National Association of Forest Industries

Submission

To

Senate Standing Committee on Rural and Regional Affairs and Transport

On

Inquiry into the Implementation, Operation and Administration of the Legislation Underpinning Carbon Sink Forests

July 2008

Introduction

NAFI acknowledges the important value of the *Tax Laws Amendment (2008 Measures No. 2) Act 2008* (the Act), as responsible legislation to assist the development of carbon sink forests which are an important greenhouse gas abatement measure for Australia.

The legislative Instrument which contains the environmental and natural resource management guidelines provide for a responsible integration of carbon sink forests into the landscape. The guidelines provide for the optimum land use mix in agricultural landscapes.

The recognition of carbon as a saleable product for tax purposes is long overdue and brings the ongoing arrangements for carbon sink forests in line with other agricultural crops such as horticultural plantings, and land care activities.

If Australia is to meet its carbon pollution reduction goals at least cost, the support of a viable carbon sink industry is important. Appropriate taxation arrangements are one part of a range of measures needed to encourage the role of carbon sink forests in Australia's carbon pollution reduction effort.

A Carbon Pollution Reduction Scheme for Australia is an even more important measure, as it will establish a larger and more mature market for carbon, enabling investment decisions to be made with confidence.

The main market for carbon at present is the voluntary market which is relatively immature but improving. The Australian Government's Greenhouse Friendly Programme, the NSW Greenhouse Gas Abatement Scheme and the ACCC's recent report *"Carbon Claims and the Trade Practices Act"* will assist the development of the voluntary market in a responsible way.

Existing carbon sink projects are typically sited in areas with access to affordable land and low to medium rainfall such as the wheat-belts of Western Australia and Central-West New South Wales. These areas are landscapes where deep-rooted trees are

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providing important auxiliary environmental services and improving productivity of farm land through salinity prevention, erosion control, and the provision of shelter belts.

When a mature market for carbon is established it is likely that the area suitable for carbon sink forests could expand. However, it is unlikely that under a Carbon Pollution Reduction Scheme the price of carbon would rise to a level where the economic returns from carbon sink forests would exceed returns from agricultural activities on high value land.

However, NAFI believes there are tremendous opportunities for farmers in low to medium rainfall areas and indigenous land managers to benefit from investment into profitable carbon sink forests.

This legislation prohibits the provision of a tax deduction if the investment is made through an MIS or if there is an intention to fell the trees or use them for commercial horticulture. Carbon sink forests and forestry MIS are unrelated and should be treated as such by this inquiry.

CO_2 abatement

Recognition of carbon for tax purposes is consistent with national environmental policy objectives including the need to reduce atmospheric levels of greenhouse gases.

Existing private investment into carbon sink forests is an important abatement measure that is making a contribution to meeting Australia's Kyoto target of 108% of 1990 level emissions by 2010.

With the Australian Government commitment to reduce Greenhouse Gas emissions by 60% below 2000 levels by the year 2050, carbon sink forests will be one of many critical measures needed to lower Australia's carbon emissions at least cost.

Carbon sink forests will improve the capacity of the landscape to absorb carbon dioxide and will replace some of the abatement function lost from the landscape when forests are cleared for the purposes of agriculture.

The legislative instrument

The legislative Instrument which is used to determine eligibility for a tax deduction contains environmental and natural resource management guidelines that will ensure that carbon forest sinks are responsibly integrated into the landscape. The guidelines are:

1. Carbon sink forest establishment should be based on regionally applicable best practice approaches for achieving multiple land and water environmental benefits.
2. Carbon sink forest establishment activities should be guided by regional natural resource management plans and water sharing plans, and environmental impacts at a catchment scale should be considered.
3. Carbon sink forest establishment activities should recognise and adhere to all government regulatory requirements.

The guidelines and the accompanying advice on how to comply with them will ensure that carbon sink forests are a sustainable and environmentally positive addition to the agricultural landscape and that the intent of the government's policy in relation to carbon sink forests is achieved. The guidelines seek to ensure that the benefits from carbon sink forests are maximised and that establishment is conducted sustainably. NAFI supports the provisions within these guidelines as they will ensure community support for the planting of trees in the landscape well into the future.

Carbon sink forests and agriculture

Carbon sink forest projects in Australia have typically been permanent mallee tree plantings integrated into traditional broad acre grazing/annual cropping properties, in low-medium rainfall zones, notably the Western Australian wheat-belt and Central West of New South Whales.

This land is generally not suitable for timber production and minimal private investment into forestry development has occurred in these areas prior to the establishment of carbon sink forest projects.

The vast majority of carbon sink forests are located on land types where agricultural productivity is low or where present agricultural value can be enhanced by trees. NAFI believes this trend will continue with appropriate taxation arrangements for carbon sink projects.

The overwhelming majority of existing carbon sink forests are successfully integrated into existing agriculture systems, and are delivering improved sustainability and productivity of farm land through salinity prevention, erosion control, and the provision of shelter belts. Figure 1 below shows a typical mallee carbon sink forest integrated with an annual grain crop in the wheat belt of Western Australia.

Figure 1: Annual grain cropping integrated with Carbon Sink mallee plantings in the WA wheat belt.

The Carbon Pollution Reduction Scheme green paper, noted the significant opportunity for indigenous land managers to participate in carbon abatement.

NAFI believes these opportunities also exist for Australian farmers. Carbon sink forest establishment will help farmers to manage the ecosystem needs of their land while also providing a mechanism to offset the emissions from agricultural operations or gain an income for offsetting the emissions from other emissions intensive industries.

Investment in rural and regional Australia

The commercial mallee-tree plantation industry has been and will continue to be built on city-raised private capital spent in regional Australia. The economic prosperity of agriculture-dependent rural communities in low and medium rainfall areas is largely dependent on new sources of income supported by appropriate policy frameworks.

The recognition and encouragement of carbon sink forest establishment is another positive step towards regional job creation and enhanced community prosperity through the investment of city-based capital spent on agribusiness investment in rural Australia.

Combined with the environmental benefits of carbon abatement, salinity and erosion control as well as increased biodiversity, carbon sink forests are a good investment for those parts of rural and regional Australia that are mainly reliant on agriculture.

Conclusion

NAFI is highly supportive of measures which encourage the use of trees in the landscape for environmental purposes. Carbon sink forests will be a vital low cost abatement option for Australia, helping to meet our emissions reduction goals now and into the future.

Carbon sink forests will be established sustainably and in a way that maximises the benefits of trees in the landscape. There are many benefits to the agricultural sector including the use of carbon sinks to offset emissions from agricultural activities or derive income from offsetting the emissions of other sectors of the economy.

Existing voluntary markets for carbon are maturing but the introduction of the Carbon Pollution Reduction Scheme will be a critical component if the establishment of carbon sink forests is to continue into the future.

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