4 June 2009

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

RE: Submission to the Senate Standing Committee on Economics

Dear Secretary,

Please find attached CO2 Group's Submission to the Senate Standing Committee on Economics enquiry into the Carbon Pollution Reductions Scheme Bill 2009.

We remain strongly supportive of the introduction of the Carbon Pollution Reduction Scheme (CPRS) and the successful passage of related legislation into law.

We are happy for our submission to be made publicly available and representatives of the company would be happy to appear before the Committee to provide further material or to more fully inform the Committee members about matters in our submission.

Yours sincerely,

Andrew Grant
Chief Executive Officer
CO2 Group Limited

CO2 Group Limited

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

Submission to the Senate Standing Committee on Economics Committee Inquiry into the Carbon Pollution Reduction Scheme Bill 2009

Summary

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

The Carbon Pollution Reduction Scheme (CPRS) Bill 2009 (the Bill), inclusive of proposed amendments as passed by the House of Representatives provides a sound legislative framework to underpin the operation of what we consider to be a well designed emissions reduction and trading scheme.

Since the Exposure Bills were released, CO2 Group Limited notes that significant work has been undertaken by the government in consultation with stakeholders resulting in an improvement to the practicality of the legislation.

Beyond the legislation the company notes the significance of the regulations, yet to be drafted. In particular, the company places on record its view that the regulations need to allow for the use of in-field <u>measurement</u> of carbon stored in reforestation projects as a basis for permit creation.

Timing

CO2 Group recognises 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. We are, therefore, strongly supportive of the timetable for introduction of the Bill and urge all senators to put aside short-term political considerations around this issue in favour of dealing with the serious long-term problem posed by unchecked emissions growth and associated climate change.

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 slow start enables companies to prepare for more stringent emission reductions as time proceeds.

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

Delaying the legislation combined with uncertainty associated with voluntary programs (such as Greenhouse Friendly) and state-based mandatory schemes 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 long-term investments, and the human capital and talent required to mange emissions will either not be developed or will dissipate overseas.

Coverage of reforestation activities

Bio-sequestration of carbon by forests is, potentially, a powerful tool for helping mitigate greenhouse gas emissions and reducing Australia's emissions profile. This potential can, however, only be realised where a commercial incentive for the development of forest carbon sinks is created and the regulatory environment governing these is sufficiently well designed that barriers to entry are minimised whilst maintaining the integrity of carbon accounting processes. We are comfortable that the proposed emissions trading scheme will provide the commercial environment necessary to encourage reforestation projects and that the Bill provides a suitable framework for the regulation of these projects and the emissions trading scheme more broadly.

Improvements to the legislation

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

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.
- As a result of a reduced incentive to invest in emission reducing industries domestically, Australia potentially becomes a carbon price taker, rather than a carbon price maker. However, the relative energy inefficiency of Australia's economy together with opportunities that arise as a result of its land base, means that 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 the hosting of Joint Implementation (JI) Projects

The manner in which reforestation operates within the CPRS enables additional investment in forest sinks to occur in a way that can offer unique opportunities to Australia. The current international linking policy (unlimited import of CERs and restriction of JI) appears to have the intention of reducing the domestic cost of carbon. However, in trade terms this policy is restrictive: unlimited imports, no/little export. This will reduce the pathways for foreign capital investment in mitigation in Australia. In the case of reforestation certain ‘early mover’ foreign investors will be disadvantage by the lack of a pathway (i.e. inability to host JI) for transitioning ‘voluntary’ investments into the mandatory markets.

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

The CO2 Group notes the complementary policy development in relation to voluntary actions since the release of the Exposure Draft Bills. We anticipate considerable policy development to facilitate voluntary action, but strongly argue that a requirement to further enhance voluntary activity should not be used to excuse, obfuscate, deflect or delay the passage of this package of legislation.

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 commercialised 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:

- 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.