Plantations North East
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Review of the Taxation of Plantation Forestry
C/- Department of the Treasury
Langton Crescent
PARKES ACT 2600

SUBMISSION TO THE REVIEW

INTRODUCTION

Plantations North East, Inc is a Private Forestry Development Committee representing plantation growers, processors, farm forestry, local and state agencies who are stakeholders in the development of private forestry in the North East region of Victoria. The key feature of the region is a mature estate of Radiata Pine plantation of more than 62,000 hectares, and this supports major wood processing plants in the region that employ over 800, and produce over $160M of output value. A significant quantity of pine logs from the region is processed across the border in NSW.

The hardwood eucalypt plantation estate is small by comparison, only 3500 hectares have been planted since 1996. This resource is distant to port, and so is more likely to be managed for sawlog supply to new regional mills in the future.

There is a significant, but declining, level of processing native hardwood logs sourced predominantly from state owned native forest areas. The timber industry in total employs over 3400 people, and contributes over $225M of output to the region's economy. (Refer the attached report "The Timber Industry in North East Victoria, an Economic Assessment, Prospect Consulting for PNE May 2002")

PNE submits that the review should consider the implications of changes to the taxation of plantations with the context of the changing nature of land ownership and management in the region in mind. There is clear evidence that in this region of Victoria, as in others, farm succession is not an option for landowners. The current landowners can either stay and sell later, or sell sooner. (Refer the report "The Changing Social Landscape of Rural Victoria", by Neil Barr DPI April 2005, attached)

In the current land price boom, many landowners thinking of retirement will consider selling. Plantation investors, generally represented in this region by the MIS companies, are purchasing land in an environment of some willing sellers, and some resentful neighbours.

These may not currently have the means to purchase the retiring farmer's land and expand their own enterprise. The MIS companies are seen as a threat to the ongoing viability of existing farmers to reach new/higher and more profitable levels of activity.

This context of social change forms the backdrop for all future land uses, plantations being just one of the options.

PNE shares the vision of Plantations 2020, the national policy to expand the plantation resource, and bring increased levels of economic activity into regional Australia. The regional goal PNE has adopted is to encourage an additional 25,000 hectares of plantation and enable future additional processing to develop. The current plantation resource represents only 5% of the cleared agricultural land in the region, yet the plantations produce the second highest regional value add of all agribusinesses in the region, after wine.

TERMS OF REFERENCE

The key issues PNE proposes to address relate to Terms of Reference 2, 3, and 4

2. Whether the operation of tax law impedes investment in longer term forest rotations that produce higher value product.

There is a lack of investment capital flowing into investment in longer rotation plantation product such as saw or veneer logs that may eventually replace logs currently supplied native forests. It would seem that the longer time frames (generally around twenty to thirty years) to grow larger logs processed with current technology require a higher return: a risk premium due to the long term of the investment. A solution where plantations that were established as bona fide long term resources could be sold on a secondary market would attract more of the long term investment pool, eg super funds

Currently it is clear that processing companies are divesting their plantation assets. Incentives for processors to invest directly in resource security could change that. And, incentives for R & D to shorten the time to produce marketable products from plantation logs would reduce the current gap between rotations for logs for chip/pulp/paper export and rotations for saw/veneer logs.

3. The role of state and territory governments in plantation industry developments as investors, growers, and land managers, and any implication this has for competitive neutrality with regards to tax liabilities and incentives.

In Victoria, state policy in the 1990's decade resulted in the sale of state owned pine plantations, whereas in NSW the state was and is still an owner and co-investor. In Victoria, the state policy on investment in plantations changed in 1989, and as a result no new pine plantations were established. In the NE region, the plantation area remained static at 62,000 hectares. In NSW, from 1990 to 2004, pine plantations in the SW Slopes of NSW expanded by 35,000 hectares from 77,000 to 112,000 hectares. (The SW Slopes region is directly north of the NE region of Victoria, across the Murray River.)

Investments outcomes to process pine resource since 1990 in the two regions were markedly different: NE Victoria had just $120M, and NSW SW Slopes over $600M.

If the past is a lesson for the future, then state or local government could look again to invest in building long term resource assets. If not, then the plantation industry will require new sources of investment capital to ensure regional processing capacity can expand. Without expansion , which first requires additional plantation resource, the economic lesson is clear: there will be stagnation then contraction.

The private capital markets need to link with processors in new ventures that enhance the long term resource base. The logical place for investors with a long term view to go is either direct investment into processing companies, or as they are now doing, into purchase of established plantations.

4. The capacity to adapt existing tax policies to contribute to achieving the Australian and state government's desire to achieve a greater integration of plantation and natural resource management policies to improve the management of salinity and water quality.

The environmental situation in the Murray Darling basin in relation to salinity and water quality is well documented.

There is a countervailing perspective on the demand and supply of water that is being addressed in the National Water Initiative implementation process. However, it is clear that in some inland water supply areas existing water allocations may be above sustainable levels. In these areas, processes of competition for water rights in the market and rules on the water use impact of plantations may together discourage significant investment in plantations that would address the environmental degradation.

Environmental benefits cannot compete with current plantation investment schemes for wood product which have been established with tax rulings. A way forward could be to consider tax rulings that can include a >100%, say 150% rebate, for the environmental component in new plantation investment offers. The current system that allows landowners to claim a rebate after expenditure for conservation/environment works is clearly anomalous with current tax ruling investments, so there is no financial incentive for landowners to engage in these "public good" works on their land unless they are personally motivated.

State sponsored "Tender" or competitive bids processes are the same as rebates, with the addition of a lottery aspect, and spread the conservation funds more thinly across landscapes that need significant funds to address the degradation issues.

Yours sincerely,

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