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Australian Government Response to the Senate Inquiry
into Australian Forest Plantations

Senate Rural and Regional Affairs and Transport
Committee

AUSTRALIAN GOVERNMENT RESPONSE TO THE SENATE INQUIRY INTO AUSTRALIAN FOREST PLANTATIONS

27 July 2007

BACKGROUND

Following a review of the strategy 'Plantations for Australia: the 2020 Vision' (the Vision) by the Private Forestry Consultative Committee (PFCC) in 2002, Senator the Hon Ian Macdonald, the former Minister for Fisheries, Forestry and Conservation, requested a Senate Inquiry on 27 June 2002 to investigate the issues related to plantation forestry in Australia, taking into account the findings of the PFCC review. The Senate Committee for Rural and Regional Affairs and Transport (the Committee) tabled its report on 2 September 2004, which addressed the following terms of reference:

Taking into account the findings of the Private Forests Consultative Committee's review of 'Plantations for Australia: The 2020 Vision' which is due to report to the Primary Industries Ministerial Council in November 2002:

- (a) *whether there are impediments to the achievement of the aims of 'Plantations for Australia: The 2020 Vision' strategy;*
- (b) *whether there are elements of the strategy which should be altered in light of any impediments identified;*
- (c) *whether there are further opportunities to maximise the benefits from plantations in respect of their potential to contribute environmental benefits, including whether there are opportunities to:*
 - (i) *better integrate plantations into achieving salinity and water quality objectives and targets;*
 - (ii) *optimise the environmental benefits of plantations in low rainfall areas, and*
 - (iii) *address the provision of public good services (environmental benefits) at the cost of private plantation growers;*
- (d) *whether there is the need for government action to encourage longer rotation plantations, particularly in order to supply sawlogs; and*
- (e) *whether other action is desirable to maintain and expand a viable and sustainable plantation forest sector, including the expansion of processing industries to enhance the contribution to regional economic development.*

ISSUES

The Committee's report makes 17 recommendations for both governments and industry, covering the themes of:

- The area target of the Vision (3 million hectares by the year 2020)
- The plantation prospectus industry and its role in achieving the Vision
- Market information for plantation growers and investors
- Enhanced public reporting requirements for the Plantations 2020 Vision Coordinator
- Environmental benefits of plantations
- Water and plantations
- The Mandatory Renewable Energy Target legislation
- Taxation incentives to encourage investment in long-rotation plantations
- Three-year funding for Private Forestry Development Committees
- The Australian Government response to the Tasmanian Regional Forest Agreement 5-year Review.

The Australian Government's response to these recommendations is outlined below.

AUSTRALIAN GOVERNMENT RESPONSE TO THE COMMITTEE'S RECOMMENDATIONS

Recommendation 1

3.35 The Committee therefore recommends that the revised 2020 Vision be amended by deleting all references to trebling the acreage by 2020 or plantation acreage of 3 million hectares. This should be replaced with the target of increasing the acreage of plantation forests at a sustainable and economic level.

The Australian Government does not support this recommendation.

The area target is an aspirational target that reflects the desire to establish a major plantation resource.

The area target provides one objective measure of progress in achieving the Vision. The Australian Government acknowledges that the area target is only one way of measuring whether the Vision is being achieved. Major expansion of the plantation estate is not an end in itself; the Vision is about governments and industry working together to achieve new investment in plantations for economic, social and environmental outcomes on a sustainable basis.

The Australian Government will examine with industry the development of other appropriate indicators to add value to the area target in terms of social, economic and environmental outcomes.

Recommendation 2

3.40 The Committee recommends that the government commission an independent assessment of how the plantation prospectus industry relates to the 2020 Vision, including an evaluation of prospectus assumptions against returns likely to be achieved.

The Australian Government supports the intent of this recommendation, but not the need for an independent assessment of matters such as prospectus assumptions.

Plantation prospectus companies have been the key driver in the large plantation expansion seen over the last 10 years. These companies raised over \$700 million in investor funds in 2005-2006 and are expected to continue to be a key driver of plantation expansion in the future. The plantation prospectus companies are therefore integral to the success of the Vision.

Reducing land availability may limit the ability of plantation prospectus companies to expand in the future. Another factor will be the size and maturity of each company's resource, with many now about to harvest their oldest plantations and replant this land, reducing their need for new land.

The Corporations Act 2001 contains requirements governing the content and presentation of disclosure documents, such as prospectuses and Product Disclosure Statements, provided to investors and potential investors. The Australian Securities and Investments Commission (ASIC) have also published guidance on its approach to the use of prospective financial information (including financial forecasts and projections) in disclosure documents (see ASIC Policy Statement PS 170: Prospective Financial Information issued 6/9/2002).

Under the Corporations Act, prospectuses and Product Disclosure Statements must be lodged with ASIC. However, lodgement does not imply that ASIC has approved the contents of the document, or that forecasts or the assumptions on which they are based are reasonable. Investors themselves must bear some responsibility to decide whether forecasted returns are realistic.

ASIC does, however, conduct targeted surveillance campaigns to test the quality of information in disclosure documents, such as the use of long-range financial forecasts. Where ASIC considers that a disclosure document is defective (for example, because it contains misleading information), it has various powers, including the ability to issue a stop order preventing any subscriptions being received from investors until the defects in the disclosure document are rectified.

The Australian Government favourably views industry initiatives that promote increased investor confidence and protection in relation to afforestation investments, noting for example the Australian Forest Growers Disclosure Code for Afforestation Managed Investments and accompanying Investors' Guide to Afforestation Investment.

