Will the United States Climate legislation be more important than Copenhagen or Doha?

Just as the fate of Australia’s emission trading legislation will be determined by a vote in the Senate, so too will a vote to be taken in the US Senate determine the outcome of proposed US climate change legislation. As the USA is one of the world’s largest economies and a major trading partner for Australia, its climate change legislation has arguably a greater potential impact on Australia and the global economy than the outcome of climate negotiations in Copenhagen, or the Doha round of WTO trade negotiations.

There are, in fact, two pieces of climate legislation currently being debated by the US Congress. Both are unconstrained by Kyoto Protocol greenhouse accounting rules, are designed to influence the behaviour of trading partners; and potentially have much stronger enforcement provisions than any international agreement could ever have.

This paper analyses the Waxman-Markey legislation that has already been passed by the US House of Representatives, and also the draft Boxer-Kerry legislation that will soon be before the US Senate. Conclusions are necessarily tentative, because the Senate legislation is still being negotiated, and if passed by the Senate it will then be married to legislation passed by the House of Representatives. However, elements of both pieces of legislation would, if enacted, have important implications for Australian agriculture.

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INSTITUTE ACTIVITIES

Out and about

Recently the Institute’s Executive Director, Mick Keogh, has spoken at:

• Wine Industry future leaders program, Sydney
• PrincipleFocus, Adelaide
• Junee ETS Conference
• Agriculture and Mining Conference, Gunnedah
• AMIC Conference, Gold Coast
• Roma Meat Profit Day

The Institute’s Project Officer, Sally Davison, has spoken at:

• Beefworks, Toowoomba
• Carbon Toolkits, Melbourne and webinar
• Gilbert Agribusiness Group Inc. Forum, Riverland

The Institute can now be followed on Twitter at: ‘AustFarmInstitu’.

Corporate support

The Institute would like to welcome AgForce and Australian Pork as our newest corporate members. For more information on how you can support the Institute’s work (individual and corporate opportunities available) please contact the Institute on (02) 9690 1388 or visit the website www.farminstitute.org.au

In the news

The Institute’s Mick Keogh provided comments as to possible detrimental effects of the Carbon Pollution Reduction Scheme relating to land-use competition in an article in The Weekly Times. Mick was interviewed on ABC Country Hour regarding the Opposition’s alternative ETS, and his views on this matter were also published in an article in The Australian, ‘Farmers stew over massive costs’.

Mary Goode interviewed Mick Keogh on the current Doha negotiations drawing on information included in the August Farm Policy Journal, liberalism and protectionism: can you have the cake and eat it too? Her interview was broadcast on ABC National Rural News and ABC Country Hour in the feature, ‘Doha draft “not worth the paper it’s written on”’. Information from this Journal also featured in the Australian Financial Review editorial on Monday 5 October, ‘Doha demands a show of will’.

Mick Keogh was also interviewed by ABC Asia Pacific TV (filmed 18/9/09) regarding ‘feeding the world, the next green revolution’. The AFI is proving influential even further afield with a feature in La France Agricole, on 2 October on ‘Agriculture in Northern Australia’.

The launch of the FarmGAS Calculator garnered a large amount of media interest with articles in The Age, The Weekly Times, Bush Telegraph, Rural Press and The Land, and on 2UE radio (24 August).

The Institute held its Annual Roundtable Conference on the 8th and 9th of October. The Conference’s Keynote Speaker Nick Burton-Taylor was interviewed on ABC Radio National’s Bush Telegraph on Friday 9 October regarding his views on the future of Australian agribusiness. Mick Keogh also provided comments for ABC News on Saturday 10 October, ‘Farmers want soil offsets at Copenhagen’, reporting on discussion from the Conference regarding a desire to have ‘international accounting rules changed as part of the Copenhagen process’.

Call for papers

The February 2010 edition of the Farm Policy Journal focuses on bushfire management. The deadline for papers is 15 December 2009.
FEATURE ARTICLE

Will the United States Climate legislation be more important than Copenhagen or Doha?
(continued from front page)

The Waxman-Markey Bill

The American Clean Energy and Security Act (ACES – previously called the Waxman-Markey Bill) passed through the US House of Representatives by a narrow margin, 219 votes to 212. It relied almost entirely on Democrat votes, although 44 Democrats (mainly from farm and industrial regions) voted against it.

ACES aims to reduce US greenhouse gas emissions by 17% by 2020, using 2005 emission levels as the baseline. The Act aims to achieve this using a number of different policy measures, including a cap-and-trade scheme, called the Global Warming Pollution Reduction Program. In addition, the legislation contains measures dealing with:
- efficiency and renewable energy standards
- carbon capture and sequestration
- clean transport
- transport efficiency requirements
- product carbon disclosure program
- economy-wide emission reduction goals, and
- agricultural and forestry offsets.

