AUSTRALIAN FOREST PRODUCTS ASSOCIATION

TREES | WOOD | PAPER

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The Hon Joe Hockey MP
Treasurer
Parliament House
Canberra ACT 2600
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Submission — Tax Review Discussion Paper

Dear Treasurer

The Australian Forest Products Association (AFPA) was recently advised by Senator Mathias Cormann that the deadline for submissions on the Tax Review Discussion Paper has been extended for a further 6 weeks. We would like to take the opportunity to have our issues considered as part of the review.

AFPA is the peak national body for Australia's forest, wood and paper products industry. We represent the industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forest, wood and paper products. Forest industries support around 120,000 direct jobs nationally with a gross value of turnover of more than $20 billion.

The Australian forest industry is at a critical point. If the industry is to grow and prosper over the next 40 years, further expansion of the plantation resource is needed to support future investment in processing scale and boost industry competitiveness, in what is an increasingly global market. However, currently there are no drivers for new plantation establishment other than the plantation taxation arrangement. Since the Global Financial Crisis (GFC), which led to the collapse of many forestry managed investment schemes – which are structured around the plantation taxation arrangement - there has been a negligible increase in the establishment of new plantations.

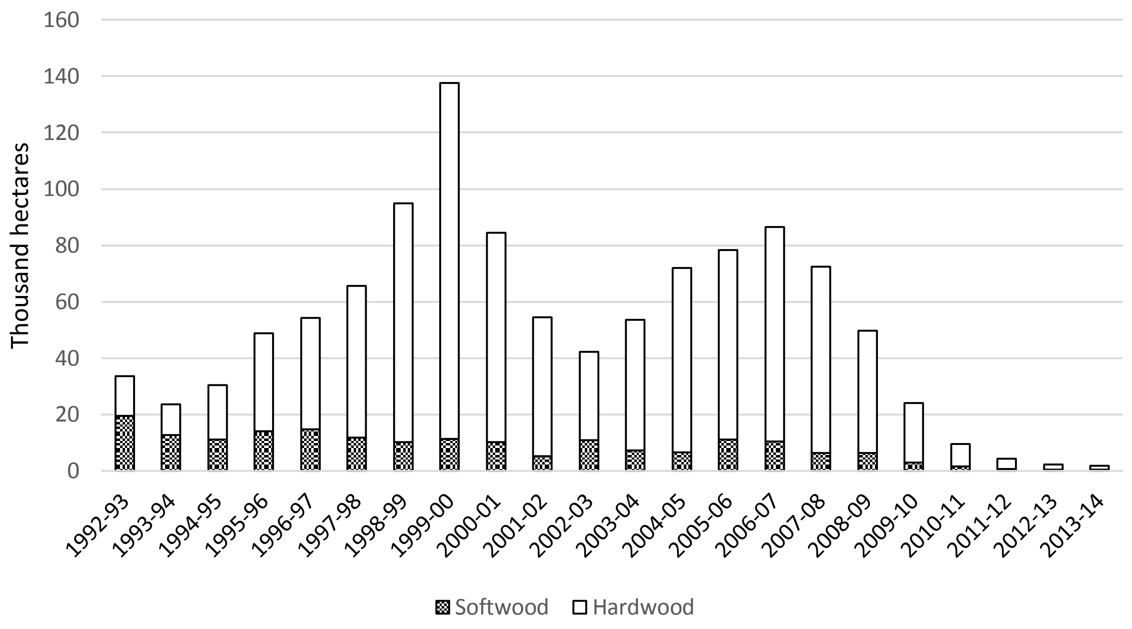
AFPA is concerned that given the unique nature of the plantation taxation arrangement and its limited use following the GFC, the tax review process may consider changes to the arrangement, and may even recommend removing it altogether. This would effectively close down the small number of remaining forestry managed investment scheme (MIS) projects and have serious long term ramifications for investor confidence in the forest industry.

The plantation taxation arrangement is currently the only tangible policy driver for plantation investment. Despite the demise of the larger forestry MIS companies following the GFC, there are still a number of smaller companies that continue to operate and rely on the plantation taxation arrangement to support their forestry MIS projects. These operators have successfully adapted to the changing markets and adopted lower risk models, including changing the financial structure of the MIS projects to include a small annual maintenance fee over the life of the rotation, in addition to the upfront cost to cover establishment.

