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Climate Change Group
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RE: *Submission: Abatement Incentives prior to the commencement of the Australian Emissions Trading Scheme discussion paper*

Thank you for the opportunity to comment on the aforementioned discussion paper.

Australian Dairy Farmers (ADF) is the peak industry body of Australia's dairy farmers constituted from the six state dairy farmer organisations (NSW Farmers' Association Dairy Committee, Queensland Dairyfarmers Organisation, United Dairyfarmers of Victoria, Tasmanian Farmers & Graziers Association Dairy Council, South Australian Dairyfarmers' Association and Western Australian Farmers Federation Dairy Section).

ADF's primary purpose is to represent the interests of dairy farming families and is the long established voice of Australian dairy farmers.

ADF reinforces the views expressed on the abatement incentives discussion paper in the submission by the National Farmers Federation (NFF) and asks that this paper be read as a dairy specific submission.

ADF also supported the NFF's May 2007 submission to the Prime Minister's Emissions Task Group. ADF supports the introduction of an emissions trading scheme (ETS) as a reasonable measure to minimise the risk of future climate change caused by man-made emissions. However like NFF, ADF's support is conditional to the design of an effective scheme in consultation with the agriculture sector including the development of effective monitoring and reporting systems.

In making a submission to this process the ADF makes the following critical points:

- a. The timeframes provided for comment are unreasonably short and at best allow industry groups to consider questions and raise concerns without the opportunity to fully develop more constructive suggestions for action.
- b. Agriculture should have direct representation to all the key elements of the development of an emission trading scheme (ETS) including reporting. The concept that agriculture is an initial "uncovered" sector and therefore has time is false.

Major agriculture companies will be directly covered in the first stage of the ETS and all agricultural businesses will be affected by the indirect cost impacts of the ETS. Furthermore, the early development of a market for offsets and the proposed transition for agriculture's direct involvement in ETS (e.g. as described in New Zealand) all means that we have no time to sit back. Agriculture must be directly represented in ETS planning from now on.

- c. The treatment of agriculture in terms of Lifecycle Assessment (LCA) and subsequent emissions accounting at the farm, company and industry at national and international levels must be improved. Australian agriculture is incredibly diverse in its climate, soil types and farm practices. We emit and sequester greenhouse gases. There are too many assumptions in current models and agriculture cannot accept a one-size-fits-all approach. This also relates to the way agriculture is eventually brought into an ETS and how the agricultural businesses are assessed in terms of emissions reduction.
- d. Communications strategies are urgently needed to better inform the market about the key elements of an ETS. One thing is for certain; an ill-informed market will lead to poor decision-making and see individuals ripped-off. The complexity of agriculture's transition from offset provider to covered sector is such that farmers must be urged to wait for more information about the design of a scheme before any action is contemplated.
- e. The abatement opportunities for agriculture are either under-developed or not cost-effective. For example methane capture is technically available today but is by no means cost-effective in most cases. On the other hand soil carbon sequestration and methane reduction from livestock are still ten years away from being commercially proven. The treatment of these actions in LCA and the ability to meet the key requirements of abatement (additional, occurred, permanent, measurable, and verifiable) are also unknown.
- f. Consequently the dairy industry supports additional investment in communications, LCA and more accurate accounting, human capability and the science of key abatement opportunities from soils, livestock and fertilizers.

Further comments relating to the dairy industry.

The Communication Challenge

In making the comments in this submission, the ADF concedes that the development of emissions trading and reporting is in its very early stages and the high degree of confusion in the marketplace is somewhat expected. However ADF has already seen the promotion of unrealistic expectations regarding the money that farmers will supposedly make from emissions trading. The lack of detail about the design of schemes makes it impossible for anyone to raise such expectations.

ADF implores the agencies working in this field to understand the challenge relating to communication and extension of information relating to the establishment of an ETS. This challenge is particularly great in agriculture – a sector primarily made up of small businesses. In the case of the dairy farm sector, we are made up of about 8,000 small businesses.

Through experience we understand the massive challenges relating to widespread practice change. As stated above, supporting farm practice change through communication and learning is a massive exercise. In the dairy industry's case this involves departments of primary industry, dairy company staff, private providers, vocational education and training providers, regulators and farm leaders. Consideration also needs to be given to the existing farm Quality Assurance programs and the extensive technical expertise of these on-farm auditors.

Sometimes the technical elements of an issue are overemphasised at the expense of learning and communication resources and we encourage Governments and agencies to carefully consider investment balances.

Accurate accounting for the dairy industry

The dairy industry is eager to work in partnership with key stakeholders on greenhouse gas emissions calculation methods to ensure that courses of action adopted are scientifically valid and competent to deliver the outcomes required. It is our advice that existing models do not appropriately assess the greenhouse gas life cycle within a dairy farm business. Our advice is that the National Carbon Accounting Scheme (NCAS) makes too many assumptions and is not suitable for future assessment of a dairy farm business' emissions accounts.