If implemented under this legislation, the US emission trading scheme would function in a similar way to the proposed Australian Carbon Pollution Reduction Scheme (CPRS). It proposes to identify the largest direct emitters and to require them to surrender emission permits (termed Allowances) each year, equivalent to their total emissions. Emission Allowances will be issued by the Government each year, with the total number available declining annually. Businesses required to participate in the scheme are those producing 25,000 tonnes of carbon dioxide equivalent (CO₂-e) greenhouse emissions each year, the same threshold that applies to the proposed Australian CPRS.

Agriculture is specifically listed as an exempt sector under the US legislation, meaning that US farm businesses will not have to account for, or purchase emission permits for direct farm emissions.

It is proposed the US scheme would commence in 2012, and to meet their obligations, participants will need to either hold emission Allowances equivalent to their actual emissions, or purchase sufficient Offset Credits. These Offset Credits are very important when considering the impact of the Bill on the agriculture sector, and highlight some big differences in the treatment of farm emissions between the US and Australian legislation.

Offsets are actions by non-participants that are recognised as sequestering greenhouse gases from the atmosphere, or reducing the amount of emissions that would otherwise be created. Offset projects will need to be reviewed by an independent panel to ensure their integrity, with the US Department of Agriculture defined in ACES as having this role for agricultural offsets (such as the adoption of no-till cropping). The ACES legislation caps total use of offsets at 2 billion tonnes per year, and half of these must come from domestic sources. The treatment of agriculture is discussed in greater detail later in this article.

Allowances will be given to businesses that invest in clean energy and energy efficiency, and some will be given to businesses that export products and as such are vulnerable to competition in international markets. Overall, about 80% of Allowances will be distributed free of cost during the early years of the scheme to ease the transition. The number of free Allowances will decrease each year, until by 2031 it is estimated that about 70% of Allowances will be auctioned.

Under the proposed US legislation, emission Allowances (which have a year vintage) can be banked for future use without any limitation; however participants can only borrow Allowances one year in advance. There is also a strategic reserve of Allowances established which will be made available for auction if Allowance prices exceed 160% of their three-year average.

The legislation sets a minimum price for auctioned Allowances of US$10. The US Environmental Protection Agency (EPA) estimates that emission Allowances will cost US$13 in 2015 and increase to between US$26 and US$27 by 2030.

Domestic protection

The ACES legislation includes various measures to reduce emissions while sheltering US industry. The primary mechanism to protect industry is the provision of free Allowances to businesses in energy-intensive or trade-exposed industries, such as iron, steel, cement and paper manufacturing.

An International Reserve Allowance Program is the second strategy to protect US industry. Under this
provision (Section 768), importers will have to buy international reserve Allowances for products imported from carbon-unregulated nations, equivalent to the cost of Allowances that US producers are required to hold. This arrangement is essentially a border tax measure, and is scheduled to commence from 1 January 2020, if there is no international climate change treaty in place by 2018. The President can grant a waiver to products from certain countries if deemed important, however this waiver would need congressional approval.

Emission leakage is a risk when one nation enacts legislation which makes a manufacturer or producer pay for the greenhouse gas emissions associated with their goods, but competitors in other nations do not face similar costs. Products originating in countries where greenhouse gas emissions are not regulated become relatively less expensive, and as a result there is an incentive for industry to shift (both their business and its emissions) to those countries; resulting in a world no better-off environmentally. Alternatively some industries (such as agriculture) may not relocate, but national market share changes to the advantage of the relatively cheaper producer; again resulting in no overall reduction in global greenhouse gas emissions, but a loss in economic activity for the emission-regulated nation.

In an attempt to offset the loss of competitiveness, countries may implement measures such as a tax on imports. A ‘border tax’ is a tax applied to imported goods; while a ‘border tax adjustment (BTA)’ is an adjustment of the taxes imposed on domestic products that are subject to import competition. Both these types of measures can be consistent with WTO trade rules, as long as they result in exactly equivalent treatment of domestic and imported products.

BTAs are not a new concept in US legislation. Earlier climate legislation introduced to Congress by Senators Joe Lieberman and John Warner in 2007 provided for border adjustment measures for greenhouse gas intensive products from countries without carbon regulation. This legislation wasn’t successful, however some elements of its design have been adopted in current legislation.

