

QFF MEMBERS

Australian Prawn
Farmers Association

CANEGROWERS

Cotton Australia

Emerging Primary
Industries Group

- Biological Farmers
of Australia
- Queensland
Aquaculture
Industries
Federation

Growcom

Nursery & Garden
Industry Queensland

Qld Chicken Growers
Association

Qld Dairyfarmers'
Organisation

Pork Queensland Inc.

Australian Chicken
Meat Council

Flower Association of
Queensland Inc

10 September 2008

Secretariat

Carbon Pollution Reductions Scheme Green Paper Secretariat
Department of Climate Change
CANBERRA ACT 2600

Dear Sir/Madam,

Please find enclosed a copy of the submission from the Queensland
Farmers' Federation (QFF) in response to the Green Paper.

The Federation represents the interests of 14,000 farmers in the intensive
agriculture industry in Queensland. Agriculture contributes over \$12 billion
to the Queensland economy and employs over 80,000 people.

While not a member of the National Farmers' Federation, QFF was
consulted on the content of the NFF's submission on the Green Paper and
wishes to lend its support to the NFF submission.

QFF appreciates the continuing opportunity to comment on the
development of the CPRS through our membership of the Department's
Technical Advisory Group on Agriculture and Land Use.

QFF is willing to provide further information or present to the Government
should it be required.

Yours sincerely,



John Cherry
Chief Executive Officer

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QFF SUBMISSION ON THE CARBON POLLUTION REDUCTION SCHEME

The Queensland Farmers' Federation represents the interests of over 14,000 primary producers in Queensland in the intensive agriculture sector. Agriculture is one of the two largest industries in regional Queensland, contributing over \$12 billion to the Queensland economy and employing over 80,000 people state wide, mostly in regional centres. Over 70% of agricultural produce from Australia is exported, with Australia feeding the equivalent of 50 million people in addition to its own population of 20 million.

QFF was consulted in the development of the submission of the National Farmers' Federation, and is broadly supportive of the NFF submission. In particular, the NFF submission deals with vitally important issues which need to be considered if the CPRS design is to be appropriate for the possible entry of agriculture after 2015. Given agriculture is responsible for 15.6% of national greenhouse gas emissions (with land use change and forestry contributing a further 6.9%); it is likely that the Government would seek to cover the sector at some future time. Whether agriculture can practically and effectively become covered by the CPRS and make a positive contribution through the CPRS to mitigation effort depends fundamentally on the design of the CPRS. This is not just about the 'technical issues' of whether agricultural emissions can be measured. It goes further to the fairness and equity of the CPRS rules as they apply to agriculture. Problems with the rules start with the gross distortions of reporting of agricultural emissions (and mitigation and sequestration opportunities) arising from the accounting rules under the Kyoto protocol. They continue with the flaws in the proposed design of compensation for trade exposed industries and also move into fundamental application rules about thresholds for emissions, point of obligation, identification of baselines, treatment of impacts of climate variability on climate reliant industries, research priorities, measurement systems used, and mitigation options available. Many of these issues are raised in the Green Paper, and need to be resolved in the overall design of the CPRS, with full input from the agricultural sector. If agriculture is not involved in the design of the CPRS now, then it makes it even more difficult for agriculture to be covered in 2013 without major disruption to industry.

