

SUBMISSION TO CARBON POLLUTION REDUCTION SCHEME - GREEN PAPER

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Carbon Pollution Reduction Scheme Green Paper Submission

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Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 irrigation farmers across NSW. These irrigators are on regulated, unregulated and groundwater systems. Our members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries.

In responding to this Inquiry, NSWIC is responding with the views of its members. However each member reserves the right to make independent submissions on issues that directly relate to their areas of operation, or expertise, or any other issues that they may deem relevant.



General Comments

We understand that the aim of the CPRS is to encourage Australian carbon producers and their end consumers to change their habits. That is, to put a price on the carbon produced as part of the supply of goods and services in order to send a price signal to consumers. Producers that are able to change their habits in terms of carbon pollution will therefore be able to enjoy a competitive edge.

NSW Irrigators Council concurs with the recommendation of the Green Paper that agriculture should not be a covered sector until at least 2015, with a final decision date of 2013.

The basis for our concurrence is in considering the ability of agriculture to deliver on the aims of the CPRS. Put simply, agriculture is not in a position to change habits. As a result, the CPRS will simply increase prices to consumers without providing the benefits of lower emissions.

Short Term Inclusion

The sectors which the Paper recommend covering up front – stationary energy, transport, industrial processes and the like – are decidedly different to agriculture in one important point; emissions from these sectors are produced by a relatively small number of operators.

Conversely, agricultural emissions are produced by a very large number of operators.

Put simply, it would be an enormous logistical undertaking to include agriculture in a new scheme. NSWIC submits that this alone is good reason to exclude agriculture whilst the system is first implemented.

NSWIC also notes that current emissions from agriculture are some 40% below 1990 emissions. Whilst accepting that in large part this reduction is likely a one-off result due to restrictions on land clearing and the significant reduction of the national sheep flock due to drought, we submit that agriculture as a sector has complied with Kyoto rules in the short term.

Cost Implications for Irrigated Agriculture

In the period 2004 – 2006¹, marginally under 46% of the costs of a cropping farm were direct energy or energy related costs.

NSWIC understands that Australia can expect to see a 3 cent per litre increase in fuel prices for each \$10 per tonne increment in the carbon price. That is, with a carbon price of \$20/tonne, fuel will increase some 6 cents per litre.

We further understand that Australia can expect a 16% increase in the cost of electricity with a \$20/tonne carbon price.

These cost increases will have a dramatic impact on the nature of agriculture and potentially Australia's food security. In many markets, irrigators are price takers. If they are not able to pass on increases in cost, there is a significant chance that Australia's overall food production may dramatically decrease. This will have some serious economics and social implications, both regional and national.

Trade Exposed

Around 80% of Australia's agricultural production is exported.

It is vital that agriculture continue to be recognised as a Trade Exposed Sector.

Long Term Inclusion

NSWIC encourages the Government to seriously consider if there is a benefit to including agriculture in the long term. If our understanding of the basis of the CPRS is correct – that it is designed to change habits – NSWIC submits that habits within agriculture are at best difficult to alter.

¹ A useful reference year given the recent implications of drought on production.



Around 71% of all agricultural emissions are from animals². It is at best impractical to suggest that the habits of these animals could be altered.

Moreover, the determination of the point in the supply chain at which to charge for agricultural emissions is an attempt to balance logistical simplicity with the need to charge at the point which will have the greatest behavioural impact. NSWIC notes the New Zealand model, where the payment will be collected at the point of processing. For example, collections for emissions from beef cattle may be made at an abattoir.

In recognising the simplicity of this process – significantly narrowing the number of collection points – NSWIC submits that the aim of the CPRS has been undermined by the fact that no reward is given to the producer who has lowered emissions, as all inputs to the abattoir (for instance) must be treated equally.

Potentially Perverse Consequences

There are potentially significant impacts on agriculture – and irrigated agriculture in particular – due to increased levels of “forestry” in order to obtain carbon credits.

NSWIC understands that when “forests” are planted, carbon credits will be allocated over a period of time in their early life to reflect their carbon storage capacity. Upon harvest of a plantation forest, those credits will expire (as carbon is effectively “released”) and the emitter will be required to re-purchase that carbon in the market.

As a result, we understand that there should not be a significant increase in plantation forestry due to the implementation of the CPRS. What the scheme aims to achieve with respect to forestry is long term carbon “sinks”. That is, permanent forests that aren’t harvested.

However the definition of “forest” is a permanent planting that is capable of exceeding 2 metres in height with a ground coverage in excess of 20%. This definition would appear to *include* certain permanent agricultural plantings.

New plantings require water – most probably high security given their permanent nature – that will need to be purchased from existing users. Carrying the issue further, the “upside” is unlikely to appeal to existing agricultural operations due to the risk (traditional agricultural risk, plus the risk of having to purchase carbon credits if the permanent plantings die). The “upside” is more likely to appeal to large scale emitters outside of agriculture who have a choice of purchasing carbon credits in the market, creating carbon credits through planting non-productive forests or creating carbon credits through planting productive plants. The further upside of the latter is the yield that it will produce over the course of its life. For example, an almond tree provides an income where a mallee doesn’t.

As well as receiving carbon credits progressively over the early life of the permanent planting to offset the costs of establishment, the tax advantages of a managed investment scheme can potentially be accessed.

The results are:

- A shift of resources (water) to a product based not on value but on an external consideration (potentially a perverse economic outcome);
- An increase in demand on high-security water (potentially a perverse environmental outcome); and
- Further competition for resources from the tax-sheltered MIS’s (potentially a perverse economic outcome).

NSWIC remains concerned at this potentially perverse outcome and submits that it ought be addressed by government.

² Mick Keogh, Australian Farm Institute, Address to RGA Annual Conference

