



EPA Climate Change Policy and Action Plan

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Table of contents

Table of contents..... 0

About NSW Farmers 1

Executive summary 2

Misalignment with Government 3

Misalignment with Industry..... 4

Unfairness 5

Other issues..... 6

About NSW Farmers

The NSW Farmers' Association is Australia's largest state farming organisation (SFO) representing the interests of its farmer members. Our purpose is to build a profitable and sustainable New South Wales farming sector through promoting productivity, risk management and business continuity in individual farm enterprises.

Agriculture is a significant contributor to the NSW economy. Despite facing prolonged drought, bushfires and COVID-19 over late 2019 and early 2020, the industry reached an estimated \$12.2 billion in output over the year. Agricultural exports also accounted for 10 percent of the state's total exports during this time.

NSW is the most productive state, adding around a fifth on average to national agricultural output. The state industry has set the goal of reaching \$30 billion in output by 2030, which would make NSW a key contributor to the national target of \$100 billion by 2030.

Our state's diverse geography and climatic conditions mean a wide variety of crops and livestock can be cultivated here. Unlike most other SFOs, we represent the interests of farmers from a broad range of commodities – from avocados and tomatoes, apples, bananas and berries, through grains, pulses and lentils to oysters, cattle, dairy, goats, sheep, pigs and chickens.

Our advocacy extends to the environment, biosecurity, water, economics, trade, and rural and regional affairs. We also have an eye on the future; we are advocates for innovation in agriculture, striving to give our members access to the latest and best innovation in research, development, and extension.

Our industrial relations section provides highly specialised advice on labour and workplace matters.

Our grassroots structure means members are the final arbiters of the policy we advocate on. Our regional network connects members to Macquarie Street, while Annual Conference and elected forums such as Executive Council enable members to lobby for the issues that matter to them and their community. Our issue- and commodity-specific Advisory Committees are elected by members to provide specialist, practical advice to decision makers on issues affecting the sector. We are proudly apolitical – we put our members' needs first.

In addition, NSW Farmers has partnerships and alliances with like-minded organisations, universities, government agencies and commercial businesses across Australia. We are a proud founding member of the National Farmers' Federation.

Executive summary

NSW Farmers is extremely concerned that the proposed Climate Change Policy and Action Plan is an overreach of the EPA's and NSW Government's response to greenhouse gas emissions, especially in the agriculture sector. This will ultimately lead to government failure, which is the creation of economic inefficiency by a government intervention, not to mention the welfare implications for farmers and rural communities. In simple terms, the costs of the intervention are greater than the benefits provided.

There would be significant costs to agricultural businesses from this regulation, including an increase in administrative costs borne largely by small and medium enterprises, and reduced competitiveness against imports and other unregulated substitutes. The benefits would be marginal at best, and more likely negligible, due to the duplication of efforts already being taken by industry and conflicts with other government programs such as the Emissions Reduction Fund.

NSW Farmers are particularly concerned, and have been for some time, about the lack of understanding of agricultural business operations across the EPA. This is exemplified by the lack of any agricultural expertise on the EPA board. In the absence of this understanding a logical solution would be to increase consultation with industry and other relevant agencies such as Department of Primary Industries and Local Land Services. In the Action Plan, however, none of these agencies are mentioned, while non-expert groups such as the Environment Youth Advisory Council and citizen science are given weight. This gives NSW Farmers no confidence that the regulatory costs placed on agricultural enterprises will be minimised, acknowledgement of industry achievements will be recognised, and targets will be set that are informed by a robust evidence base.

There needs to be a recognition that agriculture produces food and fibre which is a necessity for society, mainly consists of small and medium rural enterprises, and already operates in an uncertain, risky, and marginal economic environment. Any unnecessary and inefficient regulation added to this environment will result in businesses exiting the industry, further add to rural social issues, and ultimately lead to higher food prices for consumers with food insecurity implications¹.

¹ See the NSW Government inquiry into Food production and supply in NSW:
<https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2841#tab-reportsandgovernmentresponses>

Misalignment with Government

Farmers already face a significant amount of uncertainty, such as the prices they will receive and the prices of inputs which are prone to fluctuation. This leads to a significant amount of risk, with exogenous factors outside farmers control impacting their profitability. The Climate Change Policy and Action Plan will add policy and regulatory uncertainty into this already fraught operating environment. NSW Farmers is concerned that the NSW EPA is overstepping its regulatory boundaries, and therefore contributing to government failure through the inefficient use of government resources and imposing costs on businesses with limited benefits to the community. One reason for this inefficiency is the misalignment with the interventions and policies in other departments and levels of government.

Misalignment with NSW Government initiatives

Climate change mitigation in Australia has largely been handled through large-scale investments in specific sectors such as energy, incentives for industry such as carbon credits and offsets, and voluntary private action. The NSW EPA's regulatory approach marks a significant departure from this direction. Broadly, regulation is most effective when a minimum standard is mandated and where the breach of this standard leads to significant harm. This makes sense for a lot of the pollutants the EPA regulates such as asbestos, which if used can cause significant harm to human health. Greenhouse gas emissions, however, come with significant uncertainty in terms of the cost of their abatement, the ability of different businesses to reduce their emissions, and the minimum standard required at the aggregate level, let alone the individual sector or business level.

