

15 August 2008

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

**Re: Inquiry into Implementation, Operation and Administration of Legislation  
Underpinning Carbon Sink Forest—Submission by Property Rights Australia (PRA)**

Dear Sir / Madam

I provide below a Foreword to the Submission made on behalf of PRA.

**FOREWORD**

The people and the Parliament of the Commonwealth of Australia must make a considered decision on the short and long term future of our nation. We must weigh up all the alternatives and science before us on the questions concerning the terms of reference of this Senate Inquiry.

This Inquiry and the Parliament must make decisions as to the future use of our fundamental natural resources, being land and water. Productive farmland and water are our most precious resources, as without them we cannot feed our nation. Land and water resources, especially groundwater, are under increasing pressure from extractive industries, such as coal mining and gas production.

The issue of Global Warming and the role of Carbon Dioxide is the driving force behind the proposed amendments. This Committee cannot afford to have a closed mind on this issue.

As a concerned citizen, it is my view that significant scientific questions remain unanswered in respect of the cause, effect and solutions to the issue. To make a hasty decision could well be to the detriment of all Australian citizens for generations to come.

Yours faithfully,

*John Purcell*

John Purcell, Chairman  
Property Rights Australia

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**Re: Inquiry into Implementation, Operation and Administration of Legislation  
Underpinning Carbon Sink Forests – Submission by Property Rights Australia (PRA)**

Dear Sir / Madam

1. Please find following a submission made on behalf of PRA.
2. PRA is a non-profit organisation whose membership consists of landholders and businessmen with their supporters who joined this group to defend and re-establish the recognised and defined property rights of landholders and to encourage a balanced approach to agribusiness by promoting ecologically and economically sustainable natural resource management.
3. In summary, PRA is concerned that the proposed amendments to the *Income Tax Assessment Act 1997* ("the amendments") will have deleterious environmental, economic and social effects, as outlined below.

**Background**

4. The impact of carbon dioxide on climate is a theory supported by apparent scientific consensus that an increase in atmospheric carbon dioxide caused by human activity causes global warming and global warming causes the climate to change and such change will have catastrophic effects on the biosphere and life on earth.
5. The amendments take that theory a step further and throw it into reverse, being that a reduction in carbon dioxide released into the atmosphere will stop global warming, reverse climate change and save the planet from the predicted catastrophic effects.
6. The consensus theory holds that one way of reducing carbon dioxide in the atmosphere is to hold it in carbon sinks, one of which is a forest. The amendments aim to promote the establishment of carbon sink forests by the favourable taxation treatment of the establishment of carbon sink forests.

### **Cleared Land is a Finite Resource**

7. The amendments preclude a taxation advantage for clearing remnant vegetation to establish carbon sink forests. For a taxpayer to enjoy the advantage, carbon sink forests must be established on land that is already cleared.
8. The amendments must be viewed in the context of the ban on land clearing that has occurred in most states of Australia in the last decade. This ban means that no more land is being brought into production, therefore carbon sinks must be established on land currently used for food or fibre production.
9. The amendments will increase the price of productive farmland by reducing the supply of cleared productive farmland. The amendments will bring mining, mineral processing and other carbon dioxide producers whose fundamental interest is not in the production of food, but to secure an upfront tax benefit in the first instance and a profit from either trading in the eventual carbon credits generated or a continuation of polluting industry into the market for farmland. The amount of carbon dioxide produced from these industries will not be reduced, but will be theoretically offset by the carbon sequestered in the carbon sink forest.
10. The amendments will dramatically and artificially tip the balance of the fundamental production decision of “what to produce” on scarce farmland in favour of carbon sequestration at the expense of food production.

### **Land for Carbon versus Land for Food**

11. The amendments will reduce the amount of land available for food production, thereby reducing the amount of food produced in Australia for domestic consumption and export.
12. The amendments will severely hamper the ability of farmers to expand land holdings in order to take advantage of economies of scale and improve productivity, as they will be in competition for that land with polluters who seek tax and carbon trading advantages from farmland, rather than using that land for food production.
13. Landholders, unable to expand, may be forced to sell to the carbon market, creating a domino effect that may have a catastrophic effect on the critical mass required to maintain downstream processing facilities, such as abattoirs, sugar mills and other processing and marketing facilities. Once production falls below a critical mass required to sustain secondary processing, further production becomes non viable and former producers will be forced to sell into the carbon market.

14. If that market becomes oversupplied then land prices will fall, enabling carbon traders to secure the remainder of land in an area cheaply. Thus the perceived bonanza for current landholders may be a short term one, precipitating collapse across a range of primary industries.
15. PRA acknowledges that an increase in the price of cleared farmland will have a short term benefit to landholders who wish to take advantage of increased land prices. It is expected that some landholders will take advantage of this eventuality and sell their landholdings. The early movers will win. Those left behind will lose. Large corporate entities will always win, as the tax advantages ensure they will win.

