

Clean Energy Policy

In the second part of Industry Economist Ian James' in-depth look at the impacts of the carbon tax on vegetable growing, the Project Leader of the Vegetable Industry Development Program's Economic sub-program highlights some of the positives contained within the package and explains how growers could benefit from them.

In the last edition of *Vegetables Australia* we examined the negative impact of the carbon tax on vegetable grower operations. Carbon emissions from vegetable growing are relatively small, although many growers also undertake other agricultural activities where emissions are considerably higher.

While carbon emissions from vegetable growing will avoid the tax, growers will face increased costs for a range of inputs. The size of the increase is uncertain and will depend on the extent to which companies paying the carbon tax can offset the cost of their carbon emissions through changed practices, the buying in of carbon offsets and whether they pass the full cost on to their customers. The biggest direct hit will be in electricity prices.

On a more positive note for vegetable growers, the government has introduced as part of its Clean Energy Policy a number of measures

to either lessen the tax's burden or provide incentives to reduce carbon emissions. The justification for these measures is that pricing carbon emissions is a major structural adjustment to the economy and businesses need time to adjust.

Positive measures to help adjustment to a low carbon economy

The government has provided generous compensation packages for some of the largest emitters to ease the cost burden flowing through to other sectors of the economy, for example, the \$300 million assistance package to the steel industry. Under the Clean Technology Program, \$150 million has been allocated to the food processing industry to enhance energy efficiencies.

Smaller growers with turnover of less than \$2 million a year will have the threshold for the instant asset write off increased

to \$6,500.

Grants will be available up to \$25,000 for the purpose of procuring energy efficient capital equipment and \$40 million provided for an energy efficient grant scheme to assist small and medium businesses. The government has also allocated \$1 billion over four years to set up a bio-diversity fund and other land-based measures to encourage the establishment and/or enhancement of native vegetation.

Carbon Farming Initiative (CFI)

For vegetable growers, the major positive is the accompanying Carbon Farming Initiative (CFI). The CFI is aimed at providing economic rewards for growers who take steps to reduce carbon pollution.

Credits will be issued for emissions abatement or soil sequestration, which growers

can sell to businesses required to pay the carbon tax or to other businesses that see a marketing advantage in being carbon neutral. An administrator is being set up and a carbon offset market will be in operation by the end of the year.

The expectation is that carbon credits will sell for less than the carbon tax price of \$23, being somewhere under but close to \$20 per tonne. Carbon credits can be sold internationally. Eligible projects can backdate credits to 1 July, 2011.

Abatement estimate is a major challenge for soil carbon due to natural variability in soil carbon levels. As part of the Carbon Farming Futures, \$201 million has been budgeted over six years to support research into new ways of storing carbon and reducing pollution, \$20 million to convert research into practice and \$99 million in grants for farmers to take action to test new ways to reduce pollution and increase soil carbon.



A Carbon Farming Skills program is being set up, which aims to create new jobs in rural and regional Australia based around low carbon outcomes, and \$68 million has been provided for communication, extension and outreach services, including the return of farm extension officers.

The CFI has been hailed as 'opening up new income streams for farmers and landholders across regional Australia.'

Although the carbon offsets market in Europe has been impacted by the debt crisis, it was worth US\$125 billion. While some vegetable growers will see this as all 'airy fairy' and not 'true farming', carbon offsets offer the potential to mitigate the adverse impact of the carbon tax and, if generated through higher carbon retention in soil, generate increased productivity gains.

The rules

At present, the rules are still being established and the accounting framework for the CFI is not fully set up, although the type of activities that qualify for earning carbon credits have been defined.

Vegetable growers are most likely to earn carbon credits through either reduced fertiliser emissions or increased carbon retention in soil. Measuring emissions is easier than soil sequestering. There is a lot of paperwork involved in generating marketable carbon credits and growers seeking to earn them are most likely to employ an expert in the area, in a similar vein to their use of an accountant.

In order to qualify for a carbon credit, a government-approved methodology has to

be developed, which covers things such as a description of the activity, the amounts of carbon removed and how the program will be measured and monitored.

All offset methodologies are assessed by the Domestic Offsets Integrity Committee (DOIC), an independent committee of experts, to ensure they lead to real and measurable emissions reductions.

In reality, a grower or his/her advisor is likely to accept a standard industry developed methodology.

There are certain integrity standards that must be met, the most important of which are:

- **Additionality**—the activity is one that would not have occurred in the absence of the offsets scheme. This is controversial, as early innovators who already practice carbon-reducing practices will not be able to earn carbon credits.
- **Permanency**—the emissions saved will not be released for the period of the active life of the greenhouse gas, which in the case of carbon is estimated by scientists at 100 years.
- **Leakage**—the project does not increase emissions elsewhere.
- **Measurable and verifiable**—all activity must be accurately measured and independently audited.
- **Conservative**—assumptions, figures and measurements must be conservative to avoid over claiming.

How to get involved

Growers have three options:

1. Set up their own scheme;
2. Use a specialist to do all the paperwork and monitoring and pay a fee for the service,



but retain ownership and rights to sell the carbon credits generated, usually through a broker; or
3. Use an aggregator, who will buy carbon offsets from a number of growers and trade them as a package on his/her account.

The first option is unlikely, as there will be a minimum parcel size that will be beyond the level of potential market offsets that can be generated by growers.

Conclusion

The positive aspects of the Clean Energy Policy offer vegetable growers the opportunity to reduce the negative impact of the carbon tax. Growers seeking to make windfall profits out of carbon credits are, however, likely to be disappointed.

There are good environmental and productivity reasons why growers should consider carbon farming. But carbon offset production involves a holistic approach to growing, with both economic costs and opportunities attached to changing existing production techniques.

There is still some uncertainty around the rules and operations of the market for carbon credits. While worth watching and exploring further, growers should proceed with caution in entering this market.

THE BOTTOM LINE

- As part of its Clean Energy Policy, the government has introduced a number of measures to either lessen the carbon tax's burden or provide incentives to reduce carbon emissions.
- For vegetable growers, the major positive is the Carbon Farming Initiative (CFI), which is aimed at providing economic rewards for growers who take steps to reduce carbon pollution.
- Vegetable growers are most likely to earn carbon credits through either reduced fertiliser emissions or increased carbon retention in soil.



Find more information:

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