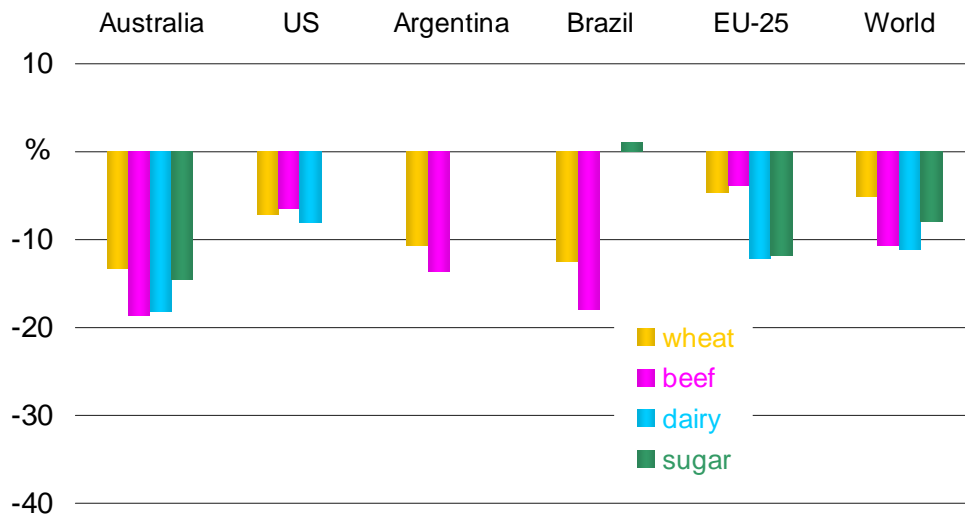
QFF particularly endorses the NFF's recommendations in relation to international carbon accounting rules, land use changes, EITE sectoral assistance and R&D needs. These issues are not covered to a large degree in this submission because the NFF submissions deal with them in detail. Rather, this submission focuses more on the broader policy aspects of the CPRS particularly as it impacts on intensive farming operations, and the interaction between CPRS policy, and broader policy objectives on climate change mitigation and adaptation and the social, economic and security consequences of food security.

Farming and climate change:

Queensland farmers know full well the impacts of climate change. Indeed, the severe drought conditions of the last decade are predicted by some commentators to be the 'norm' by 2030 as the climate moves towards a 'near El Nino state'. Modelling by ABARE published last year shows that Australia will face one of the largest reductions in farm productivity of any major agricultural region, and that Queensland industries like beef and sugar will be hit harder than rural industries in other states. The cost of adapting to climate change will be a significant one for Queensland farmers. That cost will be borne by farmers regardless of whether the world –against all expectations – reaches a global agreement to immediately start reducing emissions. That context of rising costs of climate change adaptation needs to be borne in

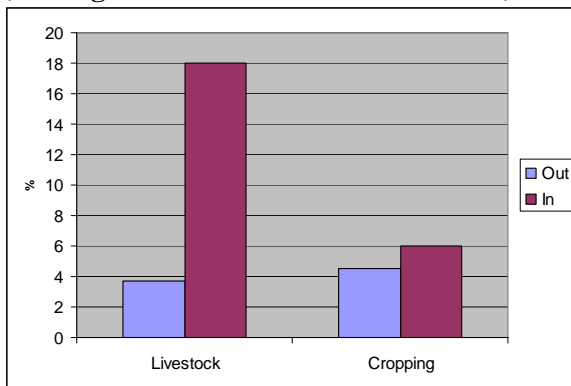
mind in considering the extent to which agriculture should shoulder further burdens in mitigation through the CPRS.

Climate change impacts on production at 2050, without mitigation or adaptation (% change relative to the reference case)¹



Farming is an energy intensive activity, with around 45% of costs to a cropping operation categorised by ABARE as ‘energy intensive’. With rapid rises in fuel, fertiliser, freight, electricity and water prices in recent years, farmers had had to absorb major cost increases. The increases in fuel and fertiliser costs in recent years would dwarf the likely costs of the first decade of the CPRS. But with fuel and fertiliser costs unlikely to return to previous low levels, any CPRS costs would be additional to those already felt. Significantly for cropping operations, the vast bulk (around 75%) of the impact of the CPRS will be on inputs rather than on emissions from farming, and will be covered from 2010 even if agriculture remains uncovered on its direct emissions until 2015. Preliminary ABARE modelling suggests that a \$40/t CO₂e carbon penalty would add 4.5% to the costs of a cropping operation assuming agriculture is out of the CPRS, and 6% if it is covered.

