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Winemakers' Federation of Australia
Response to the Carbon Pollution Reduction Scheme
Green Paper

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Background

The WFA is the peak national body representing wine enterprises of all sizes across Australia. Our membership represents in excess of 90% of wine production in Australia and, together with our State Wine Industry Associations, more than 80% of wine businesses.

Unlike other alcohol beverages, wine is a regionally-based, value-added agricultural product. Employing almost 30,000 people directly and with a further 30,000 indirect jobs, the wine industry provides a substantial basis for many rural economies.

The Australian wine sector is an Australian success story and has undergone unprecedented growth over the last ten years. In 1990, there were 620 wineries in Australia. In the space of a decade this had almost doubled to 1,197 in 2000 and has now almost doubled again with 2,299 wineries listed in the 2008 *Australian and New Zealand Wine Directory*. The vast majority of wineries are small with around 70% having an annual crush of less than 100 tonnes.

In 2006-07 the value of domestic sales of wine reached \$1.9 billion and the value of wine exports \$3.0 billion. In 2005 Australia was the third largest wine exporter in the world by value and the fourth largest wine exporter by volume.

Despite its success, the wine sector faces a number of challenges that it will need to overcome if it is to maintain sustainable growth.

A continuation of drought conditions, climate change influences, increasing competition for Australian wine both domestically and internationally, the impact of the strong Australian dollar on wine exports, retail consolidation and the trend to retail discounting is hitting wine producers and grapegrowers hard.

The Australian wine sector recognises the importance of climate change and has been proactive in this area by working with other international wine industry bodies to develop the *International Wine Carbon Protocol* and calculator tool. In February 2008, the WFA committed to Facilitative Membership of the Australian Government's *Greenhouse Challenge Plus* program.

In May 2007, the Australian wine sector launched *Wine Australia: Directions to 2025*, an industry strategy for sustainable success. *Directions* identified continuous improvement in environmental performance as a key component of the Australian wine sector's sustainable development.

These potential gains will only be realised through the continued industry-government partnership approach. The industry relies on government to provide and maintain a competitive business environment, free from excessive regulation and government inspired costs. The industry, for its part, must continue to enhance economic, social and environmental sustainability through efficient and responsible production, promotion and sale of wine within acceptable community standards.

Carbon Pollution Reduction Scheme Green Paper

The strategic approach of the Australian wine sector to challenges associated with climate change is similar to the three pillar approach of the Australian Government with a sector specific emphasis:

- reducing the Australian wine sector's greenhouse gas emissions;
- adapting to potential impacts of climate change that we cannot avoid; and
- helping to shape the Australian response with consideration of the impacts on the wine sector and our international competitiveness.

The Winemakers' Federation of Australia has reviewed the Carbon Pollution Reduction Scheme (CPRS) Green Paper, and makes the following comments on the specific elements that affect the Australian wine industry. These comments are also supported by the South Australian Wine Industry Association, the Victorian Wine Industry Association, the New South Wales Wine Industry Association, the Queensland Wine Industry Association, the Wine Industry Association of Western Australia and Wine Industry Tasmania.

1. Coverage

It is unclear from the Green Paper to what extent Australian wine companies would trigger scheme obligations. In particular, uncertainty surrounds on-site winery wastewater treatment facilities. For example it is not clear how emissions from wastewater are calculated, and difficult for companies to assess whether or not they trigger scheme obligations as a result. The WFA has previously questioned the winery wastewater emission factors used in the past in the National Pollutant Inventory (NPI), which were based on a research paper from the USA. These factors were regarded by the industry as being significantly greater than primary data from Australian winery wastewater treatments have indicated and it is unclear if this information has been updated. If this NPI data is used to calculate winery wastewater emissions, then the accuracy is questionable.

Regardless of the inclusion or otherwise of wine companies in scheme obligations based on threshold triggers, the indirect implications of increased energy and fuel costs will impact across the sector. There is insufficient information available to assess the impact of the CPRS on the cost of goods and hence unit price.

2. Emissions targets and scheme caps

The WFA applauds the government's proposal to take responsibility for additional costs of compliance should the CPRS be incompatible with internationally negotiated national targets. This provides some assurance to Australian companies in the initial years of the CPRS, avoiding unexpected costs to companies, and ensures the Australian scheme will be recognised as valid in Australia's export markets.

