

Submission To the Review of Taxation of Plantation Forestry

I write on the impact of plantation taxation policy in respect to Tasmania, where that impact is more than an order of magnitude greater than anywhere else in Australia. Though this is due in large part to the extraordinary influence on the Tasmanian government wielded by the principal logging company, the tax regimen and the “20/20 Vision for Plantation Forestry” to which it is pursuant, have been integral to the situation.

Tasmania is currently experiencing a proportional rate of logging believed to be the most intensive in the industrialised world. With less than 0.9% of Australia’s land area, and 13.6% of the country’s designated RFA forest area, Tasmania is producing close to 80% of Australia’s woodchip exports and some 95% of the hardwood chip exports. Over 90% of the state’s harvest volume is converted to chips, far and away the highest in the country, while the production of sawn timber has remained stable during a doubling of the harvest volume since the signing of the state’s RFA in 1997. Some three years ago, Tasmania replaced the Southern US as the largest regional producer of hardwood woodchips in the world.

In the period since 1997, Forestry Tasmania annual reports have exhibited what has been termed the “X factor” a harvest volume rapidly rising in inverse proportion to a declining public dividend from Forestry Tasmania, a sum which has always been nominal but which is moving heavily into actual loss by most accounting standards. Meanwhile, a state which banks on the natural environment as the basis for a tourism industry more important in economic terms and employing four times as many people as forestry is experiencing a proportional rate of native forest destruction from forestry alone greater than that being experienced by the Amazon from all methods. Tasmanian forest industry jobs have been halved since 1997 according to Forestry Tasmania figures, due largely to the low labour requirements of the increasingly dominant woodchipping sector.

The low labour requirements of woodchipping are combined with a currently hungry market, and the extremely low cost of wood resources provided by both the very favourable tax arrangements for private plantations and the very low prices charged for public land wood by the Tasmanian government to produce extremely high returns for Gunns Ltd. Having paid nothing for the establishment of native forest, with pulpwood plantations available for harvest in 12-15 years, and a ready market for woodchip exports, the Tasmanian industry has little interest in waiting the 80 years required to grow sawlogs, even though sawn timber is worth from 5-20 times the value of chips by weight. There is, moreover some evidence of deception in the claimed purposes of plantations, with the industry regularly claiming that certain plantations are intended to produce sawlogs when they are in fact planted in *E. nitens*, a pulp variety which is of poor timber quality.

The prodigious logging rate, however, is producing enormous present and future losses and waste which are not being calculated at all by the Tasmanian government. What are now called “environmental services”, the economic value of natural environments, such as the discovery that the value of water from undisturbed catchments is often worth far

more over time than all the wood that can be extracted, have been largely ignored by conventional economics and strenuously so by Tasmanian policy makers.

The very high percentage of logs chipped indicates that much of it, perhaps a million tonnes per year, would be potentially millable timber, but well in excess of market capacity. To this must be added the enormous quantities of specialty timbers such as myrtle, celery-top, sassafras, and blackwood which are routinely burnt as logging waste on the forest floor due to the speed and huge volumes of Tasmanian logging. On many coupes as much as 80% of the felled wood is burned on site. The slower-growing but much more valuable special or craft timbers are almost never replanted or re-seeded. The potential sawn timber value of wood burned or chipped has been estimated at over \$1 billion per year.

The very substantial tax advantages accorded to plantation investments has meant that plantation managers have been able to buy up over 12% of Tasmanian farms in recent years. With investors being charged from \$5500-\$10,000 for a hectare of plantation seedlings which may have cost the manager perhaps \$1200 to plant, the plantation manager is able to buy up enormous areas of private land with the establishment fees, which provide the manager a handsome immediate profit. Any native bush on the purchased land is of course clearfelled to the sole profit of the manager.

The Tasmanian government has matched federal taxation largesse by allowing logging firms free use of the public land they have clearfelled for the private plantations they establish on these coupes. In addition, state legislation prohibits the valuation of plantation or forest on private land dedicated for commercial forestry purposes, meaning that minimal local government rates are payable on such land. Combined, these measures have contributed to massive land use change in Tasmania.

With the land use change has also come degradation. As other land improvements are subject to valuation for council rates purposes, these fixtures, such as fences and outbuildings are normally destroyed by purchasing plantation managers. After two rotations of pulpwood, most soils are too depleted for a third, leaving any succeeding farmer with the unfeasible burdens of removing stumps, restoring fertility, neutralising the soil acidity, and replacing basic infrastructure.

The 20/20 Vision's objective of "removing all impediments to plantation forestry", including legislative and environmental ones, has sanctioned a virtual war on the public interest which inspired those legislative impediments, one which will eventually be extremely costly, but which the Tasmanian government has taken on with gusto.

The intensive establishment of thirsty plantation cultivars in a catchment can result in a drop of up to 40-50% of catchment yield, after an initial period of rapid run-off and erosion. Tasmania is now seeing permanent creeks becoming seasonal. Even more alarming is forestry's aerial spraying of highly toxic herbicides and pesticides, such as Atrazine and alpha-cypermethrin, in those catchment with negligible government monitoring or regulation. Tasmania's already high cancer rate is reported to have

increased by 37.6% in the 1976-2000 period. It appears only a matter of time before sufficient causality between these chemicals and diseases is established to enable legal actions to be mounted.

Tasmanian forestry is estimated to burn some 15-20 million tonnes of logging waste yearly, creating amounts of atmospheric pollution which have elsewhere been shown to have significant impacts on asthma and other respiratory conditions. Typically, responsibility for rural air quality has been delegated to Forestry Tasmania, which does no monitoring.

Tasmania's communities have been effectively stripped of most of their planning powers to control forestry and protect property values through a legal device called a Private Timber Reserve, an easement to the industry on private land which takes the subject land outside planning jurisdiction, as well most environmental legislation. Some 400,000 ha of the state is currently under PTRs.

If there ever was a coherent public interest objective behind the plantation taxation policy, the 20/20 Vision, or the RFAs, it has been thoroughly subverted in the case of Tasmania. All three are being used to squander the present value of the forests and destroy their future potential value in what is essentially a crash liquidation of the forests for chips, and for a vast grab of both private and public land. It is noteworthy that both Western Australia and Victoria essentially abandoned their RFAs when the industry's real objectives, albeit on a much more modest scale than Tasmania's, became politically intolerable.

The damage to forest potential by the waste and misappropriation of public money. Natural Heritage Trust funds for reforestation are being used to finance Private Forests Tasmania, a government body which promotes the establishment of plantations on private land, replacing native forest wherever possible. Funds for reserving conservation values on private land remain unspent for four years as the state government sought to divert them.

When eminent environmental geographer Jared Diamond was recently in Australia, he was asked his opinion on Tasmanian logging. He incredulity at the wanton waste of it, likening it to the terms on which former colonies were made to disgorge their raw materials to their overlords. When asked for an explanation, he surmised that it arose from the politicians' "conflict of interest", a diplomatic way of saying "corruption".

This logical perception is shared by a large and growing number of people both here and elsewhere in the world. As the damage and stupidity inexorably more apparent, it will also become an ever greater embarrassment to the Australian Government. It also threatens the future of both tourism and agriculture in the state.

A structuring of plantation tax policy will not by itself cleanse the Third World political culture of Tasmania, but it could well halt the woodchipping juggernaut that has commandeered it. The real value of woodchips has been falling by around 1% per year

since the middle eighties, and the elimination of the unwarranted tax avoidance incentive would bring that juggernaut, chasing ever- narrowing profit margins with ever-increasing volumes, to a halt.

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