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Review of the Taxation of Plantation Forestry  
Attention: Mr Matthew Collett  
c/o Department of the Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Mr Collett,

I am writing this overarching submission to the 'Review of Taxation of Plantation Forestry' to bring to your attention the rationale behind 'Plantations for Australia: The 2020 Vision' – the national government and industry strategy that supports plantation expansion.

'Plantations for Australia: The 2020 Vision' is a long term and active strategic partnership between the Australian Government, the State and Territory governments and the plantation timber growing and processing industries.

The 2020 Vision partners are the:

- Australian Plantation Products and Paper Industry Council
- Australian Forest Growers
- National Association of Forest Industries
- Australian Government
- Governments of Victoria, New South Wales, Tasmania, South Australia, Western Australia, Queensland, Northern Territory, and Australian Capital Territory

I understand that most, if not all, of the 2020 Vision partners will be making detailed submissions to this review.

The national industry representative organisations work closely with the Australian, State and Territory governments to implement the 2020 Vision that seeks to attract the private investment necessary to develop a significant plantation resource, which will:

- Enhance the growth in Australia's forest industries
- Enhance the contribution made by plantations to the Australian economy, rural communities and regional development; and
- Enhance the contribution made by plantations to solving natural resource management problems, including climate change and salinity.

The overarching principle of the 'Plantations 2020 Vision' strategy is to enhance regional wealth creation and international competitiveness through a sustainable – in a triple bottom line context- increase in Australia's plantation resources.

Recent research, including Bureau of Rural Science studies examining the socio-economic impacts of plantation expansion in the Great Southern Region of Western Australia and the South West Slopes of NSW, have shown that plantation sector expansion can contribute to ongoing stable economic growth in regional areas, and to stable or growing populations in some towns which otherwise would have been likely to experience population decline.

The Vision has the notional target of trebling the effective area of Australia's plantations between 1997 and 2020 to around 3 million hectares. The rate of increase of the plantation estate area will vary regionally in line with the availability of suitable land and processing and marketing opportunities. The total area of plantations in Australia at December 2004 <sup>1</sup> was 1.7 million hectares, comprised of just over 1 million hectares of softwoods and around 700,000 hectares of hardwood plantations. Approximately 36% of this plantation area is under public ownership, 58% under private ownership and 6% under joint ownership.

Expansion of the plantation estate will be achieved at various levels across the plantation development regions of Australia. This will depend upon the 'critical mass' of plantation estate in each region or 'wood basket' and the processing industry that has developed, or is yet to develop, to process the existing plantation resource eg in some regions a 'critical mass' of plantation may have been established in a concentrated period in the late 1960's – early 1970's by State governments, or by both industry and government, with subsequent increases in plantation estate being established in an ongoing, but incremental, way, to resource an established or expanding processing industry.

In contrast to the previous scenario, in other plantation development regions the plantation estate may not yet have reached sufficient critical mass to adequately supply resource to the basic scale required for development of a robust processing industry. Plantation estates in such regions may need ongoing commitment to significant expansion to then attract investment to establish a processing industry.

Because of the long term nature of investments in plantation estate and wood processing, maintaining a positive and stable government policy environment for such investment is essential to the long term success of the 2020 Vision. While policy needs to evolve and be responsive to new circumstances, the policy development process should take into consideration impacts on plantation investment. Major policy initiatives should

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<sup>1</sup> National Forest Inventory 2005. National Plantation Inventory 2005 Update, Bureau of Rural Sciences, Canberra

strive to maintain a positive climate for plantation investment, and any changes being contemplated should be foreshadowed well in advance and discussed openly with the plantation industry and its investors.

In the absence of significant new investment from governments and the corporate and institutional sectors, individual investors are likely to remain the major source of funds for new plantation development.

In the following table I have grouped the agreed outcomes, principles and specific actions<sup>2</sup> from the '2020 Vision' that are pertinent to this review in relation to the terms of reference. I have also included some summary comments from 'A Progress Report by the 2020 Vision Partners April 2005'<sup>3</sup> to describe progress against the actions.

<p><b>Terms of Reference: Overall &amp; a.</b> <b>'a review of the application of taxation law to plantation forestry in the context of the Government's broader plantation and natural resource management policies'</b> <b>a. the commercial viability and current tax treatment of plantation investment;</b></p>
<p><b>Relevant 2020 Vision outcomes, principles and specific actions:</b> <b>'The Outcomes P 6</b></p> <p>The Plantations 2020 Vision outcomes are to ensure that plantation forestry in Australia:</p> <ul style="list-style-type: none"><li>• Promotes diversity in operations by encouraging large scale industrial plantations as well as smaller scale on farm plantings with a variety of management, ownership and investment options and opportunities;</li><li>• Attracts investment by large institutional investors (domestic and multinational) and superannuation funds, as well as individual investors and growers;</li></ul> <p><b>The Principles P7</b></p> <ul style="list-style-type: none"><li>• Sustainable and profitable plantation forestry needs private capital investment.</li><li>• The Vision Partners are committed to addressing the microeconomic and macroeconomic reforms and infrastructure issues necessary to ensure that Australian industry is competitive in the global marketplace.</li></ul> <p><b>Strategic Element 2</b> <b>The Regulatory Framework</b></p> <p><b>Action 4: Promote the development of appropriate structures to encourage investment in the plantation sector. (P 13)</b></p> <p>Ensure a regulatory system</p> <ul style="list-style-type: none"><li>• that is supportive of long term investments with irregular income such as plantation forestry, particularly where public good benefits are delivered;</li></ul>