Impact of a \$40/t CO₂e carbon penalty on agricultural production costs (%) (with agriculture in or out of the CPRS)



ABARE 2008

¹ ABARE Australian Commodities December 2007 p. 667

Most farm operations operate on very narrow margins, typically less than 3-4%. This is because the price for farm produce is set either by international commodity markets, or by the heavily concentrated retail sector in Australia. Indeed, despite rising commodity prices in grains and dairy in recent years, ABARE analysis shows that while average farm prices rose 27% in the last six years (2002/3 to 2008/9), farm costs rose 44%, contributing to a 10% reduction in the terms of trade and a halving of net farm income.² . The biggest cost increases have been in ‘energy intensive inputs’ notably fuel, fertiliser, chemicals and freight.

Thus, many cropping operations would cease to be profitable with a 3-4% increase in costs which a \$30-40/t CO₂e carbon penalty would mean even if agriculture is excluded from the CPRS. Add in the costs of climate change adaptation (either in terms of reduced farm productivity or higher costs from increased climate variability) and the impact on farming could be profound.

Increases in prices paid by farmers (2002/3 to 2007/8) (%)³

Fuel	204%
Fertiliser	178%
Chemicals	59%
Interest	44%
Rates & taxes	20%
Electricity	11%

Climate change and food security:

All of this needs to be considered in the context of global food security. The current global imbalance between supply and demand for food has resulted in a surge in global food prices. This has caused political instability in a range of countries, even the toppling of the Haitian government, and pushed an estimated 100 million people back into poverty. The Prime Minister has consistently acknowledged the economic, social and security implications of food security, most recently in a speech to the RSL National conference on 9 September where he said:

“We need a new approach that brings together all the elements of traditional and non-traditional security capabilities that will ensure Australia responds to the full breadth of the threat spectrum that now confront us:

- Responding to the increased militarisation of our own region;
- Dealing with the continuing threat of terrorism;
- Acting on the challenges to sovereignty facing the Pacific Island countries;
- Preparing for the new challenges of energy security; and
- Anticipating the impact of climate change on long-term food and water security.”

With rising population, increasing demand for higher profile diets and biofuels production driving demand, and climate change impacting on food production and supply, the global food security situation looks increasingly dire in the longer term. The United Nations, the World Bank, the OECD and the Food and Agriculture Organisation have been working feverishly all year to seek to address the short term need for increased aid and the longer term need for increased production.

² ABARE Australian Commodities June 2008 p 442-3

³ ABARE *ibid*

United Nations Secretary General Ban Ki Moon, who has made addressing food security a major global priority, in a speech to the UN General Assembly in July, called for:

“We have to reverse years of under-investment in agriculture and change the policies that have magnified the challenges.The cost of inaction would be unacceptably high. Over 100 million more people could slide into hunger.... Worse, in 2030, world food demand will have risen by 50 per cent, and by 2050 the world's population will increase by a third. If we do not seek lasting solutions now, more children will die each day, more families will go to bed hungry. The threats left to the next generation will be even greater.

“Addressing the global food and fuel crisis swiftly and responsibly, with the necessary sense of urgency and lasting commitment, will be one of the generational challenges that impact our collective future. Let us all live up to this responsibility.”⁴

Accelerating food production, investment in rural industries, increased aid to developing countries, and reform to free up international trade and commodities markets were key reforms the United Nations has advocated.

It would be fundamentally immoral for a Government to add to the cost of the production of food for no good policy purpose. While QFF acknowledges that reducing greenhouse gas emissions needs to occur across all sectors of the economy, we are not convinced that increasing the cost of food production is the best means to achieve this. While in the industrial sector major improvements to emissions intensity will come from the development and application of new technology, for much of agriculture this will come predominately from changes in farming practices and systems. Some examples would be:

- Reductions in applications of nitrous fertiliser, with nutrient management either based more closely on plant growth needs or based on alternative fertilisers;
- Improvements in soil carbon retention through reduced tillage, increased cover, reduced water logging, and addition of biochar or microbes that might improve soil carbon levels;
- Reduced clearing of vegetation or increased vegetation cover;
- Improved fodder conversion rates with reduced wastage and emissions;
- Improved water use efficiency aligned with nutrient management, energy efficiency initiatives, controlled traffic and reduced tillage techniques;
- Farm-based renewable energy alternatives.