The more appropriate approach to reducing emissions should be through investments in new technologies or production methods, providing market-based incentives for businesses to invest in emissions reduction activities and technologies, and supporting farmers through extension services to adopt the latest farming practices. Energy is an example of where NSW has taken a strategic approach with Government setting up the policy conditions which will attract significant private investment and lead to lower energy costs in the long-term.

NSW Farmers believes that a similar method should be applied to agriculture. The regulatory approach directly conflicts with actions such as the NSW Natural Capital Statement of Intent, which

“will set out the vision and pathway to enable the NSW Government to leverage first-mover advantage to attract international capital investment; and give landholders an increased opportunity to voluntarily participate in carbon, biodiversity and emerging natural capital markets.”²

The NSW Government would be better placed continuing down this path of setting up the conditions to attract and incentivise investment in emissions reductions and carbon sequestration activities.

The Primary Industries Productivity and Abatement Program (PIPAP) within the NSW Net Zero Plan is another example of a NSW Government Program which focuses on support to farmers to reduce their emissions. Its three focus areas are to:

² <https://www.environment.nsw.gov.au/research-and-publications/our-science-and-research/our-research/social-and-economic/natural-capital#:~:text=What%20is%20a%20Natural%20Capital,capital%20in%20New%20South%20Wales>

- develop data and frameworks to underpin strong environmental activity,
- empower farmers to take action by investing in high impact projects and partnerships, education and outreach, and
- accelerate finance for natural capital and low carbon farming³.

It is concerning that the NSW Government through the EPA is changing and complicating the system by which it is managing and reducing agricultural emissions. The NSW Government would be better placed reducing emissions from agriculture using existing programs such as the PIPAP and expertise within departments such as DPE, The Office of Energy and Climate Change, The Department of Primary Industries, and Local Land Services.

Misalignment with Commonwealth Government initiatives

Similarly, at a Federal level, the Emissions Reduction Fund (ERF) allows participants to earn carbon credits through emissions reductions, with the aim of incentivising these activities. A state regulation seemingly disqualifies participation in the ERF: “An ERF project must not...be required to be carried out under a State law”⁴. There is already the proliferation of many different environmental schemes, programs and regulations across the NSW and Commonwealth Governments. Bringing in further regulation to this already convoluted environment will cause more confusion for farmers about what they can and can’t do, and how they can participate in income diversification opportunities such as the ERF.

In terms of the general approach of the Commonwealth, the major programs include the Agriculture Biodiversity Stewardship Package, National Landcare Program, National Soil Strategy and The Rural Research and Development Corporation Climate Initiative. The Department of Agriculture, Fisheries, and Forestry states

“Emissions reduction in the agricultural sector is a win-win for land managers. There are a number of financial opportunities for the sector that also provide environmental benefits while improving productivity and increasing resilience to a changing climate.”⁵

Once again this is in direct conflict with the EPA’s Climate Change Policy and Action Plan which positions the agriculture sector as a regulated industry in line with large emitters such as the mining and waste sectors.

Misalignment with Industry

In addition to misalignment with other Government initiatives, there is the risk of considerable misalignment with emissions reductions activities that industry is already undertaking. This is especially relevant in the agriculture industry where there has already been significant gains in the management of emissions, which have been achieved without the burden of regulation. For example, the Australian dairy industry already publishes annual scorecards⁶ which set out progress towards achieving their

³ <https://www.energy.nsw.gov.au/business-and-industry/programs-grants-and-schemes/primary-industries-productivity-and-abatement>

⁴ <http://www.cleanenergyregulator.gov.au/ERF/About-the-Emissions-Reduction-Fund/eligibility-to-participate-in-the-emissions-reduction-fund>

⁵ <https://www.agriculture.gov.au/agriculture-land/farm-food-drought/climatechange/mitigation-strategies>

⁶ <https://www.dairy.com.au/sustainability/sustainability-framework-reports-and-scorecards>

Target 10 in the Australian Dairy Sustainability Framework: Reduce greenhouse gas emissions intensity by 30% across the whole industry on 2015 levels. Adding regulation is a waste of Government resources in resetting targets in a top-down manner and raises the risk of undermining achievements already made by the agriculture sector.

Unfairness

A key consideration of any new Government intervention should be equity; who are the winners and losers and what are the distributive impacts across the economy. NSW Farmers has a number of concerns with the equity and fairness implications of the proposed Policy and Action Plan in relation to agricultural businesses.

Differences between license holders and non-license holders

The Policy states that “We’ll develop feasible, evidence-based greenhouse gas emission reduction targets for key industry sectors we license (or parts of those sectors)”. The Action Plan also states “Based on feedback from industry and our analysis and research, we will then progressively set feasible, evidence-based emission reduction targets for key industry sectors we license (or parts of them as needed)” and “We will then move to progressively placing other requirements on licences”.

