

Submission
**Standing Committee on Rural and Regional Affairs &
Transport**

Inquiry into legislation underpinning carbon forest sinks

30 July 2008

Introduction

GA is Australia's largest environmental NGO with offices in all states and territories and many regional offices. We have been in existence for 26 years and have a staff of 350 and a turnover of \$50M/annum.

Our work is focused on transforming degraded landscapes on a very large scale through the restoration and expansion of biodiverse native forests, woodlands and other vegetation systems.

Our interest in carbon sinks is straight forward:

1. About 25% of global elevated CO₂ is due to forest clearing, making reforestation an important mitigation strategy.
2. The creation of a carbon market worth potentially billions of dollars can be leveraged to "turbo-charge" existing efforts to halt and reverse the degradation of Australia's environmental assets through the establishment of large scale carbon sinks that re-connect isolated remnants of biodiverse native forests and woodlands.
3. To realize this opportunity Greening Australia has created a biodiverse carbon offsets business which has recently been approved as an abatement provider under the Federal Government's *Greenhouse Friendly* program.

Submission Points

While Greening Australia in principle welcomes a tax incentive for investment in carbon sink forests to mitigate Australia's carbon emissions, we believe that the proposed amendments to the Tax Laws Amendment (2008 Measures No.2) Act 2008 and the accompanying guidelines give rise to a range of issues. The following issues are of particular interest to Greening Australia:

1. What constitutes a *Carbon Sink Forest* for the purpose of the Act?
2. Distinguishing *biodiverse native forest carbon sinks* from other carbon sinks;
3. Optimising *environmental outcomes* associated with carbon sink plantings;
4. Opportunity for a *Complementary Measure* to the proposed *Carbon Pollution Reduction Scheme*;
5. *Equity in the Carbon Sink Market* to enable biodiverse native forest sinks to compete;&
6. The *Legal Status* of the Guidelines

1. What constitutes a carbon sink forest for the purpose of the Act?

The amendments and guidelines provide very little direction on what will constitute a carbon sink forest under the Act. As it stands, plantation and native forests both qualify as carbon sink forests, despite having significantly different qualities and impacts.

The amendments and guidelines do nothing to prevent the establishment of monoculture forest carbon sinks. The question needs to be asked-why do we need another tax incentive for monoculture-forestry? Investment in a monoculture forest under a Managed Investment Scheme (MIS) already qualifies for a tax break.

Greening Australia recognises an enduring role for plantation forestry as part of a mixed land use model that also includes a sustainable mix of biodiverse native forests, traditional agricultural crops & grazing.

However there are no ecological reasons why mono-cultures of non-native species are needed for carbon sinks. After much research and development, fast growing (short-rotation) and uniform plantations systems have been developed to provide profitable timber products. In contrast, carbon sinks need to be long-lived, low risk, self-replacing and resilient. Uniformity and fast growth are not imperatives for carbon sinks.

2. Biodiversity outcomes

Greening Australia's biodiverse carbon offset product is based exclusively on biodiverse native forest and woodland sinks. Greening Australia's definition of a legitimate carbon sink is:

"A planting that restores a self-replacing diversity of regionally native vegetation on land cleared prior to 1990."

The qualities that distinguish biodiverse native forest carbon sinks from other carbon sink forests are:

- The plantings are self replacing – they self-regenerate after natural disturbances such as fire and storms;
- They are sourced from seed native to the bioregion in which they are planted;
- They are suited to local soil, slope and climatic conditions;
- They restore native ecosystems, re-establishing original forest cover with the return of under storey & native grasses;
- Over the longer-term they re-establish natural drainage systems, natural water flows and improve water quality by removing silt and sedimentation;
- They are at least 10ha in size and more than 100m wide to ensure permanency and self replacement;
- They are actively managed for at least 100 years;
- They are most capable of adaptation to climate change including hotter temperatures, lower and more variable rainfall, and more frequent fires;&
- They represent the lowest environmental & financial investment risk.

Biodiverse carbon plantings deliver both mitigation and adaptation outcomes.

If the intent of the proposed Tax Act amendments is to ensure that forest sinks deliver real and sustained abatement as part of the national contribution to tackling climate change, then it is essential that forest and woodland sinks are supported by the tax break. Only biodiverse forest sinks as articulated above have the capacity to deliver long-term emissions mitigation and climate change adaptation because they are inherently resilient.

For this reason Greening Australia believes that the tax incentive for carbon sink investment should only apply to biodiverse native forest sinks.

3. Other Environmental Services

We believe that the Tax Act should only provide a tax incentive for investment in carbon sinks that optimize environmental benefits. The Environmental and Natural Resource Management Guidelines in relation to the establishment of trees for the purposes of carbon sequestration do go some way to regulating the environmental impacts of carbon forest sinks by referring to the following:

- Avoidance of clearing land of remnant native vegetation;
- Avoidance of any significant negative impacts on water availability;
- Salinity impacts;
- Weed & feral animal management;&
- Fire Management.

However the Guidelines do not provide direction on the following:

- Water quality;
- Restoration & protection of current carbon stocks;
- Impacts on habitat;
- Permanence; or
- Perverse outcomes associated with inappropriate plantings.

Furthermore the Guidelines are couched in general terms and rely to a large extent on standards prescribed under variable and often ambiguous regional natural resource management plans.

Greening Australia urges the definition of a carbon sink under the Tax Act to only include (biodiverse) native forest sinks. Tax law to encourage this investment can have wide reaching positive environmental benefits for Australia as well as providing ongoing mitigation and climate change adaptation outcomes. In addition the Law will effectively channel private sector investment into a wide range of environmental services including the following:

- Expansion of the NRS;
- Protection & restoration of Australia's current native forest carbon stocks;
- Restoration & protection of habitat;
- Restoration of natural drainage systems;
- Improved water quality; &
- Retention of soil carbon;
- Landscape scale repair & restoration.

4. Complementary to the proposed Carbon Pollution Reduction Scheme

The Tax Act amendment that only supports biodiverse native forest carbon sinks, would deliver a "complementary measure" to address resource management issues associated with the commencement of the Australian Carbon Pollution Reduction Scheme. (See page 128 in the Government's recently released "Green Paper").

Such measures will be necessary if Australia is to maximise the benefits and minimise the potentially negative environmental impacts from the establishment of large scale monoculture forest and woodland sinks. The proposed Carbon Pollution Reduction Scheme will stimulate investment in forest sinks but specifically avoids addressing sub-optimal environmental outcomes associated with monocultures and exotic species. The amended Tax Law could confine the tax benefit to those sinks designed to deliver long-term resilience and an optimal environmental benefit (see 3. above).

5. Equity in the Carbon Sink Market

A tax benefit that is confined to biodiverse native forest sinks will allow biodiverse sinks to compete more effectively in the carbon sink market. The establishment costs for biodiversity are higher than for monocultures. The tax break can create a level playing field in the carbon sink investment market and encourage investors to invest in a product that optimises environmental benefits.

6. The Legal Status of Guidelines

Greening Australia believes that the detail on the proposed tax legislation on carbon sinks needs to be embedded in regulation rather than guidelines. The operation of the new tax law needs to be underpinned by a regulatory instrument that cannot be changed at the discretion of the relevant Minister at any time.