<sup>2</sup> 'Plantations for Australia: The 2020 Vision' An industry/government initiative for plantation forestry in Australia, 2002 Revision [www.plantations2020.com.au](http://www.plantations2020.com.au)

<sup>3</sup> Plantations for Australia: The 2020 Vision 'A Progress Report by the 2020 Vision Partners' April 2005 [www.plantations2020.com.au](http://www.plantations2020.com.au)

**Relevant discussion from 2020 Vision Progress Report**

In summary the 2020 Vision Progress Report recognised the need for a continued effort, lead by industry, to investigate new investment arrangements for plantation development, particularly for long rotation plantations. Industry supported the preparation of the 'Impediments to investment in long rotation timber plantations' report prepared for the Forest and Wood Products Research and Development Corporation<sup>4</sup> and will be considering implementation of its recommendations as part of this review. The Progress Report also identified the need for Government to ensure that positive and stable policy frameworks are maintained for plantation investment, including in relation to taxation arrangements.

**b. whether the operation of the Income Tax Assessment Acts impedes investment in longer term forest rotations which produce higher value products;**

**Relevant 2020 Vision outcomes, principles and specific actions:**

**'The Outcomes P 6**

- Offers enough opportunities and certainty for robust secondary and tertiary markets for plantations to develop;

**Strategic Element 2**

**The Regulatory Framework**

*Action 4: Promote the development of appropriate structures to encourage investment in the plantation sector. (P 13)*

Ensure a regulatory system that

- enables the development of secondary markets.

**Relevant discussion from 2020 Vision Progress Report**

As above

**c. the role of State and Territory Governments in plantation industry development as investors, growers and land managers, and any implication this has for competitive neutrality with regard to tax liabilities and incentives;**

**Relevant 2020 Vision outcomes, principles and specific actions:**

**The Principles P7**

- Government business enterprises will conform to normal business principles and the principles of competitive neutrality, endorsed by all Governments through the National Competition Policy, ensuring that commercial plantation operations are clearly separated from traditional policy and regulatory agency functions.
- State and Territory forestry agencies and industry will encourage more competitive markets.

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<sup>4</sup> fwprdc.org.au

- Individual States and Territories will be free to determine the level of financial involvement in plantations.

**Action 6: Work with State and Territory forestry organisations in terms of National Competition Policy and developing transparent and competitive markets. (P14)**

- Review the commercial forestry activities of State and Territory Governments to ensure they are consistent with Government obligations under the National Competition Policy agreement.
- Ensure that Government ownership of plantations does not unnecessarily impede private investment in plantation establishment.

**Relevant discussion from 2020 Vision Progress Report**

The 2020 Vision Progress Report acknowledged that while further corporatisation of plantation estates is under active consideration in some jurisdictions, there is a need to ensure that government-owned plantation businesses are run in accordance with National Competition Policy principles. The National Competition Council (NCC) assessment of forestry issues, released in December 2004<sup>5</sup>, acknowledged that the NCC is ‘generally satisfied with the overall compliance by governments with forest legislation reform, but has highlighted the need for further steps by State and Territory forest agencies to meet the principles of competitive neutrality’.

- d. the capacity to adapt existing tax policies to contribute to achieving the Australian and State Governments’ desire to achieve a greater integration of plantation and natural resource management policies to improve the management of salinity and water quality;**

**Relevant 2020 Vision outcomes, principles and specific actions:**

**Strategic Element 2**

**The Regulatory Framework**

**Action 4: Promote the development of appropriate structures to encourage investment in the plantation sector. (P 13)**

Ensure a regulatory system that:

- does not discriminate against separation and sale of secondary products from plantations, such as environmental services or credits, which may be sold as a ‘right’;

**Strategic Element 4**

**Social and Environmental Factors**

**Action 14. Review and promote opportunities for environmental services to enhance plantation forestry.**

- Incorporate environmental services outputs into plantation management strategies and design.

<sup>5</sup> (NCC 2004) Assessment of governments’ progress in implementing the National Competition Policy and Related reforms: 2004 Volume one: Assessment [www.ncc.gov.au](http://www.ncc.gov.au)

- Establish ground rules for 'winner' credits
- Develop markets for environmental services, to ensure that growers and investors obtain the maximum return on their investment.
- Promote market development for environmental services to encourage plantation expansion in areas not currently viable based on timber production alone.
- Identify possible economic and policy instruments that would support private investment.

**Relevant discussion from 2020 Vision Progress Report**

The 2020 Vision Progress Report notes a need for determined continued joint effort by government and industry to promote the development of markets for plantation environmental services. While there is work underway exploring mechanisms for marketing environmental services in projects such as Commercial Environmental Forestry, there is a need for further development of systems and tools for quantification of environmental services.

**e. the relative roles and effectiveness of tax system and expenditure programmes in the delivery of assistance to the industry.**

**Relevant 2020 Vision outcomes, principles and specific actions:**

None specific to this ToR.

This review of taxation of plantation forestry is supported by the 2020 Vision partners. An outcome that leads to developing and maintaining a positive and stable government policy environment for investment is paramount to achieving the Vision.

Yours sincerely,



Joanne Roberts  
National Plantations Strategy Coordinator

Cc: Mr Allan Hansard, Department of Agriculture, Fisheries and Forestry