While politically appealing, there are significant practical difficulties with the implementation of BTAs. This is particularly so when the domestic measure is an emission trading scheme. It is difficult to set an absolute rate of border tax based on an emission price which fluctuates depending on the market. Additionally, calculating the appropriate amount of tax is made more difficult because of the need to allow for the fact that domestic producers will receive a changing proportion of the emission allowances at no cost.

Finally, there are significant difficulties in estimating product-specific emissions according to product, company and country. To address the issue of measurement, the country of import could require that products have certification or labelling outlining the production processes used. However to accommodate this, a standardised system of estimation would need to be established covering all types of production processes.

Product carbon disclosure

Another significant element of the ACES legislation is the proposed ‘Product Carbon Disclosure Program’, outlined in Section 274. This section requires that the US EPA conduct a study to determine the feasibility of a national program to measure, disclose and provide label information about the emissions associated with any product sold in the USA. Food and clothing are identified as sectors likely to be allocated a higher priority for this provision. The section includes a proposal to investigate whether default values should be allocated to products for which no emission data has been provided, and the need for a consumer education program on carbon labelling. The timeline allocated to this study is 18 months.

ACES then requires that within the following 18 months a voluntary National Carbon Disclosure program should be established, involving the development of a product carbon (tonnes of CO₂-e emissions associated with the product and its associated supply chain) labelling system with broad applicability to wholesale and consumer markets.

The wording of the legislation is to:

...determine the feasibility of establishing a national program for measuring, reporting, publicly disclosing, and labeling products or materials sold in the United States for their carbon content.

The question that immediately arises from this is what is defined as a product’s ‘carbon content’? Does it mean only direct emissions associated with the product, or does it also include indirect emissions associated with inputs used in production systems, such as energy and machinery?

The EPA is directed by the legislation to review existing greenhouse gas product accounting standards, methodologies and protocols, including the Publicly Available Specification (PAS) 2050. Also mentioned are the Greenhouse Gas Protocol, ISO 14040/44, and ISO 14067 standards. The PAS 2050 standard was developed by the British Standards Institution to specify requirements for assessing the life cycle greenhouse gas emissions of goods and services, and was co-sponsored by the UK Carbon Trust and the UK Department for Environment, Food and Rural Affairs.

The PAS 2050 provides a methodology for assessment of life cycle greenhouse gas emissions; which are emissions released through the process of creating, modifying, transporting, storing, using, providing, recycling or disposing of goods and
services. PAS 2050 suggests a process of five steps to calculate a products carbon footprint. These steps include building a process map, confirming the boundaries of the analysis and prioritising the elements of the process map, collection of data, calculation of emissions under each of these parameters, and finally assessing the precision of the analysis. There are some items which are suggested to be excluded, including emission sources that are less than 1% of the total footprint and human inputs to processes.

PAS 2050 acknowledges that plant-based products can sequester carbon, however it does not cover products that are food for humans or feed for animals. That is, there isn’t any requirement to calculate the carbon stored in food products. However, it could be assumed that carbon stored in wool products would be counted. It suggests non-CO₂ emissions from livestock, manure or soils should be estimated according to IPCC Guidelines. Land-use change is also included if the product’s supply chain directly caused non-agricultural land to be converted to agricultural land on or after 1 January 1990.

The PAS 2050 isn’t necessarily going to be the accounting methodology chosen by the US, but it provides some indication of how ‘carbon content’ of a product may be calculated for carbon labelling purposes, and the information requirements that may be placed on farmers supplying those products.

The Boxer-Kerry Bill

In September 2009, Democrat Senators Barbara Boxer and John Kerry unveiled legislation, termed the Clean Energy Jobs and American Power Act, to cut US emissions of greenhouse gases by 20% of 2005 levels by 2020. To proceed to a vote in the Senate, the Bill needs 60 votes and the Democrats have a 59–40 voting majority, however in August ten Senate Democrats sent a letter to President Obama stating they would not support any climate change bill which didn’t protect American industries. Representing States dependent on coal and manufacturing, the votes of these Senators are crucial to the passage of the Bill. This leaves plenty of room for deal-making on various issues, particularly given the Bill faces the sausage grinder process of markup in Senate committees including the Environment and Public Works Committee and Finance Committee.

The Boxer-Kerry Bill builds on the ACES legislation passed through the House of Representatives, but there are some differences worth noting. The first is the target for emission reduction, which is slightly more ambitious in the draft Senate legislation. The Boxer-Kerry draft has named its cap-and-trade mechanism ‘Pollution Reduction and Investment’ (PRI), and this will apply to about 7,500 facilities producing more than 25,000 tonnes of emissions per year.