### **Current and Future Food Shortages Exacerbated**

16. The amendments will remove large areas of currently productive farmland from food production for at least a century at a time of worldwide food shortage which will in turn increase fresh and processed food prices to Australian consumers.
17. That humankind will suffer from an increase in atmospheric carbon dioxide is at present a consensus scientific theory. That humankind will suffer from food shortage is not.
18. It is reality and can be seen right now, in the effect of the massive transfer of grain use from food to biofuel. The amendments provide a taxation advantage for the transfer of land use from food to carbon sequestration.
19. The socioeconomic impacts, in terms of job and technological losses on rural and regional Australia are unknown.

### **Broadscale Land Clearing in Queensland**

20. In Queensland broadscale clearing of remnant (in essence not previously cleared land) has been banned since 31 December 2006. Prior to that date, a pilot scheme in respect of carbon sequestration was undertaken by mining company Rio Tinto<sup>1</sup>.
21. Under this deal, Rio Tinto paid the farmer \$1m not to clear 3500ha of trees for which a permit to clear was held. The key to this contract was that in order for the carbon contained in the trees to be "counted" the trees had to be "saved" from the bulldozer. As outlined in the article, the landholder took the economically rational view and set aside the land from production for 120 years in return for a one off payment from Rio Tinto.

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<sup>1</sup> See Attachment 1: "Money does grow on trees" Courier Mail May 26, 2007.

22. This type of arrangement is now no longer available for landholders in Queensland as there are no longer tree clearing permits to trade. Thus since December 2006 the carbon contained in uncleared remnant vegetation is unable to be traded as from that date no trees are permitted to be cleared.
23. The amount per tonne of carbon paid by Rio Tinto to the farmer is unknown, but can reasonably be assumed to be a fraction of that which will be paid upon commencement of the amendments enabling tax deductibility and the creation of a carbon trading market.
24. On the basis of that assumption, any landholder taking a purely rational view will switch from food production in favour of the sale of farmland for the production of inedible carbon.
25. The explanatory notes to the *Vegetation Management and Other Legislation Amendment Bill 2004*<sup>2</sup> indicate that the cessation of clearing "Of Concern" remnant vegetation would reduce greenhouse gas emissions by 20-25 million tonnes per annum. At current estimates on \$15-\$20 per tonne of carbon, banning of clearing Of Concern vegetation represents net dollar values of \$300-\$375 million per annum to \$400 - \$500 million per annum. Importantly, the impact of clearing "Endangered" and "Not of Concern" remnant vegetation was not estimated.
26. The theoretical value of the carbon savings set out in the explanatory notes gives, but obviously underestimates, the dollar value of carbon sequestered in native vegetation in Queensland as a result of clearing bans.
27. Landholders have never received compensation on just terms for the loss of this property, being the carbon sequestered in trees on freehold land.
28. The taking of this property was for a Commonwealth purpose and PRA believes that the Commonwealth is bound by Section 51(xxxi) to compensate affected landholders on just terms.
29. The benefit of the cessation of land clearing comes at a direct cost to landholders who are now unable to develop further farmland for food production and consumers who pay higher prices due to falls in supply.
30. The benefits to the environment as a result of clearing bans are often cited in terms of "increased biodiversity" and other unquantified and perhaps unquantifiable terms. The

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<sup>2</sup> See Attachment 2, "Reasons for the Bill"

disbenefits, in terms of lost food production are quantifiable in real terms, and should be, in order to determine the real impact of the proposed amendments.

31. PRA submits that if government takes a purely rational view of the need to sequester carbon in forest sinks, those species and practices that result in the sequestration of the maximum amount of carbon per hectare should only be encouraged with tax benefits. Otherwise the reallocation of productive resources from food production to carbon sequestration is done so at less than optimum efficiency.
32. It may well be that the most efficient manner to sequester carbon using forests is to clear some existing vegetation and replace it with species that exhibit superior carbon sequestration rates.
33. The proposed tax advantages should be restricted to those species that have a fall back value for traditional forestry use. This would provide insurance in the event that the scientific consensus changes in respect of global warming, climate change, or the efficacy of forestry to sequester carbon. It is utterly impossible to predict changes in scientific discovery a century ahead. Think the consensus surrounding the wisdom of the earth being flat not round, the causes and transmission of disease and man's inability to fly let alone travel to the moon.
34. If, at some time in the future there is a change in consensus at least there will be an avenue to recover something usable.
35. In their current form, the proposed amendments preclude such research and development, as clearing land to develop carbon forest sinks is specifically denied the tax advantage. In any event, broadscale clearing of non remnant vegetation is banned in most states.
36. PRA recognises that the suggestion that clearing of native vegetation for any purpose be resumed is likely to be met with outrage. Be that as it may reintroduction of clearing of Not of Concern vegetation pursuant to the previous permit system would enable landholders to participate in the carbon market, by either selling permits to polluters in the same manner as the Rio Tinto example provided above or clearing land and investing in their own carbon sinks using superior carbon sequestering species and the resultant carbon traded on the carbon market.
37. At the very least, the carbon sequestered in uncleared vegetation as at 31 December 2006 should be accounted for and landholders be able to trade the annual increase amounts, rather than have this carbon lost from the trading system.