3. Reporting and Compliance

The WFA commends the use of the NGERs reporting framework in the CPRS as the avoidance of further fragmentation of reporting frameworks for regulatory, voluntary and commercial GHG accounting programs is an imperative. Further, the WFA supports the proposed single report required to satisfy both NGERs requirements and those of the CPRS (Preferred Position 5.9). Further alignment of financial and emissions reporting and

verification systems (Preferred Position 5.10) would also be a positive step forward in reducing the compliance burden on companies.

A point of uncertainty exists in that there may be some companies reporting under the NGERs thresholds that would not actually fall within the scheme obligations for direct emissions because the point of liability (eg fuel and energy supply) is upstream. This difference between reporting and liability is confusing. Further the difference in a company's greenhouse gas emission profile under NGERs, the Energy Efficiency Opportunity Scheme and now the CPRS, caused by variations in scope and definition of 'control', are highly problematic for internal and external communication activities. The key issue for many companies is twofold - internal company understanding and increased reporting burden.

In relation to Preferred Position 5.14 which states that any entity or individual would be allowed to voluntarily surrender permits, if this is similar to the concept of environmental flows in water management, whereby a company can surrender water from their allocation for environmental purposes, then WFA would expect that when a company voluntarily surrenders a carbon permit, they are able to undertake some marketing and promotion around this.

4. Assistance for emissions-intensive trade-exposed industries

It appears unlikely that the wine industry will qualify as an emissions-intensive trade-exposed industry, as wine industry emissions do not appear to be in the order of 1500 - 2000+ tonnes CO₂equivalent per million dollars of revenue. However, the industry is highly trade exposed in so far as 60 percent of Australian wine is exported to overseas markets, in competition with wine producers from other developed and developing nations that do not implement emissions trading schemes. Given the price point sensitivity of wine products in international markets, even a small increase resulting from increased input costs directly attributable to an emissions trading scheme will result in wine products being less competitive. The prospect of additional costs embodied in Australian wine production that are above those in other wine producing countries may lead to carbon leakage, especially in the case of large companies with operations or subsidiaries in other countries. Increased costs of operations within Australia could stimulate movement of production facilities offshore. This in turn will increase costs for Australian wineries that do not have the capacity to access offshore production as the decrease in scale of operations will lead to higher prices for such inputs as bottles and packaging. Higher embedded costs may also reduce the Australian wine industry's competitiveness, especially compared with emerging wine producing countries such as Chile, Argentina and China.

In addition, through the WFA's involvement in the International Wine Carbon Protocol, and subsequent carbon footprinting activities amongst international wine industries, it has become apparent that the baseline carbon footprint (based on grid energy) of Australian wine producers is three times higher than that of, for example, Californian producers. This is as a result of Australia's dependence on coal-fired power. Given the emergence of carbon footprint information as a supplier guideline for retailers in the UK and US, Australian producers are at a disadvantage. The WFA offers this information as further evidence of the industry's trade exposure, and urges the government to make a concerted effort to improve the environmental performance of coal-fired power stations and increase the use of renewable energy source to complement the wine industry's own energy efficiency efforts.

5. Auctioning of Australian carbon pollution permits

The method for assigning permits will have significant income differences for the industries/ enterprises involved and significant distributional impacts on regions.

Under an auction approach there are large impacts on the distribution of income. Several aspects (eg cap on permits price, compensation for trade exposed industries, compensation for households) of the proposed scheme seem to be designed to compensate for the expected income impacts.

A grandfathering approach has less distributional impact and reduces the need for some of the other aspects advocated in the green paper such as price caps and compensation which have distortionary effects. In developing tradeable quota systems for fisheries it has been common practice to adopt grandfathering based on a share of historic catch when establishing a system for existing fisheries. Under a grandfathering approach care needs to be taken in the development of the allocation system. It needs to be fair and include a system to handle disputes

When establishing a system for a new fishery it conceptually makes sense to auction the quota. However, to date quota systems in fisheries have generally been grandfathered rather than auctioned. This has largely been due to concerns about the response from fishers should they be forced into an auction system and the difficulties in ensuring that small operators have the information and ability to participate under such a system.

Another concern with an auction system is the fear that it will be imposed in a far from competitive market, even amongst the 1,000 companies estimated to have to acquire permits. This opens up the possibility for some of the larger operators (in terms of income) to purchase more permits than they need and hoard them. This could potentially lead to inefficient outcomes both in terms of the traded price of permits and emissions targets.

6. Additional comments relating to Agriculture

The wine industry comprises both agricultural production and processing (ie winemaking), often within the same company. It is unclear as to how the definition of agriculture applies in this situation, and where the demarcation lies between what would be considered agricultural production and what would be deemed processing and therefore eligible for inclusion in emission calculations at CPRS commencement

The WFA applauds the Government's decision to defer the inclusion of agriculture until there is adequate science to support its inclusion, however, if the viability of related supply chain industries is adversely impacted, agricultural industries will likewise suffer.

