Submission to the Senate Economics Committee Inquiry into exposure draft of the legislation to implement the Carbon Pollution Reduction Scheme

Summary

We are strongly supportive of the introduction of a national emissions trading scheme as soon as practicable. A cap-and-trade based scheme, underpinned by meaningful mandatory caps, will be critical to driving the substantial private sector investment required to lower Australia's emissions profile.

An emissions trading scheme is economically more efficient than a tax.

Scientific Context

CO2 Group recognizes and accepts the science of climate change as assessed by the Intergovernmental Panel on Climate Change. We note the most recent evidence from the scientific community indicates that climate change is proceeding at a rate at the high end of the Intergovernmental Panel on Climate Change projections. This highlights the urgency of immediate action rather than further delay

Economic Context

The international global recession clearly provides challenges to all companies at present. However, we note the assessment by Professor Garnaut delivered at the "Greenhouse 2009" Conference in Perth on March 26, 2009, that from an economic point of view a structural adjustment such as an emissions trading scheme is often best to occur during times when there are multiple drivers for economic reform. Professor Garnaut noted that it is the political economy rather than economic science that makes introduction of a scheme challenging.

Most importantly there is overwhelming evidence that delaying emissions reductions is very costly to the economy.

Profile of CO2 Group Ltd

The profile of CO2 Group Ltd is relevant to the Senate Economic Committee's enquiry as a Case Study that demonstrates the economic benefits, especially job creation that can be attained through an emission cap-and-trade scheme. Such benefits are not available through taxation schemes.

CO2 Group Ltd is a public company listed on the Australian Securities Exchange. It has developed and commercialized low-cost carbon sequestration through the planting of native Australian eucalyptus trees (mallees).

Our plantings have been integrated within productive agricultural enterprises. In addition to low-cost carbon storage our plantings offer significant co-benefits:

CO2 Group Limited

Level 11, 225 St Georges Terrace Perth WA 6000 Tel. 08 9321 4111 ABN 50 009 317 846
PO Box 7312 Cloisters Square Perth WA 6850 Fax. 08 9321 4411 www.co2australia.com.au

- Reduction in the risk associated with wind erosion (in parts of Australia climate change itself increases the risk of soil erosion, with hotter, drier conditions and changes in windspeed);
- Improvement in biodiversity outcomes;
- The ability to reduce the risk of soil salinisation;
- Improved agricultural productivity in degraded agricultural landscapes.

The Group has relationships with more than 500 Australian farming families. Where we have lease agreements with landowners our plantings provide an economic return to the landowner and diversify on-farm income. The Group directly employs more than 30 people with approximately an additional 250 jobs created as a result of the CO2 Australia™ Carbon Sequestration Program.

We do not plant in high rainfall zones and our plantings are not logged or harvested. In contrast to other plantings carbon sinks do not need to be located close to ports or transport infrastructure. This means that they are spread across the landscape and do not have to be closely located in relatively small areas. Our carbon sinks support the requirements of regional catchment management plans and other local and State environmental policies.

CO2 Group offers its services to clients whose activities (mining, electricity generation, gas production and processing, transport) underpin the Australian economy. The company's carbon sequestration plantings deliver a low-cost carbon abatement solution ideally suited to the Australian environment.

The Group has operations in NSW, WA and Victoria. The company's carbon sequestration program delivers regional employment opportunities. The company's business model is to support local contract businesses (seedling nurseries, plantation contractors, plant operators) strengthening the economic fabric in those parts of rural Australia where we operate. A report by Hyder consulting has estimated that regional mallee plantings produce 4.5 full time equivalent positions for every one million trees planted.

CO2 Australia a wholly-owned subsidiary of the group has significant commercial relationships with:

- Woodside Petroleum
- Newmont Mining
- Inpex / Total-Browse JV
- Eraring Energy
- Origin Energy
- Kansai Electric Power
- Wannon Water
- Newmont Mining
- Woodside/Kansai Pluto JV

Stalling or slowing progress towards emissions trading will provide a major disincentive to those companies that have already shown a willingness to invest.

Reforestation activities are an indispensible part of the Carbon Pollution Reduction Scheme

The Garnaut Report clearly outlined Australia's comparative advantage in bio-sequestration including reforestation.