In order to create a means of stabilising the Allowance market, Section 726 of the Senate draft contains a provision that extra Allowances can be offered for sale if the price reaches about US$28. The Waxman-Markey or ACES legislation sets a minimum price for Allowances, and the draft Senate legislation sets a maximum; so between the two there’s what’s been dubbed a ‘soft collar’ established to hold the price of Allowances within a defined range.

A point of contention in the Boxer-Kerry draft is that it doesn’t set out how many free permits industry sectors will get. It also preserves the EPA’s authority to regulate some sources of greenhouse gases, while the House Bill does not.

On the question of the use of border tax adjustments, one paragraph in the Boxer-Kerry draft provides an indication that these will be part of the legislation. Section 765 states:

It is the sense of the Senate that this Act will contain a trade title that will include a border measure that is consistent with our international obligations and designed to work in conjunction with provisions that allocate allowances to energy-intensive and trade-exposed industries.

The product carbon disclosure concept in the ACES legislation is carried through into the Boxer-Kerry draft, including the specific mention of food, beverage and clothing as ‘products, processes or sectors whose inclusion could have a substantial carbon impact’. The PAS 2050 is again specifically mentioned as a standard for consideration in determining product carbon footprints.

The treatment of agriculture in the US legislation

Agriculture is exempted from being a capped sector (a sector required to buy Allowances and account for greenhouse emissions each year) under Section 501(b) of the ACES legislation. In Sections 502 and 503 of ACES, specific provisions are made for the recognition of agricultural offsets, with these offsets under the administration of the Secretary of the US Department of Agriculture, not the EPA (as is the case with non-agricultural offsets).

Also noteworthy in the wording of legislation associated with these offsets is a requirement for Addialtionality (ie the emission reduction occurs as a result of an action that is ‘additional’ to what would have occurred) but no requirement for Permanence (the 70–100 year persistence requirement incorporated into Kyoto Protocol rules for recognised offsets). Instead, agricultural offsets are considered ‘Term Offsets’ which are subject to a reversal provision if the action is discontinued before 5 years has expired, but not if maintained for more than 5 years. Presumably, payments for these offsets will be based on calculated quantity of emissions avoided due to the adoption of the practice during the five year period.
List of activities proposed for recognition as Agricultural Offsets under the ACES legislation

S503(b) Initial List – At a minimum, the list prepared under this section shall include those practices that avoid or reduce greenhouse gas emissions or sequester greenhouse gases, such as –

1. agricultural, grassland, and rangeland sequestration and management practices, including –
   A. altered tillage practices;
   B. winter cover cropping, continuous cropping, and other means to increase biomass returned to soil in lieu of planting followed by fallowing;
   C. reduction of nitrogen fertilizer use or increase in nitrogen use efficiency;
   D. reduction in the frequency and duration of flooding of rice paddies;
   E. reduction in carbon emissions from organic soils;
   F. reduction in greenhouse gas emissions from manure and effluent; and
   G. reduction in greenhouse gas emissions due to changes in animal management practices, including dietary modifications;

2. changes in carbon stocks attributed to land use change and forestry activities, including –
   A. afforestation or reforestation of acreage that is not forested;
   B. forest management resulting in an increase in forest carbon stores including but not limited to harvested wood products;
   C. management of peatland or wetland;
   D. conservation of grassland and forested land;
   E. improved forest management, including accounting for carbon stored in wood products;
   F. reduced deforestation or avoided forest conversion;
   G. urban tree-planting and maintenance;
   H. agroforestry; and
   I. adaptation of plant traits or new technologies that increase sequestration by forests; and

3. manure management and disposal, including –
   A. waste aeration;
   B. biogas capture and combustion; and
   C. application to fields as a substitute for commercial fertilizer.

The ACES legislation requires the US Secretary of Agriculture to prepare an initial list of recognised agricultural offset practices, as can be observed in the above extract from the Bill. This list stands in stark contrast to offset activities that will potentially be recognised under Australian legislation, which is limited to the planting of permanent tree plantations. This arises because the USA hasn’t ratified the Kyoto Protocol, and therefore agricultural offset projects won’t be constrained by what can and can’t be counted under the emission accounting methodologies required by the Kyoto Protocol.

Under Section 155 of the Boxer-Kerry draft, the Secretary of Agriculture will be given the authority to establish a Greenhouse Gas Reduction Incentives Program, providing assistance to farmers for activities that measurably increase carbon sequestration or reduce greenhouse gas emissions. The forms of assistance offered include grants, financial incentives and conservation easements.

Section 733 of that legislation lists eligible project types on agricultural land including altered tillage practices, reduction in carbon emissions from organic soils, reduction in emissions due to changes in animal management practices, and practices to reduce soil tillage. The list isn’t as exhaustive as that contained in the ACES, and does not give the determining role to the US Department of Agriculture. As a result the draft Senate legislation has received criticism from US farm groups including the following;
It is important the U.S. Senate begin the process of developing climate change and renewable energy legislation. However, the language unveiled today fails to address the unique role agriculture can play.