Because agriculture is not being considered for inclusion until 2015, under the Green Paper the agricultural industry cannot claim any support under the Emissions Intensive Trade Exposed mechanisms. A concern for the WFA would be if this was to be extended to not being able to seek assistance under the Climate Change Action Fund. It would be remiss if regional community adjustment could not be funded under the Action Fund because agriculture is excluded in the initial start up of the CPRS.

The WFA is aware that other sectors are seeking full access to the 30% of total permits to be given out for free at the commencement of the scheme. The WFA feels very strongly that the Government needs to resist these pressures and maintain the current preference to set aside a percentage of these free permits for when agriculture enters the scheme.

Through the WFA's involvement in the development of the International Wine Carbon Protocol and calculator, the Federation is aware of the extensive gaps in data needed to accurately calculate the total greenhouse gas emissions of production processes, especially with respect to diffuse emissions from agricultural sources. There is also a lack of emissions data from the residues generated by the winemaking process and other waste material (eg spoilt wine, lees, filter cake). Much of this is currently managed through a central processing entity that value adds to these residuals. In South Australia, the business captures approximately 60% of industry residuals but lack of emissions data hampers carbon footprint calculations.

In light of these data gaps, the WFA believes that investment in research and development to address these gaps should be provided for and welcomes the Government's Australia Future Farming Initiative which will undertake research on managing emissions and adaptation. Several of the data gaps identified by the WFA are relevant to the inclusion of agriculture in an emissions trading scheme and potential sequestration in agricultural systems, and are not unique to the wine industry.

In recognition of the difficulty in quantifying agricultural emissions and taking into account the multiple variables that influence these emissions (eg soil type, climate, irrigation practices, fertiliser management etc) the government has in the past instead opted for a practice-based approach, as is the case in current consideration to deal with the burning of savannahs. The inference of this approach in the past was that regardless of the exact quantity of emissions, implementation of best practice would reduce those emissions. This precedent could be applied to other forms of agriculture and, indeed, non-priority industries.

The WFA acknowledges a growing proportion of the Australian agricultural sector, including the wine sector, believes that carbon sequestration in agricultural systems will be a quantifiable ecosystem service that will be included in emissions trading as an offset, rather than an abatement mechanism. Informal consultation with the Department of Climate Change indicates that this will not be the case. Primary producer expectations in this matter need to be managed as their expectations may be influencing current property management decisions.

Conclusion

As a general statement, the Winemakers' Federation of Australia and the Australian wine sector is not in a position to provide a comprehensive response to the detail and scope of the Green Paper due to time and resource restrictions. Further, there is little time provided for response to allow for meaningful comment on what is a significant change, and insufficient information to understand the actual impact on wine businesses.

More information is required before the wine sector could accurately assess the full impacts of the Carbon Pollution Reduction Scheme, such as the basis for calculations to identify those companies that trigger scheme obligations.

The critical element for the Australian wine sector on top of potential input costs is compliance and simplicity. The commitment by the Australian Government to take responsibility for additional compliance costs is welcomed, and the necessity for any scheme to be internationally compatible, with as simple a reporting mechanism as possible, is paramount. The capacity for companies to promote voluntary surrender of carbon permits as an environmentally responsible corporate citizen should be encouraged.

The wine sector raises concerns of the impact of potential increases in price of inputs and business impacting international competitiveness of our highly trade exposed industry and the potential for price increases to drive offshore production moves by large companies. This would in turn lead to further price increases for Australian based manufactured inputs such as bottles and packaging.

While the Green Paper seems to advocate a hybrid auction / grandfathering approach for the initial assignment of permits, the wine sector would suggest careful examination of allocating permits based on historical emissions, with a trajectory to future targets and a market system for purchasing required future permits.

The Australian wine industry recognises that there is a need to act and the WFA is committed to reduction of emissions and adaptation to potential climate change impacts that can not be avoided. The likely impact of climate change on production systems and the market implications of Australia's response to climate change are major factors that are driving key areas of research and development for the wine sector.

Given that the Treasury modelling of the potential impacts will not be released until late October, the WFA notes that it is difficult to make a comprehensive submission without first being able to view the modelling.

The WFA is seeking the Government's assurance that prior to the decision being taken to include agriculture in the CPRS in 2013, detailed information will be released on how the CPRS will work in respect to agriculture and that industry will be given adequate opportunity to provide further comment on that detail.