It is important to note that the MIS structure, in combination with the plantation taxation arrangement, was successful in attracting private investment for new plantation establishment at little, or no, net cost to the government. Overall, it delivers net tax revenue to the government, through the tax paid by the forestry MIS companies on investor funds at the time of the investment and the tax paid by the investor on the sale of wood products at the time the plantation is harvested. This contrasts with the experience in most other countries, which have not been successful in attracting private investment for new plantations without well-funded public subsidy programmes. The MIS mechanism was attractive, as it proved successful in dealing with the challenges of up-front costs and the long time period until harvest revenues that are typical of most forestry projects.

The success of the MIS structure in attracting hardwood plantation investment in the early to mid-2000s (with new plantations averaging around 75 000 ha per year) is shown in Figure A below. However, since the GFC, there has been a dramatic decline in new hardwood (i.e. eucalypt) planting rates. There has also been negligible establishment of new softwood plantations since the 1970s and 1980s, owing to the demise of the concessional loans scheme from the Commonwealth to the States for the development of long rotation softwood plantations.

Figure A: New plantations established ('000 ha)



Source: Australian Bureau of Agricultural and Resource Economics and Sciences.

The plantation resource established by the failed forestry MIS companies has since been acquired by institutional investors and managed by timber investment management organisations (TIMOs), consistent with recent trends in North America. This has provided greater stability to the market for existing plantations.

The MIS structure and plantation taxation arrangement has been extensively reviewed over the past decade. The changes arising from these reviews have strengthened the MIS structure and enhanced financial safeguards to protect investors. Accordingly, the plantation taxation arrangement should be preserved to support future plantation investment to expand and augment the existing plantation resource.

If, through the tax reform process, the government does feel it necessary to make changes to the plantation taxation arrangement and place further restrictions on forestry MIS companies, any new measures must ensure that companies operating sustainable forestry MIS projects, now and into the future, are not adversely affected by the changes.

Further, any change to the plantation taxation arrangement should align with other broad policies such as the Carbon Farming Initiative (CFI) – which can recognise the public good benefits from plantations through carbon sequestration and climate change mitigation.

The CFI should fully recognise and promote the carbon benefits from new plantation investment. With regard to land use competition, AFPA is proposing that the CFI be well targeted to the land types and areas most suitable for new plantations around key forestry zones, based on existing processing facilities and ports. The proposed forestry zones would encourage plantation investment via the CFI within typical economic haulage distances (e.g. 100 to 200 kilometres) from a processing facility or port. Access to prime agricultural land could be restricted outside these zones, and a cap set on the extent of new plantations within these zones such as 20% of the available prime agricultural land. This would enable the market and landowners to decide the best use of their land within a broader cap.

The forestry zones model would concentrate plantation establishment closer to mills and ports, prioritising new plantations where they are most needed.

Applying the forestry zones model to investors accessing the plantation taxation arrangement could also address many of the previous concerns around forestry MIS plantations, such as some plantations established in the wrong areas, or too far from markets or ports.

While there has been much debate around the benefits and costs of the plantation taxation arrangement and forestry MIS, it should not be overlooked that it has created a substantial plantation estate of around 500,000 hectares that will be harvested and replanted over the decades to come. This resource has helped support the 4,200 direct jobs in plantation management, harvesting and haulage, with a further 40,000 flow-on jobs at sawmills, woodchip export facilities, and timber product manufacturers.

Further development of the plantation resource to augment these estates and support new investment in the downstream processing sector will provide long-term, secure jobs in regional communities and strengthen and diversify regional economies.

To secure the future of the forest industry in Australia, it is essential that the plantation taxation arrangement is retained and confidence in forestry MIS is restored. This would acknowledge the suite of improved governance and due diligence arrangements that have been implemented for forestry MIS schemes. Without this driver for new plantation establishment, future investment in plantations and processing facilities to improve efficiency and maintain international competitiveness is unlikely. The impact of the loss of these industries will be broadly felt across the Australian economy and regional communities.

I have also attached the AFPA submission to the Senate Standing Committee on Economics Inquiry into Forestry Managed Investment Schemes. This provides further detail regarding our views on the retention of the plantation taxation arrangement and MIS forestry schemes.

For any queries or further clarification of the issues raised in this submission please contact the AFPA office on (02) 6285 3833.

Yours sincerely

Ross Hampton
Chief Executive Officer

Attachment: AFPA submission to the Senate Standing Committee on Economics Inquiry into Forestry Managed Investment Schemes, 15 December 2014