### **Catchment Water Balance Impact**

38. The impact on the water balance of catchments where increases in forestry results in increased water use does not appear to be well thought through. Any increase in water use in a catchment comes at the expense of runoff and groundwater available for downstream water users, including the environment.
  
39. For example, if large areas of carbon sink are set up in the Murray Darling basin it is logical to expect that the total water available in the system is reduced. Currently, the problem of low water flows in the basin is seen as a problem of over allocation to water users and that problem is addressed by a reduction in water allocations for food production by way of licence buybacks.
  
40. In order to properly quantify the total environmental use of water in a catchment, use by forestry must be accounted for. If carbon sinks are seen as having an environmental benefit, then the water used to generate that benefit must be sheeted home to the environment as a user in order to account the true costs of the carbon sink.
  
41. Otherwise falling flow volumes in a river catchment where carbon sinks have been established may well result in further restrictions in water availability for food production, rather than restrictions on carbon sink establishment.
  
42. Whilst the proposed amendments point toward State regulation to take care of catchments concerns, the establishment of carbon sinks following the enactment of the proposed amendments is expected to be fast and massive with State regulation to lag. This lag may well result in a greater environmental disaster than that which it is proposed to prevent or mitigate. A case of the cure being worse than the disease or having to destroy the environment in order to save it.

### **Conclusions**

43. The fundamental role of government is to make laws for peace, order and good government.
  
44. The manipulation of taxation legislation is an effective tool for government to influence resource allocation in the economy. Given the effect of such influence on society, decisions such as these should not be taken lightly, without proper assessment or without consideration of possible deleterious affects on the wider economy, society or the environment.

45. PRA urge the committee to consider the application of the precautionary principle in respect of these amendments. The predicted catastrophic effects of global warming will even in the worst case not be apparent overnight. A fundamental change in the focus of primary production from food production to carbon certainly will.
  
46. If the government seeks to fundamentally change the focus of primary production in Australia from food and fibre to carbon then this must be debated on its own merit with full assessment of the affect of this change on the food security of the nation rather than have these shrouded by false notions of morality and concern for the well being of future generations.

John Purcell, Chairman  
Property Rights Australia



## **Money does grow on trees**

Article from:

<http://www.news.com.au/couriermail/>

Joel Dullroy

May 26, 2007 12:00am

PETER Allen has become Queensland's first carbon farmer after signing a \$1 million deal with mining giant Rio Tinto to do nothing at all.

In a historic transaction, the company has bought the rights to carbon dioxide stored in 3500ha of Mr Allen's Moura property, about 575km northwest of Brisbane.



CARBON deal ... while watching the trees on his farm grow, Peter Allen can watch his bank balance grow too.  
Picture: Annette Dew

Instead of clearing the land to run cattle, Mr Allen will preserve the trees for 120 years to ensure they soak up carbon dioxide.

When you hear talk of carbon offsets, this is where the money goes.

Many of the state's farmers stand to reap multimillion-dollar incomes from selling carbon rights to large corporations or individuals wishing to become carbon neutral.

"It's not like I have won the lotto or that I'm a tree-hugger. It was a purely financial decision," Mr Allen said.

"We looked at the return on developing that land for grazing, compared to the return from the carbon rights.

"We had to think hard before we decided to lock that land up for the next 120 years. If it had been any less money, we wouldn't have done it."

This time last year, Mr Allen had eight bulldozers ready to knock down a swathe of trees on an investment property just outside Charleville.

Under the State Government's moratorium on land clearing, farmers were given until December 2006 to enact one final clearing permit.

Rio Tinto stepped in, offering Mr Allen and five other farmers money in exchange for their inaction.

A total of 12,060ha was spared, the carbon rights secured under a legally binding contract. It is believed to be Australia's biggest carbon-trading deal.

The carbon industry is expected to boom after the Prime Minister's Task Group on Emissions Trading hands down its blueprint this Thursday.

But as the carbon industry gears up, questions have been raised about the lack of regulation over the voluntary offset market – the system through which airline passengers, rock festival patrons and guilty drivers can pay for their pollution.

Green watchdogs say the voluntary market is open to exploitation, with no controls on who can sell carbon and no checks on the work carried out.

Further questions have been raised about the effect of tree-planting, the popular method used by most carbon offsetters.

Today *The Courier-Mail* looks at the flaws in the carbon industry, and the opportunities available to farmers if governments get it right.

CARBON deal ... while watching the trees on his farm grow, Peter Allen can watch his bank balance grow too.

Picture: Annette Dew