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CO₂ FOREST SINKS PTY LTD

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A.C.N. 081 893 496

CARBON SEQUESTRATION IS OUR BUSINESS

The Secretary
House of Representatives Standing Committee
on Environment, Recreation and the Arts
Parliament House
Canberra
ACT 2600

The Secretary,

**Submission
Inquiry into the Regulatory Arrangements for
Trading in Greenhouse Gas Emissions**

CO₂ Forest Sinks is a consortium of people with a diverse range of skills and experiences aimed at establishing a business to provide an ethical trading operation in carbon and to drive returns from this to land holders (farmers) involved in private plantation forestry.

The entity has been incorporated as a company. The Directors and their occupations are listed on the attachment.

You will see that we have pulled together a group of people with an extraordinary range of skills and a strong commitment, evidenced by their track record, to positive environmental outcomes. The team behind CO₂ Forest Sinks have experience in tree production, land management, climate modelling, finance, trading and statutory environmental administration that in each case amounts to decades of experience. They include people with research, public and private administration and practical field related experience.

We come into this area with a strong commitment to setting up an ethical and transparent business. We also believe that this activity should, wherever possible, be aimed at complementary action on two other major problems, increasing salinity

¹ CO₂ Forest Sinks Pty Ltd, A.C.N. 081 893 496
PO Box 125, Campbell, A.C.T.
Tel:61 2 62474630;Fax:61 2 62474051;
mebourke@ozemail.com.au

in catchments and rising water tables, both, in part symptoms of long term tree removal.

We also attach a paper to be published later this month, in the *Australian Forest Grower*, outlining, for that audience, the background to this matter. More importantly we outline what we intend to do about it. You will note that the authors are Directors of CO₂ Forest Sinks Pty Ltd.

At present this consortium has seed capital from its members and proposed shareholders. **We intend to begin trading this year.** Last year we sent out to a selected list of the Greenhouse Challenge companies, our proposed trading arrangements in a very preliminary form. Later in this submission we outline our *modus operandi*.

Clearly we start with the assertion that there should be a carbon trading system. Equally clearly we understand the need for regulatory arrangements. Finally we support your Inquiry into trying to elucidate those matters that need to be considered to “support a market in greenhouse gas emissions...”.

We have addressed many of the issues raised in your terms of reference. Some of the matters from our perspective, we believe, are commercial-in-confidence but we would be prepared to discuss these issues with you in a hearing. At this stage we have invested in establishing viable commercial parameters for a number of these issues. For instance we are currently obtaining legal advice on issues to do with ownership (a particularly problematic area in Australia with jurisdictional differences in land titles and covenants), financing (although we are also in discussion with major banking / trading institutions) and audit (where we are in negotiations with major international institutions in this field).

Our fundamental position is that government undertake those actions necessary to meet its international obligations, including the establishment of workbooks for mensuration of carbon sequestration, and monitor compliance. The rest should be conducted by the private sector.

CO₂ Forest Sinks Pty Ltd believes it has the skills and resources to operate within the established parameters.

The government role is clear. It has to encourage the community to take the underlying issues seriously, which may ultimately require, as Prime Minister Howard has said, asking :”...industry to do more than they may otherwise be prepared to do, that is, to go beyond a ‘no regrets’, minimal cost approach...”. *Prime Minister’s Statement, 20 November, 1997.*

It is difficult to know yet whether either the international community or the Australian Government will introduce instruments such as a carbon tax. It may even be too early to contemplate, because Australian industry does appear willing to take up the Greenhouse Challenge and if the general Australian community becomes involved we may get to our projected targets without such an instrument. On the other hand a carbon tax would be a pricing instrument that rapidly drives the pace of change towards more renewable sources and attacks the fundamental problem more vigorously.

We are confident that there are tens of thousands of tonnes of existing, verifiable sinks in existence and the land holders we are negotiating with at present have plans

to increase that rapidly. Indeed, in our view, the only way in which “*Plantations for Australia, The 2020 Vision;*” (October 1997), is likely to be achieved, is if growers can include an income stream from carbon trading in the economics of private forestry.

We also strongly argue to the Committee that existing plantations must be included in the sink calculations. Otherwise two classes of forestry will be created and there will be immediate pressure to clear fell, in order to capture the benefits of the carbon income stream.

Certainly the experience of private forestry interests around Australia would tell you that at present it is a marginal business and probably will remain so until the Hilmer reforms on state owned forestry flow through and bring realistic pricing to the dominant players in the wood resource business. We would also add that we believe that forestry growers must, themselves, seek to diversify their own markets to force better prices, but that is another story.