The Boxer-Kerry climate change bill introduced in the Senate on Wednesday includes few provisions that are friendly to agriculture and will be strongly opposed by the American Farm Bureau Federation.

It is worth noting, when discussing treatment of agriculture in Australia versus the US, that the agriculture sector in Australia contributes 16% of national emissions. In the US this figure is 6.5%, meaning the relative importance of the sector in national emission reduction activities is significantly different.

Potential Implications for Australian Agriculture

One of the potential impacts of these two pieces of legislation for Australian agriculture relates to the carbon disclosure program which aims to inform US consumers of the carbon content of products. This program may not appeal to consumers directly but, based on other global examples, may become retailer-driven. For example, UK retailer Marks and Spencer has already implemented a program to reduce energy use and emissions associated with its stores, and also placed similar requirements on suppliers. In addition, Wal-Mart, the world’s biggest retailer, has also announced plans to develop a worldwide sustainable product index to ‘provide consumers with the information they need to assess the sustainability of products’. Such programs may be a sign of future trends, and given the US is flagging a national carbon disclosure program it is likely to be used as an additional product differentiation tool.

The second potential impact relates to what is essentially a border tax adjustment being flagged through the International Reserve Allowance Program of ACES. This may require companies importing products into the US to purchase Allowances proportionate to their carbon content. Though this type of provision isn’t included in Boxer-Kerry, the need for horse-trading and deal-making to get the legislation through the Senate will potentially see some form of ‘trade title’ that has a similar affect. A nation such as the USA which plays a dominant role in global trade will have the ability to regulate and enforce these provisions in a way that is not possible under international agreements.

Finally, the US legislation creates a significant international model for the treatment of agriculture under national climate change policies. The US legislation focuses on providing incentives for farmers to voluntarily undertake positive action, rather than applying punitive, inefficient and potentially perverse impost on the sector involving large extra costs. The US approach appears to be more adaptive, and more likely to generate innovation and beneficial change than measures being considered in Australia and New Zealand. A major issue is the fact that Australia and New Zealand have ratified the Kyoto Protocol, which means that for carbon sequestration or emission reductions to assist the nation reach its international emission reduction goals, they need to be compliant with the Kyoto Protocol emission accounting rules. The US has not ratified the Kyoto Protocol and as such has no restrictions about the way in which it calculates its emissions, or what it decides to include or exclude. This suggests that Australia should discard the Eurocentric Kyoto Protocol emission accounting rules, and perhaps even withdraw from the agreement. Such an action may, however, have negative implications for the ability of Australian businesses to access low-cost international emission credits associated with the Clean Development Mechanism and Joint Implementation processes established under the protocol.

Conclusions

Some priorities for Australian farmers emerge from the development of emission trading legislation in the US. The first is the need to develop accurate and detailed life cycle analysis information for agricultural products; because even if not required under a domestic emission trading scheme, international customers may soon be demanding this information. Considering the complexity of the agricultural production and supply chain, an accurate Australian estimation process needs to be developed and major sources of supply-chain emissions identified so that accurate product carbon information is available for international markets if required.

Secondly, it is no secret that ruminant livestock are likely to be the major source of farm emissions, so research into mitigation options that are realistic and affordable is critically important. The economics of options such as selling permits earned by carbon sequestration in trees versus retaining these permits to achieve carbon neutrality or reduce emissions need to be explored to allow planning. Trees are long-term land-use change and as such need to be carefully considered factoring in risk, associated environmental impacts and whole-farm production change.

Finally, achieving accelerated long-term productivity gains in the Australian agriculture sector will be essential. Irrespective of the eventual design of international or domestic climate change legislation, the result will be an acceleration of price increases for farm inputs (especially energy-related inputs), and a reduction in the profitability of farm production. As a consequence, identifying strategies or technologies that enable an acceleration of productivity growth will become even more critical in the future than it has been in the past.

The issue of climate, trade and the role of eco-marketing will be examined in closer detail in the forthcoming November 2009 Farm Policy Journal.
The August 2009 Farm Policy Journal contained a number of papers on international agricultural trade policy. One of these papers, prepared by the University of Sydney’s Dr Brett Williams, provided a detailed examination of global agricultural trade negotiations, starting with the General Agreement on Tariffs and Trade and following through to the eight tortuous years of negotiations that comprise the current Doha Round. Williams concluded that the current draft Doha agreement would achieve modest liberalisation while unnecessarily complicating trade rules and making agricultural trade liberalisation harder, not easier in the future.

