



## CO2 Group Limited

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The Secretary,  
Senate Standing Committee Rural & Regional Affairs & Transport,  
PO Box 6100,  
Parliament House,  
Canberra ACT 2600

### **Re: Inquiry into the Implementation, Operation and Administration of the Legislation Underpinning Carbon Sink Forests**

Thank you for the opportunity to present a submission to the Inquiry. We believe the recently introduced Tax Laws Amendment (2008 Measures No. 2) Bill represents a valuable policy addition that is of high importance to promoting greenhouse gas reduction measures. We believe the structures and processes outlined in the Bill provide for a sensible legislative and administrative framework relating to tax treatment around the establishment of forest carbon sinks.

We also believe that the Bill will provide some incentive for corporate investment into greenhouse gas abatement activities. However, whilst the Bill represents a significant policy improvement, it will not, in isolation, drive the significant investment required to address the serious climate change problems that we face. The real driver of such investment will be the introduction of a national emissions trading scheme and we remain firmly supportive of proposals to introduce a cap-and-trade based scheme, underpinned by meaningful mandatory caps. In this respect, the passing of Tax Laws Amendment (2008 Measures No. 2) Bill provides a valuable piece of support to the broader emissions reduction policy set.

We have provided some more detailed commentary in the pages that follow and we hope that you will consider these during your inquiry. We are available to appear at the inquiry should this be considered appropriate. We would also be happy to provide further feedback and share our own unique experience in operating as a commercial emissions abatement provider.

Yours Sincerely,

Andrew Grant  
Chief Executive Officer  
CO2 Group



## **About our submission**

This submission presents CO2 Group Limited's views on legislative and administrative considerations around forest carbon sinks. Particular reference is made to the Tax Laws Amendment (2008 Measures No. 2) Bill.

CO2 Group has gained extensive experience over the last four years in establishing a number of accredited forest carbon sink projects in partnership with corporate Australia and rural communities. CO2 Group is currently the largest manager of dedicated forest carbon sink projects in Australia and has been responsible for establishing a number of large reforestation projects under the NSW Greenhouse Gas Abatement Scheme (NSWGGAS) and Greenhouse Friendly™ Program (GHF). CO2 Group is recognised as the market leader in this field and has pioneered the establishment of dedicated forest carbon sinks which are without parallel in scale or sophistication at the international level. Further, the CO2 AUSTRALIA™ Carbon Sequestration Program has been awarded a number of prestigious Australian and International environmental and sustainability awards.

## **Avoiding perverse taxation and investment outcomes**

The Tax Laws Amendment (2008 Measures No. 2) Bill quite clearly avoids any risk of perverse taxation, or investment, outcomes since the Bill specifically indicates that expenditure incurred in establishing carbon sinks can only be claimed as a tax deduction where (Sub-division 40-1010):

- trees are planted primarily for carbon sequestration purposes;
- trees are not to be felled, or used for commercial horticulture;
- expenditure is not incurred under a managed investment scheme, or a forestry managed investment scheme

As Australia's leading developer of forest carbon sink projects, we would also point out that the establishment of forest carbon sinks requires significant up-front, and often trailing, investment and that realisation of a tax deduction is highly unlikely to act as a primary driver for forest carbon sink establishment. Importantly, unlike other forestry tax deductions, not all of the costs involved in the establishment and management of a forest carbon sink are tax deductible. The land component, for example, which represents a significant proportion of the total cost of establishing a carbon sink, is not tax deductible under the Bill. Furthermore, deductions for the establishment of forest carbon sinks post 2012 will be delivered over a 14 year period and not during the first year of project establishment.

While forest carbon sinks will not be established purely for tax avoidance reasons, we do believe, that the tax deduction made available through the Bill will be helpful in defraying some of the significant costs involved in investing in long-term forest carbon sink projects and, therefore, is an extremely important policy instrument with respect to providing some support for private investment into projects addressing the serious climate change issues facing us.



