



Rural and Regional Affairs and Transport Committee

Topic	Inquiry into legislation underpinning carbon sink forests.
Presenter	Mr Peter Balsarini – Executive Director Carbon Conscious Limited Mr Mike Shields – Non Executive Director Carbon Conscious Limited
Date	Thursday July 24 2008 – 11.45am

Carbon Conscious is actively involved in the Australian carbon market having listed on the ASX in May 2008. Our business proposition is the creation of stake holder value through the sequestration of carbon from the atmosphere via the planting of native Mallee Eucalyptus trees in the wheatbelt areas of Australia.

The business identifies optimal sites within wheatbelt farms of Australia and integrates planting of these trees with existing agricultural activities. This integration involves working in conjunction with the farmer to ensure that plantings can co exist within existing cropping rotations.

Existing farmers maintain ownership of the land while Carbon Conscious takes a carbon right on the land which is registered on the title. The Carbon right enables the production of a carbon credits (now called Carbon Pollution Permits under the Government’s proposed Carbon Pollution Reduction Scheme) as the trees grow and the carbon is sequestered.

Farmers are rewarded for the use of their land with cash consideration, and or, a share of the carbon credits generated from the plantings. In addition farmers will reap significant environmental benefits on the surrounding land due to the presence of the native trees.

Carbon Conscious believes that there is no net loss of food production from the plantings due to the environmental benefits associated with the trees.

The capital cost associated with the use of the land and the planting of the trees will, in the majority, be met by third party carbon emitters. These third party emitters will be asked to pay “up front” for the cost of establishing the trees and in return will be provided with the stream of carbon credits over the growing life of the trees.

The decision making process for the third party emitter is a hedging decision. They will compare the known cost associated with planting and maintaining the trees against their potential liability under the proposed Carbon Pollution Reduction Scheme. The carbon emitter who invests into the carbon sink will take real risk on tree growth over the period of the plantation.

Carbon Conscious will manage the plantations over the effective life of the plantation for an agreed management fee.

Carbon Conscious contends that the tax deduction under consideration is very material to the successful operation of this program as it provides an additional economic stimulus to the proposed project. We believe that this represents an ideal opportunity to direct necessary capital to achieve positive environmental outcomes with the potential to ensure the long term sustainability of the wheatbelt regions of Australia.

Key Considerations.

Carbon Conscious would like to highlight a number of significant points for the Committee's consideration.

1. Target Land -Land targeted for the Carbon Conscious project is in low rainfall areas 250mm – 400mm rainfall per annum. High rainfall / high value agriculture land is not a target in the project.
2. Land for food production - In a well planned and managed plantation of mallee trees there will be no net loss of agricultural productivity from planting of 10% - 15% to native trees. This is due to the environmental benefits associated with the trees.
3. Salinity Reduction - the planting of native mallee trees provides significant reduction in the ground water table which in turn reduces the effect of salinity. Salinity is the major environmental issue faced by grain farmers today. The majority of farmers undertake native tree plantings (often funding by government) in an attempt to reduce the effects of salinity. A project such as this provides a fully funded alternative to farmers.
4. Top Soil Degradation -strategically located plantings provide required wind breaks in the farm thereby maintaining existing top soil and assist in boosting productivity.
5. Unproductive soils -significant areas of the Western Australia wheatbelt are economically unviable for food production due to the soil quality but are however ideally suited to growing native trees.
6. Reintroduction of native trees - Farmers have been clearing native trees for hundreds of years. In some cases this was part of the agreement that they undertook with the WA State Government in order to achieve freehold title to the property. The project represents a reintroduction of native trees on a substantial scale albeit in a more planned manner.
7. Wild Life Habitat -The trees planted are native and provide a habitat for indigenous flora and fauna.
8. Alternative Farm Income - The model provides alternative farm income in the form of one off cash payments for land value, share of carbon receipts and ongoing revenues for management services performed.
9. Natural Resource Guidelines - the plantings are Kyoto compliant and are planted and maintained accordance with Oil Mallee Industry Code of Practice.
10. Cleared Land - Only land cleared prior to 1990 will be eligible for planting as carbon sink.
11. Title Issues - Western Australia legislation allows the creation of a carbon right. This carbon right is registered on the property title. In addition to the carbon right a carbon covenant is also

agreed and lodged which outlines the term and conditions of the right. Under the covenant the land owner is prevented from clearing the trees for a period of 70 years.

