

The Treasurer,
The Honourable Wayne Swan
Parliament House Canberra
ACT 2600

Dear Treasurer,

Thank you for the opportunity to participate in Treasury's Review of Australia's Future Tax System.

Greening Australia 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 turn over 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.

Recognising the opportunity to direct private sector capital into landscape restoration work, Greening Australia has established a Carbon Business that provides for investment in conservation carbon sinks. In this way Greening Australia is able to contribute to both climate change mitigation and adaptation.

Recently we have engaged in the Senate Inquiry into legislation underpinning carbon forest sinks. Much of the following has been taken from our written submission to the Inquiry.

Yours Faithfully



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Submission to Australia's Future Tax System Review

Greening Australia is concerned that policy instruments regulating Australia's greenhouse emissions, including tax incentives to invest in carbon sink forests may have perverse environmental and rural community outcomes.

Greening Australia's 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 reconnect isolated remnants of biodiverse native forests and woodlands.
3. To realize this opportunity Greening Australia has created a biodiverse carbon offsets business which has 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 the recent amendments to the *Tax Laws Amendment (2008 Measures No.2) Act 2008* and the accompanying guidelines give rise to a number of issues. The following matters are of particular interest to Greening Australia:

1. What constitutes a Carbon Sink Forest for the purpose of the Tax 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; and
6. The Legal Status of the Guidelines

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

The amendments and guidelines to the Tax Act provide very little direction on what constitutes a carbon forest sink. 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 unconstrained 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 and 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.

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 and native grasses;
- They strengthen current stocks of carbon locked up in native forest by connecting and restoring remnant vegetation;
- 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 and financial investment risk; and
- They inject private sector capital into the National Reserve System.

Biodiverse carbon plantings deliver both mitigation and adaptation outcomes. If the intent of the 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 makes sense for forest and woodland sinks to be supported by a tax break. However 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 any tax incentive for carbon sink investment should only apply to biodiverse native forest sinks.

Other Environmental Services

Greening Australia believes 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 and feral animal management; and
- Fire Management.

However the Guidelines do not provide direction on the following:

- Water quality;
- Restoration and protection of current carbon stocks;
- Impacts on habitat;
- Permanence; and
- 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 believes that the definition of a carbon sink under the Tax Act should only refer to (biodiverse) native forest sinks. Tax law to encourage this investment could 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 and restoration of Australia's current native forest carbon stocks;
- Restoration and protection of habitat;
- Restoration of natural drainage systems;
- Improved water quality;
- Retention of soil carbon; and
- Landscape scale repair and restoration.

Complementary to the proposed Carbon Pollution Reduction Scheme

A Tax Act amendment that only supports biodiverse native forest carbon sinks could provide a “complementary measure” to address resource management issues associated with the commencement of the Australian Carbon Pollution Reduction Scheme. (See page 128 of 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 Tax Law could confine the tax benefit to those sinks designed to deliver long-term resilience and an optimal environmental benefit and avoid the repeat of market failure that has resulted in runaway global warming.

Equity in the Carbon Sink Market

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

Impact on the agricultural sector

The potential impact of a carte blanche tax incentive to invest in carbon forest sinks on the farming sector will include the increased uptake of productive agricultural land for plantation forestry and the dislocation of farming communities. With respect to rural communities, unchecked plantations of monocultures would place further pressure on an industry already struggling with the impacts of prolonged drought and climate change. (Greening Australia recognises a legitimate role for plantation forestry but not as the ‘default afforestation’ activity -this must be the preserve of our precious biodiverse native forests.)

The contribution of conservation carbon sinks to sustainable farming livelihoods includes the following:

1. Protecting the best agricultural soils from:
 - Salinity e.g. Liverpool Plains
 - Erosion e.g. Wind prone regions such as the Wimmera
2. Development of new rural businesses on marginal land—e.g. native seed collection; nurseries; vegetation establishment, maintenance, planning, monitoring; and auditing carbon yield
3. Diversification of farm enterprises (carbon farming on portions of existing farms). Note research evidence that farms with a 30% or greater cover of trees are more economically and environmentally sustainable than farms with less the 30% tree cover (Walpole et al 1999).

Summary

Greening Australia welcomes the creation of policy instruments that encourage investment in carbon sink forests to mitigate Australia's carbon emissions. However recent amendments to the Tax Act; and the Carbon Pollution

Reduction Scheme (CPRS) Green Paper do not distinguish between plantation forests (monocultures and exotic species) and biodiverse native forests. They are short sighted and will give rise to perverse outcomes that will aggravate the degradation of Australia's environmental assets and the negative impacts of climate change on the agricultural sector. These policy instruments fail to protect and enhance the following:

- Biodiversity;
- Other environmental services (soil, salinity);
- Adaptation and resilience to climate change;
- Hydrology; and
- Sustainable farming livelihoods

Greening Australia urges the Government to take the opportunity to redefine 'carbon sink' under the Tax Act or in complementary measures to the CPRS so as to avoid perverse environmental outcomes from the operation of these policy instruments, and to maximise the expansion of (carbon sink) native forests in a way that is consistent with the intent of the *Environmental Protection Biodiversity Conservation Act (1999)*. Well designed tax incentives/complementary measures to the CPRS could channel significant private sector investment not only into climate change mitigation & adaptation but into a wide range of environmental services including the following:

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

These policy instruments could also provide protection and assistance to agriculture as we move to a low carbon economy.

Greening Australia would be pleased to further discuss the position outlined in this submission

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