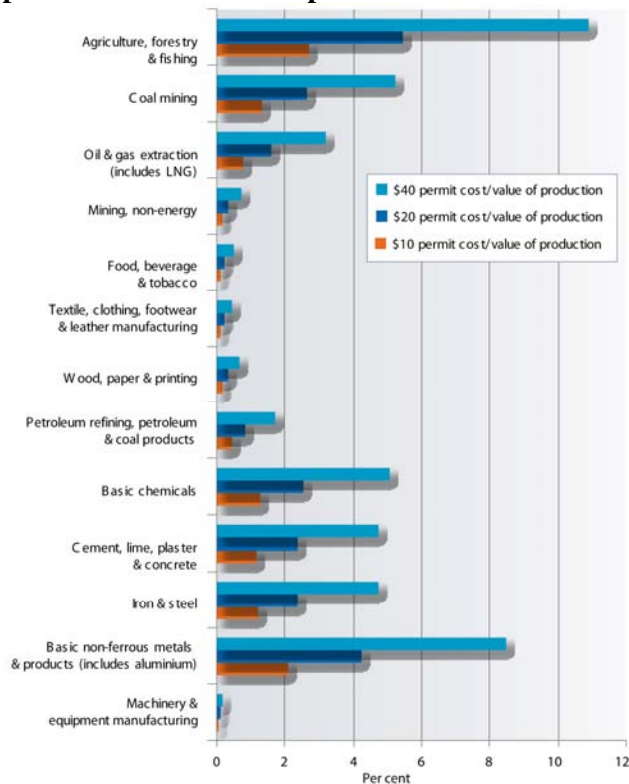
Practice change could deliver the mitigation efforts needed. Significantly, many of these practice changes would also improve farm resilience in adapting to climate change, as well as contributing to natural resource management policy objectives. The question is what is the most cost effective means of promoting practice change with minimal impact on industry. This is particularly pertinent to agriculture because of the social and political sensitivity of food price rises.

This is a debate which needs to be had in the lead-up to 2013. The question of whether agriculture is included in the CPRS should not just be a ‘technical’ one limited to the technical questions of measurement. Rather, it should look at the socio-economic questions of the impact on food prices and the social consequences that might then entail.

⁴ Ban Ki Boon speech to the United Nations General Assembly 18 July 2008

It is worth noting that if agriculture is included in the CPRS from 2015, it will face the largest permit bill (as a percentage of value of production) of any industry, as highlighted in the Garnaut Report in July. The morality of a Government policy that significantly increases the cost of food when there could be more cost effective means of achieving the Government's policy objective of reducing greenhouse gas emissions from agriculture needs to be carefully considered.

Ratio of permit costs to value of production⁵



A government policy that increases the cost of the production of crops by 6%, of beef by 18% and of dairy produce by possibly 12%, along with increases in energy costs will inevitably be regressive. Low income households spend twice as large a proportion of their income on food compared to high income households. A government policy that deliberately increases the cost of food will be socially regressive and hurt low income earners hardest. While the Government has promised to allocate substantial funds to compensation, the reality is that many tens of thousands of Australian households fall outside the potential compensation loop. Many farming families would fall into that category, outside the reach of substantial tax cuts or social security payments as a means of compensation. Further, if agriculture is introduced into the CPRS at a later stage (e.g. 2015), will compensation mechanisms be reviewed again?