Australian Trade Minister Simon Crean came to the defense of the Doha Round of WTO negotiations during House of Representatives debates on Wednesday 9 September 2009. He stated

For our farmers, what Doha offers is this:

– Cuts of up to 70 per cent on developed country tariffs
– Reductions of between 70 and 80 per cent in domestic support subsidies for major subsidisers such as the EC, Japan and the US
– For the EC this would mean a reduction from around €118 billion per year to €23 billion per year in support measures
– For the US this would mean a reduction of farm support from US$48 billion to US$14 billion
– The complete elimination of export subsidies by the end of 2013.

In supporting progress that has been made, Minister Crean singled out the EC dairy export subsidy program under which export subsidies for butter, cheese and skimmed milk powder were reinstated at the beginning of 2009 via a series of regular tenders and trade bids. The Minister stated ‘Only the conclusion of the Doha Round would ensure the eradication of these sorts of policies and mean that they cannot be used in the future’.

While this may all seem like a lot of whinging over a little spilled milk, as noted in another article, the re-introduction of export subsidies in the EU and US is of particular concern as both countries had previously agreed to stop using export subsidies.

Another author, Professor Caroline Saunders of New Zealand pointed out that for the subsidies to be introduced indicates they could be replaced at any time. In fact, since the Farm Policy Journal was published, European farmers have stormed a meeting of EU agriculture ministers in Brussels to make their case for more protection, have suspended milk supplies to dairies and have dumped millions of litres of milk; while the US Congress has announced a US$350 million bailout with US$290 million in direct support for dairy farmers.

The complexity of these negotiations and the trade rules they attempt to amend was highlighted in Brett Williams’ paper, where it was explained that under the Draft Agriculture Texts, developed countries will be able to retain high tariff rates on their most protected products by utilising the ‘Sensitive Product’ allocation. Williams contends that because of this, ‘Some countries (the EU, Switzerland, Canada) will retain high tariffs on dairy products…’ This view was echoed by former Trade Minister, Warren Truss during the Parliamentary debate. He explained that the proposed ‘headline’ cuts promised may not be realised because:

Those are not cuts in the applied [tax] rate; they are cuts in the bound rate. In fact, they still leave space for some tariffs to even go up.

Where to from here? The conclusion of the Doha Round in 2010 has been labelled ‘essential’ in the wake of the global economic crisis, and as a means of reinforcing the multilateral trading system. The Leaders Statement from the G20 Pittsburgh Summit contains pledges of commitment to concluding the Doha Round, and also for nations to

[R]efrain from raising barriers or imposing new barriers to investment or to trade in goods and services, imposing new export restrictions or implementing inconsistent measures to stimulate exports and commit to rectify such measures as they arise.

Reinstating dairy export subsidies may or may not fall within this pledge, depending on your view of WTO consistency. Cynicism aside, there is some substance to the argument that maintaining multilateral rules of trade and the credible governing body that is necessary for its function is essential to global economic stability. Like it or not the fate of the WTO may live and die with the Doha Round, as commitment to the multilateral system will inevitably wane with endless procrastination or simply no results. This is acknowledged by the Director-General of the WTO, Pascal Lamy, in his comment:

The viability of the multilateral trading system, the order and predictability that underwrites it, and the economic prospects of countries around the world, depend on our ability to finish what we started at in the closing months of 2001 – the Doha Round.

In 2006, then Shadow Trade Minister and now Prime Minister Kevin Rudd described Doha as ‘dead as a dodo’. For the sake of the only global international organisation dealing with the rules of trade between nations, let’s hope he was wrong.
A summary of international farm policy developments

EU dairy sector under rescue and reform policy

The EU policy to rescue and reform the dairy sector have been confirmed at the last Council of Agricultural Ministers in Luxembourg on 19 October 2009. The announcement of milk policy deregulation (less support, suppression of the thirty years old quotas system in 2015) added to the milk prices downfall (less 50% compared to the price level in 2007) and triggered a milk crisis in the EU. In June 2009, the European Council mandated an emergency study in order to respond to the crisis while following the reform of the sector. The report was published on 22 July 2009 (COM (2009) 385 final) quickly followed by the first measures. An increase of €600 million was agreed to bolster the market intervention policies (intervention, private storage aid and export refunds, and direct payments) in 2009.