In the recent Industry Commission Paper (*Framework for Greenhouse Emission Trading in Australia, December 1997*) we note the conclusions concerning the effects on costs of emission abatement. The Commission’s own work suggests that these costs could be further reduced if a national system of trading permits existed. CO₂ Forest Sinks Pty Ltd has been established, and is working in association with Timber 2000 Pty Ltd to develop a system that accomplishes these aims while being driven by Australian land holders.

We set out below the way in which we believe a trading system will work:

(a) Broad Requirements

To function properly any large scale and effective trading system needs:

- (i) a transparent, fair and competitive pricing system;
- (ii) a pricing system that is not distorted by Government intervention or subsidy;
- (iii) procedures that are agreed to and that are binding on, both the buyer and the seller;
- (iv) to operate with a legal and documentary framework to ensure that what is actually to be bought and sold can be efficiently validated by all interested parties; and
- (v) legal and enforceable title passing once the transaction is completed.

(b) The Buyer

The majority of large scale greenhouse gas emitters (GHG) emitters in Australia are large corporations that have as their corporate goal the maintenance of their corporate profits and shareholder equity. Thus any purchase by them of emission offsets or credits has to be cost effective in terms of alternatives available to them. In addition, these corporations will have reduced incentive to offset emissions if it means that they will be required to invest into a new, and probably unrelated, business activity, such as plantation operation, with its concurrent call on both capital and management resources.

It is our recent experience that these corporations will look for a simple, relatively cheap mechanism that is independently validated, meets their requirements and also has positive community and public relations benefits.

(c) **The Seller**

This party, by definition, needs to sequester GHG, measure the amount of sequestration and then develop a mechanism that can transfer the amount sequestered, via some form of certification process, to a buyer. As noted above, the buyer will require that this transaction cost is minimised.

Private land holders and farmers in Australia have access to vast amounts of previously cleared agricultural land. Only some of this is suitable for commercial tree growing, but may still amount to two million hectares of land. If the economies of plantation establishment can be enhanced through the value (of the carbon being sequestered) flowing principally to the tree grower, then the scale of plantation establishment will rise significantly.

The Committee should note that it is very unlikely that the establishment of sinks by revegetation will be viable in Australia, unless it is an adjunct to commercial forest plantations.

Put simply returns from sequestration, while adding value to commercial forestry, will almost certainly not be viable in their own right.

Large areas of available and suitable land can be planted by a land holder for as little as \$800 per hectare, up to \$2,000 per hectare if some of the work is contracted out. In comparison, a corporation wishing to plant trees on its own land to off-set GHG emissions can spend up to \$4,000 per hectare (with cases we are aware of where the cost exceeded \$5,500 per hectare). The land acquisition costs are on top of this. It is thus clear that for a corporation which does not wish to enter the plantation industry that even on the cost of planting there are significant cost benefits.

What is crucial is that for the private commercial tree grower any value flowing from carbon sequestered is an added bonus, and can thus be priced accordingly. All this means that buying carbon sequestered by a commercial tree grower will cost a fraction of the alternatives available to a corporate emitter. It will also generate substantial community good will as the corporation will be seen to be working with and assisting farmers and their rural communities. The cost comparisons likely to say gas aquifer injection are even more compelling.

We do have a concern that we wish to raise with the Committee at this stage and it is to do with the possibility of having both private and public sector 'traders' in the greenhouse gas arena. We are concerned with documents that appear to be leading towards the trading of greenhouse gas sinks created with funding from the Natural Heritage Trust. While we have no problem with that program, we feel very strongly that if there is to be trading of sinks created with capital given to various land holders (presumably both public and private) by grants from the NHT, then right from the outset private foresters, who have to bear the cost of capital, start from a significant disadvantage.

Public sector trading should be excluded from the beginning if there is to be an encouragement of private plantation forestry. We strongly urge you to pay close attention to this in your deliberations.

As stated earlier we support the establishment of the ground rules by government and the monitoring of compliance. In this regard we consider that the work of the Greenhouse Challenge office in establishing a *Greenhouse Challenge Sinks*

Workbook very helpful. While we, like all others, have only received this document in the past week, and are still analysing it, we believe that this is the correct process.

Trading instruments

We have developed a draft trading instrument, which we attach. We propose to modify this according to guidelines that may emerge from this Inquiry and the final outcomes of the Greenhouse Challenge Office Workbook. As noted above, we are proposing to set up a system of trading in carbon units sequestered through timber plantations. At least initially, this will be through private plantations grown by farmers on their own land.