Higher production costs will make agriculture less competitive in international markets. Between 2010 and 2015, intensive agriculture faces cost increases of 1 – 4% (depending on the carbon price) but will not be able to pass that cost on as NO OTHER COUNTRY is proposing to fully cover agriculture in that period. Even New Zealand's ETS is proposing a slow start, with 90% allocations of free permits when agriculture enters the system in 2013. Australian agriculture will then be placed at a considerable trade disadvantage, but the rules of

⁵ Garnaut Draft Report July 2008 p. 208 based on DCC & ABS data

the TEEI mean that no sector of agriculture would be eligible for any compensation ahead of 2015 (other than limited relief on fuel). The following table of the impact of the CPRS on some energy intensive outputs highlights the lack of relief:

CPRS impact on farm inputs and proposed treatment (assuming \$20/t CO2e penalty)

Cost Item	% farm costs	Cost impact (\$20/t)	CPRS treatment
Electricity	1-3%	+20%	Counted if industry qualifies for TEEI. No relief for uncovered industries.
Fuel	8-10%	+4%	3 year rebate proposed onfarm use
Planting & harvesting	20-30%	+1-2%	3 year rebate proposed onfarm use
Freight	10-25%	+2%	1 year rebate proposed
Fertiliser	13-25%	+2% (5.5)%*	No relief for uncovered industries. Farm emissions counted if qualify for TEEI but not cost of fertiliser production.
Chemicals	6-10%	+2.5%	No relief
Water	3-10%	+3.5%	No relief

(*5.5% if farm emissions counted with agriculture included in CPRS) QFF estimates

QFF would strongly urge the Government to reconsider the compensation arrangements for agriculture as an uncovered sector to maintain export competitiveness. The definition of TEEI also needs to be reconsidered to ensure that all indirect emissions are included, particularly fuel (if proposed rebates expire), chemicals and fertiliser and the energy content of freight and water pricing.

The result of a loss of competitiveness will be either a loss of market share in overseas markets, or a reduction in returns. This will inevitably lead to serious questions about whether producers would continue to invest in the industry into the future.

What needs to happen in the lead up to the introduction of the CPRS in 2010 with agriculture as an uncovered sector?

1. There is an urgent need for modelling on the impact of the introduction of the CPRS on agriculture, particularly intensive agriculture. Even as an uncovered sector, 75% of the carbon footprint of an intensive agricultural cropping enterprise will be covered by the CPRS in 2010 through increases in the costs of inputs, adding at a \$40/t carbon price, 4-6% to the cost of production. This would wipe our profit margins in many industries.
2. There needs to be a more robust compensation mechanism for industries outside the CPRS that are heavily trade exposed with no opportunity to pass on costs.
3. The onfarm fuel offset is welcome, but fuel is only a small part of energy intensive costs (around 8-10%). Farmers should also receive an offset for increases in electricity, chemicals, fertiliser, water and freight. The number of suppliers is small and a cost effective rebate system could be arranged with minimal administrative costs. Farmers have already absorbed a very large increase in fuel, electricity, fertiliser & chemical prices in recent years.
4. Water to rural industry should also be included in the rebate system. Electricity (pumping) is 10-20% of the price of water in Sunwater schemes, with the potential to push up water prices by up to 10% (at a \$40/t carbon price).

5. The Government's climate change policy also needs to take into account the Prime Minister's concerns about food security. This should be done through the development of a National Food Strategy to promote investment in agriculture as a means of increasing food production and global food security.
6. For cropping, nutrient management is possibly the single biggest contribution farming can make to reducing greenhouse gas emissions. This requires improvement in farming practices, backed up by R&D on improving nutrient application rates and processes. Given the high price of fertiliser, farmers would be very open to efforts to promote improved nutrient management. Governments should work with industry and fund industry-led BMP/FMS programs to accelerate uptake of good farming practice, and seek to improve onfarm knowledge of application rates (especially in industries where there are information gaps such as horticulture).
7. There is also very strong interest in industry in energy efficiency as a means of cutting costs. The 'next steps' from the NCEA program provide a blueprint for how this could occur.

What needs to happen in the lead up to the 2013 decision about whether agriculture will be a covered sector?

