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Breaking News on Food & Beverage Development - North America

Food sector should prepare now for cap-and-trade, says report

By Caroline Scott-Thomas, 21-Aug-2009

Cap-and-trade carbon pricing could be particularly damaging to the food industry unless manufacturers start developing more efficient supply chains now, according to new analysis.

A report, entitled *Carbon Emissions - Measuring the Risks*, has been developed by NSF International, a public health and safety company, and Trucost, a global provider of environmental data and analysis.

It says that the food industry is particularly vulnerable to carbon pricing as 90 percent of its greenhouse gas (GHG) emissions come indirectly, through its supply chain, rather than as a direct result of manufacturing practices – higher than for any other sector. This includes for example, the carbon emitted through the manufacture of pesticides for farmers from whom a cereal manufacturer purchases wheat, or the energy use in water abstraction.

"The industry could see prices rise for goods and services purchased from suppliers who have to pay for their emissions," the report said.

It said that the industry therefore needs to prepare for a lower carbon economy by examining waste and efficiency in its supply chains in order to reduce the financial impact of carbon pricing.

"Armed with data on emissions from their operations and supply chains, companies can identify opportunities to reduce emissions, manage carbon risks, use resources more efficiently and cut costs," the report said. *"Emissions from carbon-intensive suppliers, in particular, could lead to higher costs for goods and services as they try to pass on carbon costs. Savings in waste along the supply chain clearly offer potential for cost reductions."*

Additionally, those companies that are most environmentally efficient in their sector are most likely to attract investment, it said.

Cap-and-trade bill

The House of Representatives passed the American Clean Energy and Security Act – also known as the cap-and-trade bill – in June, although it still needs to pass through the Senate before it can become law.

Under the bill, the government would set a cap on the amount of carbon that can be emitted nationally. Businesses could then buy or sell permits to emit CO_2. The cap would be lowered each year in order to reduce overall emissions.

In the House version, the bill would attempt to reduce carbon emissions by 17 percent from 2005 levels by 2020 and by 83 percent by 2050. The Congressional Budget Office has estimated that the cost of carbon allowances for manufacturers would rise from about $15 a ton in 2011 to $26 a ton by 2019.

"Average carbon costs at $15 per ton would amount to 1.6 percent of EBITDA [earnings before interest, tax, depreciation, and amortization] *in the food and beverage sector,"* the report said.

It added that only 40 percent of food and beverage companies currently disclose their direct GHG emissions, which it suggests leaves many companies unprepared for reporting requirements being introduced by the Environmental Protection Agency, regional programs and stakeholder demands.