

Submission to the Review of Taxation Treatment of Plantation Forestry

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Current plantation situation

Australia is currently experiencing a massive and unprecedented rate of forest plantation establishment. An average of about 70,000 hectares of hardwood and softwood plantation are established each year around the country. Australia now has about 1.5 million hectares of plantation about a third of which has been established since 1994. Increasingly hardwood plantations are taking over from softwood plantations as the favoured type of plantation and a majority of plantations around Australia are privately owned.

There have been, however, significant downsides to the recent rapid national expansion of plantations from an environmental and social point of view. From an environmental point of view a large proportion of plantation establishment has occurred in areas previously occupied by native and regrowth forest, this is particularly the case in my state of Tasmania. In 2002-03 39.63% of all state forest (ie forest on public land) that was clearfelled in Tasmania was converted to plantation while 38.64% of all forest clearfelled on private land was converted to plantation. Plantation establishment is often associated with destructive management practices including the use of pesticides and of 1080 poison to keep animals away from seedlings. Under the recent Tasmanian Community Forests Agreement the use of this poison will be allowed to continue on private land. The social downsides of plantation establishment largely flow from the conversion of farmland to plantations, in Tasmania as much as 15% of all the state's farmland has now been converted to plantation. This is highly disruptive to Tasmania's farming community and significantly reduces Australia's food self-sufficiency. There has been no evaluation of the cost flow-ons to the community including water pollution, water siphoning (plantations absorb up to 25% of catchment run-off), soil erosion and atmospheric pollution from regeneration burns.

Industry downsides to plantation establishment

The downsides of plantation establishment are not confined to environmental and social issues, there have also been significant forestry industry downsides associated with plantation establishment in Australia. The two most significant downsides have been that most hardwood plantation establishment around Australia has been for short rotation cycle pulpwood and not for longer rotation sawlog and nearly all plantation establishment has been for logging purposes with very little established for long-term conservation or land-management purposes. Prevailing tax regimes have been largely responsible for both of these downsides.

In 2002 the National Forest Inventory cooperative project carried out by the Commonwealth and state/territory governments predicted that around the country 36,052,000 cubic metres of sawlogs would become available from Australia's hardwood plantations between 2005 and 2044 without new planting while 326,132,000 cubic metres – an extraordinary nine times the sawlog volume – of pulpwood would become available from Australia's hardwood plantation without new planting. In Tasmania between 2005 and 2044 the National Forest Inventory predicted that without new planting 26,960,00 cubic metres of sawlogs would become available from the state's hardwood plantations while nearly four times that amount – 89,968,000 cubic metres – of pulpwood would become available. About \$800 million is invested each year around the country in plantations but only about 10 per cent is directed towards sawlog plantation establishment that typically have rotation periods of 20 to 30 years (versus 8 to 15 year rotations for pulpwood). The bias towards pulpwood plantations will eventually lead to a reduction in the sale price of woodchips, which will mean Australia's environment will be destroyed for a diminishing return, and will mean that access to native forest sawlogs will continue as a justification into the future for native forest destruction.

Most of the driving force behind the extraordinary bias towards short rotation pulpwood hardwood plantation establishment has been the application of Division 8 of the Income Tax Assessment Act of 1997 which allows immediate tax write-off of all of the expenses incurred in establishing a commercial forest plantation. This allows large tax deductions to corporate and personal investors in years of high assessable income effectively allowing them to use plantations as a form of tax shelter to facilitate the shifting of taxable income to future years when assessable income may be lower. This tax treatment of forest plantations is very different to the tax treatment extended to other forms of commercial tree establishment such as fruit tree establishment where the costs of establishing the trees has to be depreciated over the useful life of the trees which encourages longer term investment than that stimulated by the immediate write-off tax regime extended to forest plantations.

The second industry downside is that very little plantation establishment is done for conservation or land management purposes – this is also largely driven by the prevailing tax regime. Under determination ID2004/768 no tax deduction is allowable for plantations that are not established with a view to eventual felling. This determination sets up another bias against the establishment of plantations for purposes like windbelts, anti-salination measures and streamside protection etc.

Changes needed to the plantation tax regime

It is clear that the immediate tax write-off treatment of plantations and the non-deductability of expenses incurred in establishing conservation or land management plantations are doing the hardwood plantation industry and competing land-use options in Australia a great disservice and are introducing huge biases. The tax write-off should be removed. Alternatively there should be a change that allows at least partial deductability of the expenses incurred in establishing a conservation/land management plantation and much longer write-off periods for the establishment costs of commercial plantations. There doesn't seem to be any compelling case for plantations to be treated differently to fruit trees and therefore there is a solid case for plantations to be depreciated over their useful lives, at the very least they should be subject to much longer write-off periods of at least ten years.