Dairy farming in Australia is incredibly diverse in nature. For example a single dairy processor has farmer suppliers in the northern tropics of the Atherton Tablelands, through the plains of New South Wales and into temperate southern Victoria and South Australia. This leads to a myriad of feeding regimes, soil types, rainfall, temperatures and humidities on Australian dairy farms. ADF understands all of these factors affect the LCA for emissions. Furthermore, each dairy farm business is managed differently and the complexity of different management systems must also be taken into account in future official accounting methods. For example grain feeding and fertiliser usage varies greatly across any group of dairy farm businesses.

ADF is concerned that simplified models will be adopted that simply relate emissions to stock numbers. It would be a great shame if the only option to reduce emissions in a dairy business was reduction of stock numbers.

Clearly current methods for accounting for agricultural emissions are not accurate and the full LCA must be improved.

Will we have abatement options?

ADF is advised that it may take more than ten years to prove the scientific validity of emissions abatement options for livestock industries that can meet the five *Accredited Offsets Principles* (additional, occurred, permanent, measurable, verifiable) and by this time the agriculture sector could be brought into the ETS 'second round'.

ADF is very keen to understand how these five principles will be tested and applied in formal accounting methods for agriculture. ADF is concerned that abatement opportunities are still a long way off for dairy farmers and we seek further science investment and also advice on future accounting rules so we can further understand the challenges of abatement and reporting.

It is conceivable that the livestock industries like dairy and beef could be fully covered in a cap and trade scheme and have no "approved" abatement measures other than reduced stocking rates and tree-planting. Dairy farmers could then be forced to reduce productivity or purchase offsets in the emissions market. Under this scenario the ETS would be acting like a carbon tax rather than an emissions trading scheme.

In the NFF submission to the Prime Minister's Emissions Task group, the NFF put forward the concept of group schemes and also "unofficial" schemes for emissions reductions. ADF believes that livestock industries may need incentives outside the formal ETS process if approved abatement opportunities cannot be provided through the formal ETS program.

Maintaining our international competitiveness

The Australian dairy industry is a major product exporter with about 50% of annual milk production exported. This international trade primarily establishes the Australian farmgate price and any reduction in international competitiveness will directly reduce the profitability of Australian farmers. Under any definition the Australian dairy industry is 'trade exposed'. ADF understands that dairy farming and processing may also be classified as 'trade exposed emissions intensive' (TEEI). ADF requires involvement in the clarification on the definition to indicate that dairy farmers are directly trade exposed as with other agricultural commodities.

It is important for ADF to understand the definitions of TEEI and how Governments will support a sector like agriculture including processors.

Transition from uncovered to covered

The dairy industry seeks a much deeper understanding of any proposed transition from providing offset credits as an uncovered sector to utilising offsets to meet business abatement targets as a covered sector (when farms are brought into the ETS).

The accuracy of accounting will be critical in this issue in understanding how permits will be issued to farm businesses and how "business as usual" is assessed. The recent drought has severely affected dairy farm businesses and in many cases stock numbers have been reduced.

ADF is also aware that the Australian and New Zealand Governments have agreed to co-operate on the development of ETS. New Zealand has already indicated a timetable for the farm sector to be involved in ETS. We understand that this is a three part process transitioning from a) an uncovered sector to b) farm emissions covered via the processing sector to c) each farm responsible for their own emissions target.

It is unclear if such a timetable and methodology is appropriate for Australia given the very different farm sector dynamics including the variable climates, differing farm sectors and different supply chain structures. For example New Zealand has predominately pasture-based systems and a very large proportion of New Zealand's agricultural output is dairy – mostly covered by a single processor – Fonterra. The scale and complexity of Australia's dairy, grains, beef, wool, lamb and horticulture industries must be taken into account.

ADF is very keen to be part of discussions that help design an effective transition for agriculture, taking into account all of the issues identified in the NFF and ADF submissions.

Balance between environmental, economic and social outcomes

The dairy industry is surrounded by very dynamic economic, social and environmental systems. Inevitably when one part of this system is changed others parts are affected. Clearly there are risks associated with the development of an ETS that we believe must be clearly assessed before moving forward.

As discussed earlier, the ADF's support for an ETS is subject to their being no reduction in the competitiveness of our industry. The indirect impacts of higher energy and fuel costs will be felt by dairy businesses and we want to understand more about how export exposed industries will be supported.

Depending on the design of schemes and abatement opportunities, an ETS could lead to land-use change, particularly towards plantations for offsets. Not only can a poorly

designed scheme lead to a distortion in land use well beyond that justified, but it can create economic, social and environmental problems that result from that change. For example we have seen similar distortionary affects and environmental concerns created by Managed Investment Schemes.

ADF supports a limit on offsets within the ETS design as described in the NFF submission to the Prime Minister's Emissions Task Group.

We also seek detailed assessments of the impacts of ETS on rural markets, environmental systems and rural communities.

ADF would welcome the opportunity to discuss these issues further and looks forward to working proactively with the Australian Government to progress this important issue.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Allan Burgess", with a horizontal line underneath it.

Allan Burgess
President