The Council of Agricultural Ministers finally agreed on short-, mid- and long-term measures, starting in 2010, after acknowledging the recent milk, butter and cheese prices increase: 1) Inclusion of dairy in the article 186 of the Common Market Organisation (CMO, Council Regulation (EC) No. 1234/2007 of 22 October 2007) to allow the Commission to take emergency measures in case of high disturbance of the market. 2) Allowing dairy farmers access to restructuring aids of up to €15,000 each for three years, conditional upon economic reform at the farm level. 3) Temporary change to quota rules to deduct bought up quota from the national reserve, so the super levy paid to Brussels is based on a lower national quantity, with the savings pumped back into the domestic dairy sector for restructuring measures. 4) Support of a ‘High Level Group’ to assess further issues like a fair and balanced relationship in the chain – transparency and contractual relations are to be discussed. An envelope of €280 million has been announced and is subject to approval from the EU’s Finance Council on 19 November 2009.

Global rice estimates cut by 21.3 million tonnes

The Food and Agriculture Organisation (FAO) of the United Nations has cut its estimates of world output of paddy rice to 668 million tonnes this year. Delayed monsoon rains and weather anomalies are responsible for the worsening production outlook in Asia; a drop of 4% on 2008, which was a record high crop according to the FAO. Africa’s paddy output is estimated to be close to last year’s 25.4 million tonnes, though Egypt’s production is going to reduce following water restrictions there.

Climate change requires US$7 billion agricultural productivity investments

The International Food Policy Research Institute (IFPRI) has released a report on the impact of climate change on agriculture, concluding that it will result in price increases for crops including rice, wheat, maize and soybeans; and calorie intake will decline throughout the developing world. This will increase child malnutrition by 20% compared to a world without climate change, and eliminate much of previous improvements in child malnutrition levels. The report recommends agricultural productivity investments of between US$7.1–7.3 billion.

IFPRI has also released its Global Hunger Index report, which ranks 84 developing and transitional countries using three key indicators, combining them into one score. The three indicators are: 1) The proportion of people who are calorie deficient, or undernourished, which is a key indicator of hunger. 2) The prevalence of underweight in children under the age of five, which is a measure of childhood malnutrition – children being the most vulnerable to hunger. 3) The under-five mortality rate, which measures the proportion of child deaths that are mainly caused by malnutrition and disease.

The 2009 GHI has fallen by one quarter from 1990 levels. Southeast Asia, North Africa, Latin America and the Caribbean have reduced hunger significantly since 1990, but the GHI remains high in South Asia and in Sub-Saharan Africa, where progress has been marginal. Between the 1990 and 2009 GHI’s, Kuwait, Tunisia, Fiji, Malaysia, and Turkey had the largest percentage improvement. Angola, Ethiopia, Ghana, Nicaragua, and Vietnam saw the largest absolute improvement in their scores.

Farmers struggle in India

One of the worst monsoon seasons in a decade, down 26% on normal, is having a significant effect on millions of Indian farmers. Farming is critical to Asia’s third-largest economy, however the increasing strength of India’s manufacturing and services sectors means this deficient monsoon season is having less of an effect on the overall economy than in previous years.

Meanwhile a study from the College of Agricultural Sciences and Natural Resources at Texas Tech University reports that increases in India’s minimum support price (MSP) program, could lower world cotton price by 6.16% in 2009/10 with all other things being equal. The MSP is similar to the US Commodity Credit Corporation non-recourse loan program, and the study finds that this increase could decrease farm price in the US by an average of almost 2.5%.

1 http://www.aace.ttu.edu/cri/Published%20Papers/Br.Papers/india_msp.pdf
The Australian Government is currently in the process of enacting legislation to introduce a greenhouse emissions trading scheme for Australia. The scheme, named the Carbon Pollution Reduction Scheme (CPRS) will have important implications for farmers and agribusiness; in fact, over the next few decades, much more important implications than climate change.

The objective of the CPRS is to reduce Australian greenhouse emissions by imposing additional costs on those activities that result in greenhouse gas emissions, and in that way to discourage those activities, or to force businesses carrying out those activities to find ways to produce less greenhouse emissions.

Even though farm businesses will not be directly involved in the CPRS until at least 2015, they will experience the indirect effects of the CPRS almost immediately. The scheme will have wide reaching impacts on many parts of the economy, and especially the energy sector. Businesses in these sectors will pass the additional costs of the CPRS on to their customers, including farmers, with energy-related inputs being a major cost item for most farm businesses.

Some processors of farm products in the meat, dairy and horticulture sectors will also be required to participate in the CPRS from its commencement, and the additional costs incurred by these businesses will also be passed on to farmers in lower commodity prices or higher processing costs.

In addition, although a final decision has not yet been made, the government has said that it either intends to require farm businesses to be involved in the CPRS from 2015, or it will impose cost-equivalent regulations on farms to reduce greenhouse emissions. Depending on what decisions are made, this has the potential to impose additional costs on farm businesses.