### **Avoiding perverse environmental outcomes**

The Tax Laws Amendment (2008 Measures No. 2) Bill quite clearly removes any risk of perverse environmental outcomes. The Bill specifically indicates that expenditure incurred in establishing forest carbon sinks cannot be claimed where forest is cleared, or swamps are drained, for the purposes of establishing the forest carbon sink. Additionally, the Bill establishes a range of eligibility requirements relating to the nature of the forest carbon sink that can qualify as claimable expenditure, these being

- land planted to have been clear of forest at 1<sup>st</sup> January 1990;
- forest to occupy an area of 0.2ha or greater;
- forest to attain a crown cover of >20%; and
- trees to reach a height of >2m at maturity

As Australia's most experienced manager of dedicated forest carbon sinks, it is our view that these requirements, which are in line with the Kyoto principles for recognition of forest carbon sinks and the eligibility regulations of the Federal Government's Greenhouse Friendly™ Program, are appropriate and provide suitable protection against the risk of perverse environmental outcomes.

We would point out that, in addition to significant greenhouse gas abatement, the establishment of tree plantings back into the historically over-cleared landscapes of Australia can deliver a range of additional environmental outcomes. These include reducing the risk of land and water salinisation, reducing the risk of wind erosion and improving biodiversity values. Furthermore, in helping avoid, or reverse, land-degradation processes the establishment of tree plantings into denuded landscapes helps maintain, or improve, the longer-term health and productivity potential of agricultural landscapes. There many examples of government and land-care agencies seeking to re-establish trees into landscapes for environmental remediation purposes, this usually requiring significant investment of public funds, and the structures proposed within the Tax Laws Amendment (2008 Measures No. 2) Bill would appear entirely consistent with these efforts. Indeed, if the Bill does act as a stimulus for private sector investment it would serve to enhance these initiatives whilst ameliorating the pressure on government funding.

### **Ensuring sinks are maintained for the long-term**

Given the level of expenditure involved in establishing and maintaining a forest carbon sink, we do not believe that investments will be made in forest carbon sinks for the sole purpose of realising a tax deduction. Concerns that forest carbon sinks might be established, a tax deduction realised, and then deliberately removed have no solid basis since it would make no commercial sense to incur a large expenditure and realise only a part of that expenditure as a tax deduction. It beggars belief that a corporate, or private investor, would establish a carbon sink in order to realise only a 20-25% tax deduction for every dollar invested. Instead, investors will inevitably seek to recoup investment expenditure through realising revenue from the forest carbon sinks through, for example, trade of carbon permits generated from the forest carbon sink under an emissions trading scheme, or reducing costs



through acquittal of such permits. Along these lines, we would urge the Federal Government to include forest carbon sinks as a recognised abatement activity under the upcoming emissions trading scheme so as to provide real incentive for the establishment and long-term retention of forest carbon sinks.

Finally, we would also suggest that registration of forest carbon sinks under a recognised emissions reduction scheme, such as the existing Greenhouse Friendly™ Program, might be a sensible pre-requisite to tax deductibility. Such an approach would ensure the retention of forest carbon sinks into the long-term since this scheme institutes stringent eligibility requirements around permanence of a forest carbon sink.

### **Forest carbon sinks are a proven and immediate abatement option**

Given the scale of the climate change problem, it is imperative that we mobilise large scale abatement technologies in the shortest time possible. Of the known options, forest carbon sinks are a proven low cost option as evidenced in their success in the NSW Greenhouse Gas Abatement Scheme and the Greenhouse Friendly™ Scheme. They are also a 'here and now' option that can be deployed immediately. By contrast, the implementation of technologies such as 'clean coal' and geo-sequestration face significant challenges and extended timelines, this being reflected by the significant public and industry funds being directed into early research and development. In this regard, it is our view that the Tax Laws Amendment (2008 Measures No. 2) Bill relating to establishing forest carbon sinks, provides for some increased incentive to pursue legitimate, and badly needed, greenhouse gas abatement options.

### **There is a lag between investment and revenue, so early recognition is critical**

One of the great challenges facing Industry at present is meeting the upfront costs associated with establishing large scale technologies to abate greenhouse emissions. Establishing forest carbon sinks represents one of the few comparatively low cost abatement options that can actually be implemented immediately. However, from a corporate investor's point of view, this abatement option incurs a large up-front capital investment whilst the potential revenue streams derived from the investment (e.g. through the acquittal of forest carbon sink derived 'carbon permits') are delivered incrementally over many decades. In our view, the Tax Laws Amendment (2008 Measures No. 2) Bill goes part way to recognising this lag and providing some stimulus for investment in forest carbon sinks as an abatement option.