NSW Farmers believes this focus on license holders is grossly unfair and inequitable. Emissions should be treated differently to other pollutants, as they are produced across a broader section of industry. It is reductive to assume that licensees, and all licensees, pose the greatest risk to climate change. For example, in the agriculture sector only a proportion of subsectors will be covered by these regulations, while other subsectors which produce emissions, such as extensive livestock production, will not be covered. This will add costs to one part of the industry, distort competition across livestock production enterprises, and therefore arbitrarily pick winners and losers. The Policy will also not achieve its ultimate goal of broad emissions reductions.

Another impact on competition will be reducing the competitiveness of NSW’s agricultural industries against imports from other states and internationally. These additional requirements on licensees will increase costs on NSW producers that do not have to borne by importers. NSW Farmers would like more information on how this issue will be handled.

Differences between agricultural license holders and other sectors

There are also significant differences in the sectors covered which should be taken account of. The agriculture industry has unique qualities which mean it should be exempted from this regulation.

Agricultural licensees are mainly small to medium businesses who already face a significant amount of red tape. Any addition to these costs, especially that which has tenuous benefits, will be very difficult for farmers to find the time to incorporate into their activities. The CCMAP approach is especially concerning, and NSW Farmers questions the need for a whole new planning and reporting mechanism when industry is also beginning to report their credentials to financiers, buyers and end consumers. Pollution Incident Response Management Plans (PIRMP) are an existing example of a regulatory requirement which has added unnecessary burden on agricultural enterprises which are low risk in terms of their potential to harm the environment and human health through pollutants.

Agriculture is a difficult to abate industry which makes regulation an inappropriate mechanism to reduce emissions. Regulation is only effective when there are feasible alternatives, otherwise it will either be unachievable for industry or it will lead to no actual improvement in environmental outcomes. Agriculture is difficult to abate for two major reasons.

Firstly, the largest source of emissions across ruminant industries such as dairy production is methane from enteric fermentation. At present there is no commercially available method to reduce these emissions. Therefore, the focus should be research and development into how this could be done rather than on regulation or other policies which harm producers. Meat and Livestock Australia and CSIRO are examples of where this is being done, but it needs to be done at a larger scale and in a way that attracts private and public investment, similar to the significant gains made in the energy industry through improvements in renewables technologies.

Secondly, agriculture is reliant on inputs from other sectors which produce the balance of their emissions. These include energy, fossil fuels such as diesel, and chemicals such as fertilisers which have embedded carbon associated with their use. Energy and diesel in particular would require significant capital investments in renewables and alternative fuels, which is not possible for agricultural enterprises which face small and diminishing operating margins, in addition to fluctuations in income across years. Intensive agricultural enterprises, such as dairy, poultry, and pigs, are characterised by being price takers; there are lots of producers selling to a small number of processors and even a smaller number of retailers. This results in producers having little market power and often being unfairly treated by actors up the chain. A major finding of the ACCC's Perishable Agricultural Goods Enquiry is that producers are bearing more risks than other supply chain actors, leading to an inability to invest in their business.⁷ Investment assistance and structural changes to other sectors such as the energy sector would be a more appropriate Government intervention than top-down requirements on producers who are already being squeezed from buyers who exercise monopoly power.

Other issues

Lack of consideration, understanding, and appreciation of agricultural operations

NSW Farmers are concerned about the lack of understanding of agricultural operations in EPA activities, and the proposed Policy and Action Plan only confirm these concerns. This is exemplified by the members of the EPA Board who have no experience across agriculture and land management. Even more concerning is the lack of agricultural expertise across the Net Zero Emissions and Clean Economy Board. In the Action Plan it states that the EPA will “seek expert advice from the NSW Chief Scientist and Engineer, and the Net Zero Emissions and Clean Economy Board” to support setting sector-specific targets. There is little confidence that appropriate and evidence-based targets will be set for the agriculture industry using the listed approach with the current representation.

The use of other avenues which lack robustness such as the Youth Advisory Council and citizen science do not assuage these fears, and NSW Farmers implores the EPA to engage more deeply with agricultural science and business experts to inform their operations. Having agricultural representation on the cross-government climate change technical knowledge group would be a start to rectify this oversight.

⁷ <https://www.accc.gov.au/focus-areas/inquiries-finalised/perishable-agricultural-goods-inquiry>

Differences between modelled scenarios and reality

In light of these concerns about a lack of understanding of agricultural operations, NSW Farmers opposes the use of modelled scenarios to set targets and the enforcement of these. While modelling can be used to inform decisions, they need to be supported by on-the-ground information on possible abatement pathways and what can be realistically achieved.

Other policies and programs should be prioritised

The actual measurement of greenhouse gas emissions in agriculture should be prioritised. This would reduce the current high transaction costs present in agriculture's involvement in any emissions reductions programs.

Other initiatives include:

- research and development to reduce the uncertainty and increase the understanding of abatement opportunities and emissions measurement,
- extension services to promote practices that reduce GHG emissions and are cost-effective for farmers, and
- subsidies to farmers for adopting specific agricultural practices that are known to reduce GHG emissions.

These policies should be prioritised ahead of regulation and will be more effective achieving meaningful and broad emissions reductions in a way that doesn't unfairly harm industry.