



Senator Annette Hurley
Chairman
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
27 March 2009

Dear Senator,

Re: Response to the Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme

Grain Growers Association Ltd (GGA) is a not-for-profit, member based, industry association operating for the promotion and development of agricultural resources in Australia. GGA represents the interests of 17,000 members, the majority of whom are active producers in the grains industry.

Grains Council of Australia (GCA) represents and promotes the interests of its members and the Australian grains industry nationally and internationally. GCA's aim is to foster and initiate the development and implementation of policies that promote the economic and environmental sustainability of the Australian grains industry. The current membership of the GCA is;

- AgForce Queensland,
- South Australian Farmers Federation,
- Victorian Farmers Federation,
- Council of Grain Grower Organisations,
- WA Grains Group,
- Tasmanian Farmers and Graziers Association.

It is our view that the grains industry can continue to improve productivity as well as developing win:win outcomes for both climate change adaptation and reducing greenhouse gas emissions. As an industry we believe we have an obligation to reduce our sectorial emissions in line with the targets set by the Federal Government where possible and practical from the commencement of the scheme. In many cases there should be opportunities for improving input efficiency which will reduce costs to our sector, but we cannot achieve this potential without a significant investment in innovation. The Carbon Pollution Reduction Scheme (CPRS) in its proposed form is not an appropriate mechanism for diffuse source emissions, particularly given the international rules on these issues. The White Paper proposition for agriculture creates market uncertainty for our sector, is counter productive and sends a confused policy message to farmers and to agriculture in general.

Unacceptable agriculture sector uncertainty:

In respect of the exposure draft legislation, we commend the Government on the specific exclusion of agriculture¹ from permit liability in the draft legislation. The White Paper contained discussion on the Government's predisposition to include agriculture in the scheme no earlier than 2015. A final decision on coverage of agriculture emissions is proposed to be made in 2013². This position may still stand but it is not evident in the legislation. This position, if maintained, creates an unacceptable level of market uncertainty for our sector and so we call on the Government to confirm that agriculture will not be covered within the scheme unless there are substantial improvements in the international protocol relating to agriculture and food production.

The Bill's commentary paper includes many references to the need for investment certainty for covered sector entities³, yet the position described in the White Paper for agriculture provides a great deal of market uncertainty for our sector. This is an unacceptable position and so we respectfully suggest that this Inquiry should seek clarification as to the permanence of the specific exclusion for agriculture. We support the specific exclusion of agriculture described in the exposure draft legislation supporting document but we propose that agriculture be provided with access to the voluntary market to provide a place for innovation and farm level activity that assists with the national efforts to reduce emissions but in a way that rewards best practice and improves farmers terms of trade.

Trade Exposure:

The ramification of agriculture as an uncovered sector is that input costs for primary production will increase due to the flow through of CPRS costs on inputs such as electricity, fuel, fertiliser, chemicals, and steel which will erode farmers terms of trade and will mean that our agricultural industries will be adversely affected in terms of international competitiveness - a position which is exacerbated when coupled to the logistics and processing sectors in the food and fibre value chains. The Government is proposing to provide assistance to Emissions Intensive, Trade Exposed sectors⁴, however, farm production is not eligible for such assistance. The Inquiry should consider how the Government will address adverse outcomes in terms of international trade competitiveness of uncovered sector participants to ensure that our industries remain viable in the presence of an Australian initiative without complementary international initiatives in our competitor countries.

Food Vs Carbon:

The Bill has other aspects which will have ramifications for agricultural production and the participation of the agricultural sector in provision of least cost abatement measures for the whole economy. Principally this relates to the sections covering reforestation⁵ and allowed removal units⁶. The provision of emissions credits from reforestation creates a tension between the uncovered food and fibre production process land use and the potential for land use change through forestry investment to create carbon credits. Under some circumstances, this may mean that there is a perverse outcome where land used for food and fibre production is reduced in favour of the creation of carbon credits. Current consideration of emissions and agriculture will lead to a tension between food production and carbon credit creation. We believe there is a strong nexus between

¹ Carbon pollution reduction scheme bill 2009 commentary p 34.