Carbon stored in forests established on land cleared prior to the year 2000, greater than 0.2 ha in area and when mature reaching at least 2m in height (the criteria for Afforestation and Reforestation under the Kyoto Protocol Article 3.3) can be measured in a scientifically valid, transparent, repeatable manner.

Carbon sinks established as part of the proposed emissions trading scheme offer the prospect of reducing the cost of compliance within an emissions trading scheme.

Consequences of delaying the legislation

Many Australian businesses are seeking a clear signal from government about greenhouse gas reduction. Uncertainty in the regulatory framework is hindering investment decisions.

The CPRS is designed with a slow start that enables the regulatory apparatus (e.g. the proposed Climate Change Regulatory Authority) to be developed and made effective and efficient. The low start enables companies to prepare for more stringent emission reductions as time proceeds.

Delaying the legislation combined with uncertainty associated with voluntary programs (such as Greenhouse Friendly) will produce the worst of all worlds. Investment in the industries required for greenhouse gas abatement will stall, emissions in industries required for the continued economic development of Australia will continue to be delayed because investors are unable to price carbon in major ling-term investments, and the human capital and talent required to mange emissions will either not be developed or will dissipate overseas.

Improvements to the legislation

CO2 Group maintains that it is essential to pass emissions trading legislation. The following offers suggested improvements to the package.

Methodology for calculating carbon stored in Eligible Forests

In our view there is one technical amendment that is required to the legislation. Section 220 subsection 6 needs to be reworded to: *Regulations made under subsection 3 may provide for a number to be worked out wholly or partly using a computer program <u>or any other methodology</u> specified in a legislative instrument made by the Authority under this subsection.*

This amendment is required to enable the Authority to use higher quality observed inventory measurements of carbon stored in sinks rather than simply relying on a computer model in setting either the unit limit, or indeed in its calculation of the units to be created.

The legislation needs to be clear that a single reforestation project can bundle activity encompassing multiple titles and jurisdictions

A single forest sink project often needs to be dispersed across the landscape. This avoids concerns about the concentration of forest activities in particular shores or regions. In order to achieve this outcome the legislation needs to make it clear that a single reforestation project can encompass multiple property titles (land, forestry and carbon) in multiple jurisdictions.

Cap the importation of international units to meet obligations

The current policy position and legislation essentially allows unlimited importation of CERs and other international certificates. The economic purpose of the current policy appears to be to provide a way of reducing costs of compliance to liable parties. This policy will generate a series of undesirable and perverse outcomes:

- Australian investment moves offshore rather than being directed towards Australian jobs and businesses. More jobs will be created in Australia by capping the importation of CERs.
- Due to the reduced incentive to invest in emission reducing industries domestically, Australia potentially becomes a carbon price taker, rather than a carbon price maker. Due to the relative energy inefficiency of Australia's economy and opportunities arising as a result of our land base Australia, has the opportunity to be a carbon price maker. Domestic emission abatement can be cheaper with suitable investment signals.
- As part of the negotiations leading to the Kyoto Protocol and the subsequent Marrakech Accords, a key negotiation concern of developing countries was that unlimited use of the Clean Development Mechanism would serve to relocate emission reduction efforts. In effect this would provide the reverse of carbon leakage. The agreement was that the use of the Clean Development Mechanism should be 'supplementary' to domestic measures, such as an emissions trading scheme. The current proposals appears to potentially breach this agreement.

The current policy setting reduces the prospect of 'carbon leakage' (through the Energy Intensive Trade Exposed provisions) but create 'abatement leakage' (through unlimited use of CERs).

Enable voluntary actions to interact with the CPRS so that liable parties are not free-carried

The draft legislation and material released in support of the drafts suggests that voluntary activity to reduce emissions can only operate through the voluntary surrender of permits acquired as a result of voluntary activity meeting a Standard that has yet to be defined. For a number of reasons, including interactions in the Scheme with the price cap mechanism and the ability to purchase unlimited CERs, the proposed approach merely serves to move abatement ‘downstream’ in the supply chain and will not serve to further reduce Australia’s emissions. The effect is to ‘free-carry’ liable parties.

The solution is simple. Accredited voluntary activity should be certificated and surrender of voluntary certificates should be used by the regulator to adjust the overall scheme cap. This does not change the level of obligation by liable parties, but would enable volunteerism to produce a national mitigation outcome greater than that required under the Scheme.