



History holds a lesson: that we not be too hasty to dismiss forestry schemes

Letter To The Age

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THE debate over the expansion of forestry plantations - mostly blue gum - being driven by managed investment schemes (MIS) that provide up-front tax relief to investors has intensified since the Tax Office's recent decision to remove tax deductibility status from horticultural managed investment schemes while leaving plantation forestry schemes largely intact.

Unlike with other forestry issues, the strongest opponents to forestry plantations live in rural areas where MIS companies are being accused of reducing water availability and inflating land prices. On the other hand, MIS plantations have supporters in regional communities where investor funds have established new avenues for employment and prosperity. The beneficiaries include landowners who have been able to retire with dignity from marginal farms bought to expand plantations.

Growing trees for commercial use provides obvious benefits. Where it involves reforestation of lands that have been cleared for agricultural use, there are also environmental benefits, including carbon sequestration, an acknowledged key to mitigating climate change. In view of these positives, the current disquiet at plantation expansion does not reflect opposition to the planting of trees per se but is a reaction to the increased scale of plantings of mostly a single species that has occurred under the MIS investment model over the past decade.

In evaluating MIS plantation forestry it is important to appreciate the difficulty of attracting investment to an activity that can take decades to deliver a financial return and to appreciate how this has shaped Australia's plantation estate.

In 1964, the Australian Forestry Council planned for the planting of 1.2 million hectares of softwood by 2000 in order to meet the expected demands of a growing population. Over the following 20 years, state governments established (mostly) radiata pine plantations on Crown land sites made available at no financial cost.

That this necessitated the clearing of public native forests infuriated environmentalists. Their campaigns eventually persuaded most state governments to cease the practice in the late 1980s. While this was regarded as a win for conservation, it should be appreciated that, without the free access to Crown land, we would probably not now be in the position of having a softwood plantation estate that supplies more than 70 per cent of our sawn timber needs. That this has reduced the pressure to harvest native forests has made it easier to create more national parks and reserves.

Plantation expansion largely stalled from the late 1980s to the mid-1990s as direct government investment waned. Further expansion became reliant on market forces to drive development on private land. However, plantation forestry struggles to compete against already established agricultural enterprises due to the initial capital investment required to acquire land and plant trees, plus the long wait for a financial return.

To circumvent these impediments, state and federal governments have for many years offered landowners a range of financial inducements to encourage on-farm planting. A major advantage of farm forestry is that it overcomes the land acquisition problem. However, relatively few farmers are inclined to plant good land on any great scale.

Accordingly, farm forestry has led to only small gains to the planted area largely on low to moderate-quality sites receiving variable standards of management according to the commitment of individual landowners.

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While the upfront tax benefit of MIS has overcome much of the difficulty in attracting forestry investment, most of it has gone into plantations growing a single product — hardwood chips for export — on a 10-15-year time frame.

While these (mostly blue gum) plantations are important to meeting future regional demand for paper, they do not make up the local shortfall in hardwood sawn timber created as governments have progressively reserved native forests. Investors have not warmed to MIS investment time frames over the 30-35 years required to grow hardwood plantations for such products. Consequently, hardwood sawn timber production under the MIS model is currently limited to one Tasmanian company and some small areas of introduced Asian and African species grown intensively under irrigation in northern Australia.

The concentration of blue-gum plantations has sparked community concerns in some regions and within the forestry profession there are conflicting views about the spread of blue gum plantations into moderate-to-low-rainfall areas where commercially viable growth expectations are less certain.

The planting of marginally productive sites is not uncommon, particularly during the early phases of project development when less is known of the correlation between sites and tree growth. Lower productivity is acceptable if it is part of a plantation estate balanced by sites with higher productivity and realistic expectations.

In southern Australia, the average rainfall requirement for commercially viable blue-gum growth has been regarded as at least 700 millimetres a year. However, the average rainfall requirement in a particular locale may be higher or lower depending on the interaction of other factors such as monthly rainfall distribution, altitude and temperature regime, and soil structure and water-holding capacity. The likelihood of a permanently drier climate now further complicates the site selection process.

Low rainfall areas are not necessarily unsuited for commercial tree-growing provided appropriate species are used with commensurate growth expectations. The MIS model has so far proven to be largely inflexible with respect to hardwood species and products, partly due to the continuing strong demand for eucalypt woodchips. However, proposed changes to MIS rules announced in Tuesday's budget are likely to improve investor support for longer-rotation plantations capable of producing solid hardwood products.

If we accept that there are benefits in growing more trees, the MIS model deserves to be acknowledged as an effective mechanism to achieve it. While its reliance on tax deductibility to attract investors is often criticised for lowering the tax base, history shows that little expansion of forestry plantations could occur without some form of government assistance.

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Readers can view this letter as written in The Age: <http://www.theage.com.au/news/business/history-holds-a-lesson-that-we-not-be-too-hasty-to-dismiss-forestry-schemes/2007/05/10/1178390469325.html>