The CPRS will also create new incentives for activities that are recognised as removing greenhouse gases from the atmosphere, or reducing the normal amount of emissions created by a particular activity. This potentially means the creating of new sources of revenue for farm businesses, initially for activities such as planting trees, but in the longer term from activities that sequester additional soil carbon, or for biomass production associated with renewable energy production.

The scale of the potential changes the CPRS will bring about makes it very important that farmers and agribusiness participants understand how the CPRS will operate, and what it will mean for their businesses.

What can or should Australian farm business and agribusiness managers do in response to the potential implementation of these policies in the coming years? The high degree of uncertainty that currently exists about both Australian and international climate policy makes it difficult to be too prescriptive about taking early action, however there are a number of actions that seem sensible, and these are outlined in the report.

To purchase a copy of the report, go to the website or call Tracey Bligh on (02) 9690 1388.
Greener pastures: the benefits of eco-labelling

The November Journal aims at shedding some light on the new opportunities and uncertainties Australian farmers are about to face when it comes to ‘green-marketing’ and ‘carbon-marketing’. The main topics addressed in this edition are: an overview of current initiatives in carbon labelling; the influence of the supply chain on food labelling; the WTO compatibility of ‘green labelling’; the potential effects of climate change on agricultural production and how this relates to food security.

The November 2009 edition of the Farm Policy Journal will contain a collection of papers discussing issues relating to climate change, trade and the role of eco-marketing.

Dr Harald von Witzke is Professor and Chair for international agricultural trade and development in the Department of Agricultural Economics at Humboldt University of Berlin, Germany. Prior to this he was on the faculty of the Department of Applied Economics at the University of Minnesota, USA. His interests include international agricultural trade and policy, world food security and climate change in world agriculture. Dr von Witzke received his degrees from Goettingen University in Germany. Harald’s article (written with Steffen Noleppa and Gerald Schwarz), ‘World Food Security and Global Warming: Challenges for Agriculture’, analyses possible future developments in international agricultural commodity markets and their implications for world food security, particularly in relation to global warming.

Christian Fischer is an Associate Professor of supply and value chain management. He holds a French specialised master’s degree in agribusiness management and a German doctorate in agricultural economics. He has also earned an Australian graduate certificate in international economics (University of Adelaide) and a German MSc in food economics. Christian has worked in private-sector as well academic positions. Christian’s article, ‘Which Labels for Which Markets – the Importance of the Supply Chain’, provides an overview of recent eco-labelling policies, and describes the changing mechanics of consumer choice in which ‘peace of mind’ issues have become significant.

Olivier Bonroy is INRA Research Fellow at the GAEL research unit of INRA – Pierre Mendès France University in France; and Research Affiliate at the CREA research centre of Laval University in Canada. He received a PhD in Economics from the University of Pau in 2002. His research interests include industrial organisation issues applied to the food processing industry. Olivier’s article, ‘On Labels, Competition and Process Attributes’, discusses the effect of labels on markets proposing that, depending on market configurations, the introduction of eco-labels may toughen competition.

Charlotte Hebebrand is Chief Executive at the International Food & Agricultural Trade Policy Council. She served as Special Advisor in the Development Section, the Trade Section, and the Agriculture & Food Safety Sections of the European Commission’s Washington Delegation. Charlotte also worked at the Brookings Institution’s Foreign Policy Division. Charlotte has a BA from Georgetown University and an MA in International Relations and Economics from Johns Hopkins University’s School of Advanced International Relations. Charlotte’s article, ‘Climate Change Policies and Agricultural Trade Rules’, argues that policies chosen to address climate change may also impact on productivity and trade, and considers whether trade related climate change measures may be at conflict with WTO rules.

Dr Tracey Epps has an LLM and an SJD from the University of Toronto. She is a lecturer in the Faculty of Law at the University of Otago where she teaches international trade regulation and international investment law. In 2008, she published International Trade and Health Protection: A Critical Analysis of the WTO’s Sanitary and Phytosanitary Agreement. She is currently working on a project examining the complex and important linkages between the international climate change regime and international trade rules. Tracey’s article, ‘Agriculture, Carbon Trading, and Border Tax Adjustments Under International Trade Rules’, looks at whether the imposition of ‘carbon tariffs’ to secure the competitiveness of local industries is legal under current WTO rules.

The Journal also features interviews, on the subject of eco-labelling, with Victoria Coleman, Senior Policy Officer, Sustainability from CHOICE and Joe Lederman, the Managing Principal of FOODLEGAL (Food Lawyers and Consultants).
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