

Our ref: jb:rm:jul018

29 July 2005

Review of Taxation and Plantation Forestry
C/- Department of Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir or Madam,

RE: Plantation Taxation Review

Timber Queensland is the peak body of the timber industry in Queensland. The Queensland industry is reliant on plantations to supply approximately 75% of resource, and this proportion is set to increase with the transition to plantations as part of the South East Queensland Forests Agreement and the Western Hardwoods Statewide Forests Process.

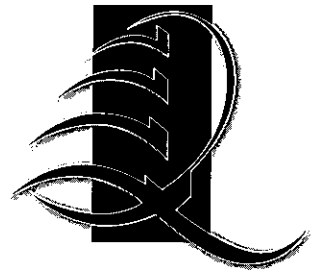
The Queensland softwood industry is totally reliant on plantations and is currently resource constrained. Virtually all available resource is committed to existing processors thereby constraining any further development, particularly in light of recent major investment in the processing capacity in Queensland.

The Queensland hardwood industry is largely committed to a transition to plantations to replace the native forest resource currently drawn from State Forests. By the year 2025, it is envisaged that all hardwood wood supply in Queensland will be from either plantations, or privately owned native forests.

As such, the timber processing sector in Queensland is critically reliant on long term solid wood plantations for its future.

The major investment in sawlog plantation establishment has been from the State Government, although a small number of softwood plantations are currently being established by timber processing companies. Recent investment in plantations from other private sector sources has largely been towards short rotation hardwood fibre crops, although a small proportion of private investment in Queensland has been in long rotation hardwood crops.

It would appear that the 12 month pre-payment rule has been instrumental in promoting investment in plantation establishment, although the need for an early return has driven the majority of this investment into short rotation fibre crops. The long term continuation of this taxation arrangement for plantation investments would appear to be critical to maintaining this investment.



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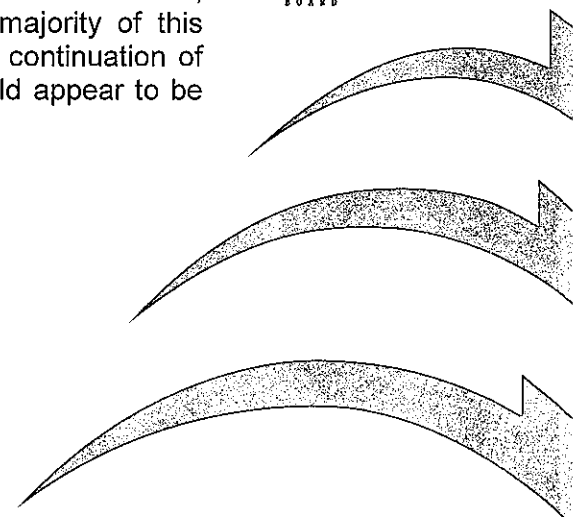
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However, the current restrictions regarding on-selling of such plantations is clearly one impediment to developing secondary markets for plantations, which could provide a useful mechanism to promote extended rotation plantations. That said, it is hard to see profitable trades into longer rotation crops given the cost structures of the current short rotation managed investment scheme plantations.

It would appear that more fundamental changes to the cost structures would be required to generate profitable long rotation options involving secondary markets. However without appropriate taxation treatment, these investment options are unlikely to be fully developed.

Whilst the current taxation arrangements clearly support the establishment of short rotation fibre crops, it is unclear whether this is at the expense of long rotation sawlog crops. Although short rotation crops appear to compete for suitable land, which is somewhat constrained in the recognised plantation areas, in Queensland they are helping to generate a critical mass of plantations and associated expertise that would otherwise not be present.

In terms of role of Government in plantations, Timber Queensland has been supportive of the Queensland Government's investment in plantations in this state, both in softwood and hardwood species. However, this should not be at the expense of private investment.

In relation to softwoods, the Queensland Government, and a number of processors appear to be the only businesses prepared to invest in further resource development in this area. Timber Queensland is unaware of any negative taxation impacts of Government investment in softwood plantation establishment and management, however industry continues to face the negative implications of a monopoly supplier to our industry.

The role of large Government growers in establishing base sawlog prices is occasionally quoted as a barrier to private investment in long rotation plantations. However, Timber Queensland believes that Queensland log prices are comparable to those in other States, which includes significant privately owned resource.

In relation to newer hardwood plantations, Timber Queensland is very supportive of the direct investment that the Queensland Government has made to establish the fundamentals of hardwood sawlog plantations in subtropical Queensland. There has historically been little confidence in issues such as hardwood species and site selection, and until recently, disease has been an issue for a key hardwood species.

However, now that much of the basic work has been done, Timber Queensland is supportive of the Queensland Government's intention of putting significant further hardwood plantation establishment to the market to deliver. Whilst it is envisaged that the private sector is likely to pick up most of this work, it would seem appropriate that Queensland's Government forestry organisation should be able to tender for such work provided it is on a fair and equitable basis with private sector businesses. Competitive neutrality in relation to taxation treatment may be an important issue in this situation.

Opportunities to adapt taxation policies to better integrate plantation and natural resource management (NRM) policies would appear to be an admirable objective. However, Timber Queensland would be keen to ensure that any taxation benefits to support the sawlog plantation establishment are not compromised by other objectives. That said, TQ would support new taxation incentives that delivered on NRM objectives, provided they could realistically support sawlog plantation establishment that would generate a commercial timber product for the industry.

Further in relation to natural resource management objectives, the future hardwood and cypress industries in Queensland will also be reliant on private native forests. Taxation treatment of native forest areas needs to support sustainable management of this important resource. AgForests Queensland, a joint initiative between Timber Queensland and AgForce, Queensland's peak rural body, and funded by the Federal Government, is planning to make a submission on this matter.

At this stage the relative effectiveness or otherwise of taxation versus expenditure programs to support plantation investment is unclear. However the current taxation treatment of plantations is plainly not delivering a high proportion of long rotation plantation crops, which more direct expenditure programs could possibly deliver. Unfortunately, expenditure programs can be subject to issues regarding longevity, a critical need of the sawlog plantation sector. Ultimately, the nature of the taxation incentive or expenditure program, the final cost to Government, the impact on industry profitability, and longevity of any program will be critical as to whether one or another arrangement is more effective in actually delivering a substantial solid wood resource to industry.

We trust that this provides an overview of the situation in Queensland and some indication of how taxation is affecting the industry here. I would be keen for Timber Queensland to participate in further discussion on the matter.

Yours sincerely,



Rod McInnes
CHIEF EXECUTIVE