² CPRS white paper scheme coverage factsheet

³ Carbon pollution reduction scheme bill 2009 commentary p 15

⁴ CPRS Exposure Draft Bill Part 8

⁵ CPRS Exposure Draft Bill Part 10

⁶ CPRS Exposure Draft Bill Part 4, Division 3, item 106 - Issue of Removal Units

global food security, renewable fuel production and the management of the global atmospheric concentration of CO₂.

The Inquiry should consider the ramification of this potential land use change given unequal incentive arrangements and the need to develop appropriate responses to global food security. The inquiry should be aware that a complying Kyoto forest may occur on just 0.2 ha of land⁷. Therefore every farm in Australia is available for a level of land use change to carbon credit forestry if sufficient incentive is provided in the absence of alternate incentives to maintain food and fibre production, and given the uncertainty created by the Government's White Paper predisposition towards agriculture, where historic production methods may be financially penalised.

Offsets:

We support the inclusion of removal units in the Bill as an acceptable offset credit. This would appear to provide a mechanism whereby offset credits from a wide range of sources may be able to be developed and utilised. We note that at least one of the carbon trading groups have interpreted the availability of Removal Units as being applicable to domestic soil carbon improvements. The Inquiry should provide guidance and confirm that removal units can be generated from domestic voluntary soil related initiatives in an Australian context given that soils are not a component of our national compliance accounting methods due to Article 3.4 of the Kyoto Protocol.

Agriculture in an alternate scheme:

Given that there is an unlimited potential for international credits⁸, we think it desirable to encourage the development of the widest and least cost range of credits within Australia as well. In our view this can be achieved through the validation of the voluntary market where all emissions reduction and sequestration opportunities can be explored and rewarded with financial incentives. In our responses to the Green Paper and the National Carbon Offset Standard discussion paper, we have advocated that the approach developed by the Chicago Climate Exchange⁹ in relation to agricultural emissions may be an appropriate precedent for a voluntary market based system where agricultural industries can engage in a similar but separate scheme while still providing least cost abatement measures into the compliance market. The inquiry should consider the definitions of Removal Units and other tradable financial instruments related to voluntary actions by farmers to incentivise carbon sequestration as well as emissions reduction on farms where possible and practical from the commencement of the scheme.

International negotiations:

While not directly relevant to the exposure draft legislation, we would like to make some observations about the international negotiations and implore the Government not to approach the international negotiations, and hence the domestic response, in a naïve way in the pursuit of a "leadership role". Recent media reports¹⁰ have highlighted the negotiating stance of some other countries with China apparently seeking to place the point of obligation at the final consumer of products and that the United States legislature is considering the imposition of carbon tariffs on countries not participating in similar schemes. In agricultural terms, international trade is already heavily distorted and many countries around the world have incentive schemes that support their domestic agricultural systems in favour of international competitors. The Government's enthusiasm for international leadership on climate change must not cloud nor compromise our international

⁷ Carbon pollution reduction scheme bill 2009 commentary p 168

⁸ Carbon pollution reduction scheme bill 2009 commentary p 89

⁹ See www.chicagoclimatex.com

¹⁰ The Canberra Times, March 21, Forum article "Fresh CO₂ formula: consumer onus, too"

trade competitiveness, nor inadvertently see the development of inappropriate responses from other nations.

Summary:

It is important for all nations and industries to take very seriously the threat of global climate change and for all nations to be developing risk management approaches to dealing with this problem. Agriculture, as the industry charged with providing the sustaining nutrients to the human population must be supported to maintain this supply, which it is estimated will need to double within the next 40 years in order to support the ever increasing human population of the world. Australian agriculture will be the industry most severely affected by adverse climate change and we will need enormous Government and community support to face this challenge. However, we need systems that continue to encourage the resourcefulness and innovation that has been an historic characteristic of our industry since inception. There is a need for a complete and diverse Government response to the challenge of climate change but the CPRS is not part of that portfolio for agriculture. We look forward to an industry partnership approach to a new low carbon farming future which will seek to place Australian agriculture as a major world leading contributor to the solution to the management of global CO2 concentrations at sustainable levels.

Thank you for the opportunity to make a submission. We would welcome the opportunity to discuss these points with the Inquiry at any time.

Yours sincerely



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Chairman, Grain Growers Association



Murray Jones
Chairman, Grains Council of Australia