1. There needs to be a clear roadmap of the criteria that will govern the decision in 2013 about the inclusion of agriculture in the CPRS. The roadmap needs to include a workplan on what information is required to guide that decision and how that information will be developed, and by whom.
2. The criteria in 2013 need to be wider than just a narrow question of measurement. Social and economic impacts also need to be considered. The NFF submission outlines some of the factors that will need to be considered. Industry needs to be an integral part of the decision making process.
3. Mitigation pathways need to be part of the decision. Moving towards a less carbon intensive economy requires technological innovations to be available. These are currently not available for most of agriculture. If that is the case, the impact of the CPRS will be simply to increase the cost of food – particularly fresh food – with social consequences for low income earners, and economic consequences in terms of trade competitiveness. If rural industries are particularly adversely affected, then this will have a disproportionate impact on rural communities, already among some of the poorest in Australia.
4. There needs to be careful consideration of international responses on agriculture. The European ETS excludes agriculture, as do proposals in the US and Canada. Only NZ is proposing to cover the sector. However, the NZ system provides for far more generous allocations of free permits (90% in 2013, phasing out over 12 years). Australian industries would be placed at a severe disadvantage, particularly as the EITE formula excludes many key export industries (e.g. cotton, grains & sugar) selling into commodity markets.
5. The decision about the CPRS should not be taken in isolation of broader policy on food, and the need for Australia to contribute to the looming global food shortage.
6. The decision about the CPRS should take into account whether there are more cost effective means of reducing emissions across agriculture. This also needs to take into account the fact that a large part of the carbon cycle on farm, and a large part of the major mitigation opportunities open to farmers (e.g. soil carbon, thickening of

vegetation) are not recognised under Kyoto accounting rules. Developing a BMP system to encourage these practices might do more to reduce the sector's emissions than inclusion in the CPRS.

7. While the rest of the world refuses to budge on reform of the carbon accounting rules on farming that so clearly disadvantage Australian farming, Australia needs to ask why it should be the first country to impose full coverage of its agricultural sectors in an emissions trading regime.

What needs to happen in the lead up to 2015 if the decision is made to cover agriculture?

If the decision is made to cover agriculture, then a wide range of technical issues will need to be resolved. Many of these are dealt with in the NFF submission, and the comments here should be taken as supplementary to that submission:

1. Thresholds is a key one. It would be inequitable to have a much lower threshold for farming emissions than applies to industrial emissions. The transaction costs as a percentage of revenue would be disproportionately high for our sector.
2. Point of obligation is a key issue, and has the potential to add or detract from compliance costs. QFF would urge a flexible approach, with each industry sector invited to consider whether upstream, downstream, hybrid or on-farm options work best. This will depend on existing industry arrangements and relationships, appropriate linkages between emissions and penalties, considerations of cost effectiveness and availability of measurement. Government might also consider flexibility in what is measured. If, for example, the bulk of emissions from a cropping operation are already caught in inputs, and an upstream point of obligation is agreed on fertiliser use, then over 95% of farm emissions might be captured and that might be 'near enough'.
3. Measurement is a key issue, and considerable R&D will be needed to capture this.
4. Recognition of industry best practice can form an important proxy value for mitigation. Developing 'values' for the mitigation impact for various practices needed to be developed sector by sector alongside an appropriate recognition tool. There is considerable regional (and local) variability on the impact of practice changes on emissions, but proxy measures might need to accept a degree of aggregation.
5. At higher carbon prices, new technologies currently not viable could become viable. For rural R&D corporations to invest in such R&D, clear understandings of the carbon pathway will be needed.
6. Rural industry will also face the largest adaptation cost of almost any other sector, with significant impacts on farm productivity growth as the climate gets hotter, drier and less predictable. Government must take adaptation costs into account before imposing mitigation costs. Where possible, Government should seek to encourage investment in practices which serve both a mitigation and an adaptation objective. But there needs to also be recognition that this is not always possible. For example, almost all major water efficiency initiatives (a key adaptation to reduced runoff) are more energy intensive than current practices.