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## Growing concerns for those who branch out

**CO2 Group (COZ) 20c; Carbon Conscious (CCF) 40c**

TONY Abbott may have pledged his own blood (or Malcolm Turnbull's) to axe the carbon tax, but beneficiaries such as Peter Balsarini aren't losing any sleep at the prospect of the Coalition seizing power.

The head of tree grower Carbon Conscious, Balsarini says a new government would be unlikely to have the Senate numbers to do so. In any event the carbon abatement genie is out of the bottle and corporates will adjust quickly to what in reality is a modest impost.

In theory, rearing trees to create carbon sinks rather than woodchips should be simple enough. In reality the rules reek of a convoluted compromise devised after a night on the nettle juice with the Greens.

Balsarini admits the initial winners will be a new breed of carbon consultants to audit plantations and advise corporates such as big fuel users: do they opt in to the carbon price regime and invest in offsets, or stay out but incur a fuel excise rebate reduction equivalent to the \$23 a tonne starting price?

CO2 and the smaller Carbon Conscious have a similar model of growing trees for big polluters.

Carbon Conscious, which has 8000ha of mallee eucalypts under management on marginal Western Australia wheat land, yesterday said it was likely to boost current-year plantings from 2000ha to 10,000ha.

Carbon Conscious has \$30 million of management contracts, mainly from BP and Origin Energy. These users also have an option to sign up for \$190m more, with \$63m of this component triggered by the passing of the tax.

Balsarini says the tree game is a sellers' market, given the captive need (irrespective of the carbon tax). Chevron, for instance, must offset 2.3 million tonnes a year as a condition of developing its Wheatstone LNG project.

CO2, whose main client is Woodside Petroleum, says a key provision of yesterday's Clean Energy Bill is that the abatement methods must be "Kyoto compliant" (which excludes projects such as soil-carbon storage).

Ultimately, the tree growers' potential hinges on whether it's cheaper for polluters to invest in leafy carbon sinks, or pay the tax.

Balsarini says "his" trees generate credits for \$13 to \$18 a tonne on

a net present value basis — better than handing over \$23 to the feds.

But where the price settles after the fixed period ends in 2015 is anyone's guess. Similar European credits are changing hands for 12 euros (\$16) a tonne, compared with 20 euros in early 2009.

Criterion views CO2 and Carbon Conscious as concept stocks, but they're both modestly profitable: the former produced \$1.5m on revenue of \$15m in the March half, while the latter made \$629,000 on \$7m for the full year to June 30.

We ascribe a **speculative buy**. While others will enter the sector, they have a crucial first-mover advantage: foliage growth can't be hurried.