12. Hedging strategy - The tax deduction provides incentive for third party emitters to invest in the forest carbon sink projects. The upfront deduction enables more definite project financial feasibility and aids in the decision making process.
13. Forestry MIS - The Carbon Conscious program will not fall under the definition of a Forestry Managed Investment Scheme (Forestry MIS).

Attached at appendix 1 please find further detail about the Carbon Conscious business model.

We encourage the Committee to consider the positive nature of the proposed program when considering the legislation on carbon forest sinks.

Appendix 1

Summary of Key Facts of Carbon Conscious Program	
Business History	<p>Carbon Conscious Limited (CCF) formed in January 2008 Listed on the ASX May 2008 (raised approximately \$7M) CCF was “spun out” of an innovative business Australia Agricultural Contractors Limited (AACL). AACL manages an innovative investment scheme that pools equity and provides this equity to wheat farmers across the wheatbelt (primarily in Western Australia) in a share farming arrangement. In the 2008 growing season AACL is share farming on approximately 250 locations with 200 farmers across 200,000 hectares of cropping country growing 385,000 tonnes of wheat and barley under this model. CCF was formed to plant native Mallee Eucalypt trees in the wheatbelt areas of Australia for the purpose of carbon sequestration. The business identified that this was a value add opportunity for all stake holders including the farmers within the scheme and that it provides significant environmental risk mitigation strategy for all parties.</p>
Sequestration Process	<p>Carbon sequestration through trees relies on natural photosynthesis which uses Carbon Dioxide from the atmosphere along with sunlight in a chemical reaction to produce oxygen and glucose. Hence Carbon Dioxide from the atmosphere is captured in the structure of each tree.</p>
Tree Species	<p>Range of Mallee Eucalypt species targeted at different soil types and climate preferences. Eucalypt Loxophleba (Smooth Your Gum) generalist species grown across WA Eucalypt Horisties - grows on reddish sands through to heavier loam soils Eucalypt polybractea - suited to most soil types, slightly alkaline to acids soils Eucalypt plenissima – preference for reddish sand and sandy loam soils.</p>
Planting Configuration	<p>Targeting 10% - 15% of any given farm as follows:</p> <p>Belt plantings - 10m wide consisting of 4 rows of seedlings. The belt can be as long as the farmers paddock allows. The belt is integrated into the farmer’s paddocks at a ratio of approximately 10%. i.e. 100 metres of cropping 10 metres belt another 100m of cropping.</p> <p>Block plantings – planting on country generally economically or unviable to the farmer in cropping rotations. Block plantings may be on country that has soil types such as Wodgil and Morrell soils.</p>
Soil Type	<p>Sandy soils, loams and some clay soils in low to median rainfall areas (250mm to 450mm per annum).</p>
Accreditation	<p>Application for accreditation with the Department of Climate of Change at present to be an accredited supplier of Carbon Credits under the Australian Government’s Greenhouse Friendly Program™. Application includes systems and procedures processes to ensure ongoing ability to manage project.</p>

Why Mallee Eucalypt Trees	Native Tree ideally suited to local conditions. Tree regenerates after fire Lives 100 + years Significant environmental benefits (see below).
Environmental Benefits to land owner	Reduction in Salinity via the reduction of saline water ground water rising to the surface. Maintenance of top soil on farm by the planting of strategically belt and block plantings. Stock protection – increased lambing rates Expanded habitat for wild life
Structure of ownership	Ownership of the freehold title remains with the farmers while Carbon Conscious registers a carbon right on the title of the property. Attached to this carbon right is a carbon covenant that ensures that the terms and conditions including the maintenance of the trees for a period of 70 years.
Permanency Issues	Under the Kyoto protocol the carbon estate must be maintained for a period of 70 years. The recent Green Paper released by the Federal Government reinforced this requirement.
Example Farmer Issues	Farmer A– mallee plantations as belts across the farm will reduce wind erosion on light soils without reducing paddock productivity, especially from grain production. Farmer B – mallee plantation on acid soils enables use of land which now cannot provide viable agricultural production. Real Estate Agent– many light land properties on the market can't be sold because of poor productivity. Mallee establishment allows such farmers to reduce mortgage levels by freeing up capital from less productive land. This helps achieve better viability over the balance of the farm in the long term and helps encourage sale of land which is otherwise unsalable.