



18 August 2005



Review of the Taxation of Plantation Forestry
c/- Department of Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir

Forest industry positions on the review of the taxation of plantation forestry

The Australian Plantation Products and Paper Industry Council, Australian Forest Growers (incorporating its national special interest branch, Treefarm Investment Managers Australia) and the National Association of Forest Industries are the three national forest industry associations partnering the Commonwealth, State and Territory Governments in the national plantations strategy, *Plantations for Australia: the 2020 Vision*. Among them, these associations provide comprehensive representation of Australia's plantation growing and processing industries.

Our three associations have agreed to a series of broad positions that represent a cohesive national industry approach to the taxation of plantation forestry.

Each association has also prepared its own supplementary submission that elaborates on these positions from the viewpoint of the association and its membership constituency.

General comments

Plantations 2020 Vision was first released in 1997, and was re-released – revised and updated – in 2003. It is the foundation policy document setting the direction of the development of Australia's plantation industries. The overarching principle of the Vision is “enhancing regional wealth creation and international competitiveness through a sustainable increase in Australia's plantation resources, based on a notional target of trebling the area of commercial tree crops by 2020”.

While the Vision's actions provide a template for reducing impediments to plantation investment, **the key challenge remains how to attract finance to expand the plantation resource in key regions at a scale that will provide a critical mass of wood over time to support internationally competitive, integrated wood and paper manufacturing industries supplying domestic and export markets.**

The challenge is heightened by the unique nature of plantation forestry investment. Timber plantation investment is characterised by: high non-capital establishment costs in the first one to two years, agricultural risk, no annual income, possible small intermediate income from sales of silvicultural thinnings, and a long wait (ten to thirty years) for a lump sum return from final harvest, of which a large proportion (for a private grower) could potentially be subject to the highest marginal tax rate.

Being an agricultural crop where the tree is the harvested product (in contrast to fruit-bearing trees), all non-capital costs of plantation establishment are deductible in the year the grower incurs them. Were it not for this legitimate business deduction being available under tax law, private investors would see little attraction in a long-term, illiquid and comparatively risky investment in a timber plantation, and private investment in new plantations would all but cease (as it did in NZ in the mid-1980s).

Operating in compliance with the *Managed Investments Act 1998* and the ATO's Product Rulings program, managed investment schemes (MIS) have utilised this general business tax deduction provision to become the major means of attracting private investment to establish new timber plantations, with participating growers funding over 70% of all new plantations since the launch of the 2020 Vision in 1997. Harvesting of these plantations has now begun and domestic and export sales are generating taxable returns to growers.

Since before the launch of the Plantations 2020 Vision, State governments and wood processing companies have reduced their rates of new plantings, and some have sold their plantation resources. Farm forestry has contributed only a fraction of the future wood resource, and institutional investors have confined their investments to established semi-mature plantations where the early agricultural risk has already been absorbed by others.

In all countries where there has been a significant increase in plantation resources, governments have played an important role in driving that investment through grants programs and/or favourable tax regimes. Although the Australian Government has acted similarly in the past, there are no longer any grants programs or special tax incentives for plantation investment. There is only the general business deduction provision and its utilisation by the MIS plantation industry, and the 12-month prepayment rule. The latter supportive arrangement is essentially a timing mechanism that enables MIS plantation managers to plan their land, nursery and contractor requirements and establish the plantations in a seasonally appropriate manner within the 12 months following the income year in which the growers commence their businesses and pay and claim their lease and management fees, and in which the managers are required to pay tax on that income.

The criticism that the tax system has been designed to favour short-rotation pulpwood plantations is misplaced. The predominance of investment in such plantations over longer-rotation sawlog plantations is not intrinsically the fault of the tax system, which makes no distinction. Rather it is a reflection of the short investment horizons for most private investors, and is the major challenge in attracting funds to any form of long-term investment. **This is a critical factor in assessing the interaction of the tax system with plantation forestry.**

Industry positions

The industry has adopted the following positions. The plantation industry, as a whole ...

- Supports the rationale for and substance of *Plantations for Australia: the 2020 Vision*.
- Seeks the Government's acknowledgement of the demonstrated socio-economic contributions of plantations to regional communities, as revealed in the recent study by the Bureau of Rural Sciences.
- Seeks the Government's recognition of the unique characteristics of plantation investment (described above) and its interaction with taxation system.
- Seeks the Government's explicit confirmation of the existing general taxation arrangements for plantation forestry, to provide the stability needed for sound plantation management and to provide stable wood flows into the future.
 - This must include reaffirmation of the application of the general business tax deduction for plantation establishment and management, its utilization by the managed investment sector, and the continuation of the 12-month prepayment rule.
- Supports efforts to attract more investment in long rotation sawlog plantations to provide critical mass for internationally competitive domestic processing industries.
 - In particular, industry seeks the Government's priority implementation of recommendations in the FWPRDC report *Impediments to investment in long-rotation timber plantations*. In the taxation context, these include the stimulation of secondary markets for immature plantations, and the reinterpretation of paragraph 48 in Tax Ruling TR 2000/8 to enable MIS plantation projects to offer such secondary markets and thus attract more investment into long-rotation MIS plantations.

- Seeks the Government's commitment to resolve several long-standing problems in the tax treatment of small-scale private plantations, particularly those that discriminate against private forestry relative to other primary production enterprises.
- Seeks adequate and ongoing core funding for ABARE and BRS to conduct and publish periodic analysis of the supply and demand conditions facing the forest growing and timber processing sectors, of the performance against targets of each sector of the plantation industry, and of trends in key financial and socio-economic indicators.
 - Plantation growers and processors would commit to assisting the collection of the data necessary for such industry-wide analysis.
- Supports continuing efforts to bring together natural resource management and commercial plantations benefits, while also seeking recognition of the contribution commercial plantations already make to positive natural resource management outcomes.
 - Plantation growers and processors commit to working with governments to develop strategies and policy measures that will enable commercial plantations to make even greater contributions to achieving natural resource management objectives without compromising investment returns.
- Exhorts the Government to approach expenditure programs and tax provisions as both having advantages and disadvantages, and to consider optimum combinations of each class of measures to achieve particular purposes as appropriate, and to design any future measures in close collaboration with the plantation growing and processing industry.
 - The plantation industry does not seek special assistance. Rather, it seeks a reversal of the continuing increase in unnecessary regulatory constraints, and a stable long-term policy and regulatory environment in which to operate.

The plantation growing and processing industry appreciates the opportunity to contribute to this review. Each association's supplementary submission will elaborate on the positions set out in this letter. Furthermore, we all offer our continued assistance and co-operation in providing additional information as necessary and clarifying any points made in this letter or the supplementary submissions.

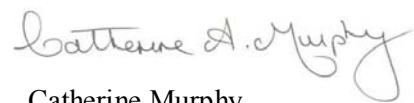
Yours sincerely



Neil Fisher
Chief Executive Officer
A3P



Warwick Ragg
Chief Executive
AFG



Catherine Murphy
Chief Executive Officer
NAFI