For the trading to be successful, both the buyer and seller of the 'carbon units' need to have an assurance on a number of key issues which we have identified as follows:

(a) Accuracy of Measurement of Carbon Sequestration

We believe that the technology for this is now at a stage where both parties will have confidence that the measurement is valid and cost effective, particularly if the instrument applies to single species plantations that have appropriate planting protocols.

(b) Validation of the process.

If a "Quality Assurance" approach is adopted, together with a registrar and audit function, then both parties will have formal assurances from independent and highly regarded bodies that the instrument accurately describes what is traded, and that the title is valid and enforceable.

(c) Fungibility of the Traded Instrument

If the trading system is to be successful the buyer of the traded instrument will require that the instrument itself does not refer to the individual or site specific carbon sink. This is because it is reasonable to assume that there will be many more growers (and thus sellers of carbon units) than buyers, and that the value of each transaction will be significantly higher on the buy-side than the sell-side. For example, an electricity generator may wish to buy, in one parcel, instruments that relate to thousands of tonnes of carbon, which may represent many growers around Australia. This requirement for fungibility is particularly strong if the buyer is an overseas emitter or trader.

We have developed a mechanism that will produce a trading instrument called a CARBON CERTIFICATE (see attached draft) that is fungible, is readily validated and provides for the efficient and enforceable transfer of title. We are working towards having the first such instrument actually traded in the third quarter of this year.

We would hope that the newly announced Australian Greenhouse Office, will rapidly ensure that in 1998, at least on an interim basis, their Workbook becomes the underlying methodology for **National Greenhouse Gas Inventory Standards**. There will be a temptation we believe for scientists to set up a permanently iterative debate about the accuracy of any system, including this one. This must not be allowed to happen. We suggest a simple system which errs on the side of caution, in other words allows for more greenhouse sequestration than is claimed, or allowed, should be brought into place rapidly. There will also be the possibility of endless

working parties between Federal agencies and Federal and State agencies on the rules and administration of this process.

We urge you to recommend expedition at conservative standards. For instance it may be best to commence a system of sinks where some significant but difficult and expensive to quantify areas, such as soil or vegetation other than trees, is not counted.

Then, if at some stage the system was to be changed, it would be on the upside for landowners, rather than downwards. It will always be easier to set up a system which allows people to claim more in the future rather than less.

We look forward to the opportunity of meeting with your Committee.

We wish you success with your deliberations.

Yours sincerely,

Max Bourke
Director
for **CO₂ Forest Sinks Pty Ltd.**

Tuesday, 17 March 1998

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CARBON SEQUESTRATION IS OUR BUSINESS

A NEW CONSORTIUM TO SOLVE A NEW PROBLEM ²

Over the last twelve months we have put together a consortium specifically to develop trading systems for carbon sequestration. Our Vision Statement and Objectives are attached.

The business enterprise is at present being incorporated.

The core of the business brings together skills in:

- ***carbon cycle modelling***
- ***site selection and management***
- ***land management***
- ***forest nursery, tree farm design and management***
- ***tree mensuration and certification***
- ***audit***
- ***market trading and commodity broking***
- ***finance***
- ***environmental management / government-statutory requirements***

with strong links to land holders through major farming organisations.

We already have a large area of landholders in different environments available to set up sequestration sinks. We are ready now to negotiate sites and rates for sinks.

We intend to offer conservatively based sequestration rates aimed at fully meeting government requirements under Australia's international obligations.

Demand must exceed supply for carbon sinks in Australia and through our international forestry connections we intend to offer this service on a world-wide basis.

Hedging your risks would suggest that to invest early with people of the highest available skills, operating on a transparent and ethical basis, grounded in leading edge scientific methodology is the safe way to operate.

² **CONTACT: MAX BOURKE, CO₂ FOREST SINKS P/L**
PO BOX 125 Campbell, ACT, 2612, Australia.
TEL: 61 2 62474630, FAX: 61 2 62474051,
mebourke@ozemail.com.au

CO₂ FOREST SINKS

VISION STATEMENT:

To create a business which provides the trading of carbon dioxide credits in forest resources for the benefit of the environment and plantation forestry, which is both equitable to parties involved and soundly scientifically based.

OBJECTIVES:

CO₂ Forest Sinks will:

1. Establish a business which will set the standard for carbon dioxide trading in Australia and internationally.
2. Seek to play a key role in alleviating the problem of greenhouse gases, and where appropriate and possible, address other environmental concerns through its actions.
3. Operate to the highest technical and accountability standards.
4. Will maximise returns to investors while providing transparency in operations.
5. Through its services enhance the development of economically attractive plantation forestry in Australia and internationally.
6. Establish research to improve its own methodologies and benchmark performance on a continuing basis.