

# Emissions trading 101

As the Federal Government's carbon emissions trading bill goes before Parliament, opinions are divided on the effect carbon trading will have on agribusiness. We summarise the facts to help clear the carbon trading fog.

## Carbon basics

Emissions trading schemes, or 'cap and trade' systems, aim to help reduce greenhouse gas emissions by setting an annual emissions target (measured in millions of tonnes).

The target is divided up among all the major emitters, who are then issued a number of permits based on their portion of the target.

A trading scheme creates a market for the permits, allowing low emitters to sell permits they do not need to high emitters.

The trading scheme should encourage companies to lower emissions and turn their unused permits into cash. In theory, those that can easily and cheaply reduce emissions will do so, achieving a reduction in overall pollution at the lowest possible cost to the economy.

## Offset to stay on course

Most emissions trading schemes offer trade in a second type of financial instrument known as 'offsets' or 'carbon credits.' As well as buying excess permits, high emitters can pay a third party outside the emissions trading scheme to help lower the impact of their emissions.

For example, an Australian high emitter could pay a carbon offset company to plant a forest in Brazil to help absorb some of the carbon dioxide it produces. Doing so under a government-approved offset scheme will count towards the Australian emitter's emissions target back home.

## The plan so far

In March 2007, the Federal Government ratified the Kyoto Protocol, making Australia part of the global effort to help stop climate change.

To help reduce Australia's emissions, the government has proposed a Carbon Pollution Reduction Scheme (CPRS), an emissions trading scheme based on the recommendations of economist Professor **Ross Garnaut**.

The *Garnaut Report*, released in February 2008, recommended that permits be sold competitively rather than allocated free to carbon polluters.

The final design of the CPRS was outlined in a White Paper released in December 2008. The CPRS will cover around 75% of Australia's emissions and involve around 1,000 high emitters. The majority of businesses in Australia will not face any direct obligations under the CPRS, at least in the outset.

Agriculture is scheduled to become part of the CPRS in 2015. Calculating emissions from the thousands of businesses that make up the agricultural sector is a complex undertaking and at the moment cannot be achieved cost-effectively. Unless this problem can be solved, primary producers will continue to be excluded from emissions trading in Australia.

This exclusion does not extend to food processors, including dairy product manufacturers, or allied industries, such as chemicals, packaging and transport.

## The ABC of carbon

**Carbon sink:** Places where carbon dioxide is absorbed from the atmosphere, such as forests and oceans.

**Carbon footprint:** Total greenhouse gases produced by an individual or organisation, both directly and indirectly, expressed in units of carbon dioxide equivalent.

**Carbon offsets:** A reduction in greenhouse gas emissions by, for example, switching to renewable energy sources or re-forestry cleared land to create a carbon sink. By paying for such emission-reducing activities, individuals and organisations can offset their emissions either voluntarily or within an emissions trading scheme.

**Carbon neutral:** Reducing one's net greenhouse gas emissions to zero by reducing emissions to the minimum and accounting for the rest through buying carbon offsets.

### Useful websites:

[www.climatechange.gov.au](http://www.climatechange.gov.au)

[www.australianclimateforum.com](http://www.australianclimateforum.com)

[www.farminstitute.org.au](http://www.farminstitute.org.au)

## The agricultural debate

Some agricultural industry bodies, such as the Australian Farm Institute (AFI), are concerned that inclusion in the CPRS will lead to the decline in Australia's agricultural output.

AFI's report, *Some Impacts on Agriculture of an Australian Emissions Trading Scheme*, released in February 2009, argues that countries that have not adopted greenhouse emission policies will enjoy a price advantage and increase their agricultural output, negatively affecting the Australian industry without achieving any net global environmental benefits.

The report also argues that even if the agricultural sector were permanently exempt from the CPRS it would still be subject to increased costs for goods and services, as well as reduced domestic demand due to lower consumer incomes.

Many climate change and economic experts, including Prof. Garnaut, disagree with this position and argue that an emissions trading scheme will enhance the international competitiveness of Australia's agricultural products.

Addressing the ABARE Outlook conference in February 2009, Prof. Garnaut said that compared to some international competitors, who have to house animals indoors during winter, the Australian livestock industry is less emissions-intensive and that its competitiveness could be enhanced by emissions trading.

He argued that the best possible outcome for Australian agriculture would be to function within a comprehensive, global regime of emissions constraints. In the meantime, while other countries lacked comparable constraints, transitional assistance would be required to compensate domestic producers. ■

