture, where crops could *only* be protected from the air as it was too wet for ground equipment. This has included agricultural activities such as combating both locust and mouse plagues and widespread crop diseases. Given that the carbon package specifically excluded agricultural activities, it is entirely consistent policy for aerial agricultural activities to be exempt from the aviation fuel levy increase. The current position creates an inequitable treatment of aviation versus ground agricultural spraying.

Firebombing is a critical emergency service provided by our sector and the Association also seeks its exemption from the aviation fuel levy increase, along with all other emergency services use of aircraft. This is a direct community service, in addition to reducing the carbon release impact of bushfires by combating them efficiently.

Aviation is simply not yet in a position to modify its behaviour to reduce its carbon footprint due to the extensive lead times involved in the development and certification of both aviation engines and aviation fuels. Put simply, there is no available alternative to continuing to use aviation fuel and aircraft in the current efficient manner. While there are various trials of biofuels around the world, the need for all aviation fuels and engines to be certified means that lead times will be measured in decades. As soon as biofuels and engines certified to use them are available, the aviation industry will adopt them, as it has always adopted better technology and greater efficiencies.

Thank you for your consideration of our concerns. I am happy to provide any further information and I can be contacted on [REDACTED] or the following office number or email.

Yours sincerely

ORIGINAL SIGNED

Phil Hurst
CEO

Appendix 3 – Media Release

21 July 2011

Carbon Tax on Firebombers

The Federal Government’s 6 cent per litre carbon tax on aviation will also catch the nation’s firebombing fleet – which actually works to reduce carbon emissions by extinguishing bushfires efficiently.

CEO of the Aerial Agricultural Association of Australia, representing the country’s aerial firebombing companies and pilots, says that the tax is a case of the government increasing costs and directly hampering the reduction of carbon emissions for absolutely no benefit.

“The aviation carbon tax hike of 6 cents per litre is a direct attack on the nation’s firebombing companies and shows how poorly thought through the carbon tax is”, Mr Hurst said.

“AAAA has written to the Prime Minister seeking the exemption of all aerial firefighting operations from the tax because of the significant contribution they make each summer to reducing the impact of bushfire carbon emissions.

“We have also asked the Prime Minister to reverse the decision to levy the tax on aerial agriculture due to our contribution to carbon sequestration through our work in forestry, cropping and pasture growth.

“The tax will also apply to aerial oilspill operations, which also serve to reduce potential emissions through their work.

“It is a bizarre policy outcome to actually penalise activities that are part of the answer to carbon emissions.

“The additional cost of the carbon tax for aviation comes on the back of a 2 cent per litre tax hike to pay for the Civil Aviation Safety Authority, an organisation that is notoriously inefficient.

“Aerial agricultural, firebombing and oilspill operations should all be exempt from the carbon tax.

“The aviation carbon tax cannot result in behaviour change as the industry is already using the most fuel efficient engines in the most effective manner possible and there are no certified biofuels or alternative certified engines available.

“The Prime Minister should rethink the aviation carbon tax and provide suitable exemptions as she has already done for the Royal Flying Doctor Service.”, Mr Hurst said.

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