However, the Government does not endorse any particular investment and stresses that information given to investors and potential investors must meet the requirements of the Corporations Act and any policy guidance issued by ASIC.

Recommendation 3

3.70 The Committee recommends that research and other studies to be carried out under Action 5 of Strategic Element 2, relating to codes of practice to support sustainable plantation development be the subject of a separate public report by the Coordinator, to be presented to the Primary Industries Ministerial Council and Federal and State Parliaments.

The government response to this recommendation is provided under the heading 'Grouped Recommendations concerning the Plantations Coordinator'.

Recommendation 4

3.101 The Committee recommends that Action 9 under Strategic Element 3 be amended to include as an expected outcome the establishment of a Market Information Centre, based on the model of the current New Zealand body (or service), which will make available full and up-to-date information on current and projected prices and returns on various types of timber, including plantation timber.

The Australian Government supports this recommendation in principle, subject to industry willingness to take up this task.

The forest and wood products industry, with assistance from the Australian Government Department of Agriculture, Fisheries and Forestry, has developed a proposal to establish a company limited by guarantee under the *Corporations Act 2001* that will replace the existing Forest and Wood Products Research and Development Corporation. The new company will undertake R&D and Marketing and Promotion. The legislation to enable this new company has recently passed through Parliament and it is expected to commence operations before the end of 2007. One function under the proposed company's 'marketing stream' could be the provision of up-to-date market data, information and analyses.

Recommendation 5

4.29 *The Committee therefore recommends that funding for Private Forestry Development Committees (PFDCs) be made over a 3 year period, subject to the delivery of outcomes against Action 13 of the 2020 Vision for plantation forests.*

The Australian Government supports the intent of this recommendation, noting that funding is subject to budget processes.

The Natural Heritage Ministerial Board has approved funding for PFDCs from the Natural Heritage Trust until June 2008.

The PFDCs are the Australian Government's main vehicle for delivering plantation outcomes. There are 19 PFDCs across Australia, funded equally by the Australian Government through the Natural Heritage Trust and relevant State governments. The PFDCs are community-based groups that work with all levels of government, industry, regional bodies, landholders and the community to foster sustainable and responsible forest industry development.

The Australian Government's view is that PFDCs play an essential role in engaging with Catchment Management Authorities (CMAs) and the wider community to support new plantation investment. The regional natural resource management (NRM) investment framework and the CMAs who are responsible for implementing it will be important to success of the Vision.

Recommendation 6

4.31 *The Committee recommends that the following matters be included in any report prepared by the Coordinator:*

- *Actions under Strategic Element 4 be reported against expected outcomes with regard to involvement of stakeholders in achieving the Strategic Element goals. Each report by the Coordinator should provide detail of how stakeholders have been involved in each year's goal achievement and a measure of stakeholders' satisfaction.*
- *Assessment or report on Actions – especially Action 13 under Strategic Element 4 – should give details of consultation, contact or involvement with local governments and Regional Catchment Management Authorities in achievement of expected outcomes under the Action.*
- *Details of current and proposed reviews and/or studies of social and community responses to further plantation development to be conducted by the Bureau of Rural Sciences and other bodies such as the Forest and Wood Products Research and Development Corporation.*

The government response to this recommendation is provided under the heading 'Grouped Recommendations concerning the Plantations Coordinator'.

Recommendation 7

4.32 *The Committee recommends that research and other studies to be carried out under Action 13 of Strategic Element 4 (which involve consultation with Catchment Management Authorities) be the subject of specific report by the Coordinator.*

The government response to this recommendation is provided under the heading 'Grouped Recommendations concerning the Plantations Coordinator'.

Recommendation 8

5.38 The Committee therefore recommends that the plantation industry establishes joint ventures to encourage research to examine the environmental benefits that may be delivered by plantation forests, particularly in relation to the availability of water, salinity and water quality, and plantations in low rainfall areas.

The Australian Government supports this recommendation.

These recommendations are not directed at the Australian Government.

The Australian Government notes the Primary Industries Ministerial Council resolution No. 4.11 (October 2003), whereby Council agreed to “seek to identify key government and market-based instruments to leverage private investment and/or internalise environmental values in primary industry economic settings”.

The National Market Based Instruments Pilot Program, funded under the National Action Plan for Salinity and Water Quality (NAPSWQ), recognises the role of incentives and cost sharing arrangements.

In addition, the Australian Government Department of Agriculture, Fisheries and Forestry has completed the Commercial Environmental Forestry (CEF) project, in conjunction with CSIRO and the National Association of Forest Industries (NAFI), to develop a model for targeted public and private investment in plantation forestry to achieve environmental and commercial outcomes.

Other joint ventures between governments and industry for forestry research and development are already in place. Examples are:

- Forest and Wood Products Research and Development Corporation (FWPRDC), which is funded jointly by the Australian Government and the forest and wood products industry,
- Joint Venture Agroforestry Programme (JVAP) managed through the Rural Industries Research and Development Corporation.

Recommendation 9

5.39 The Committee recommends that the Commonwealth urgently funds the conduct of a water audit in both the mainland and Tasmania, to assess the impact of plantation forests on both water quantity and quality.

The Australian Government has already undertaken measures to address this recommendation.

The Australian Government has undertaken significant work to date in examining the impact of plantations on water resources through the BRS report titled *‘Plantations and Water Use’* prepared for FWPRDC, while research is continuing to be carried out through CSIRO Land and Water and other research organisations.

BRS is currently undertaking a number of projects addressing the information requirements of the Inter-Governmental Agreement (IGA) on a National Water Initiative. This includes assessment of the significance of water intercepting activities on catchments and aquifers based on an understanding of the total water cycle, and helping monitor the progress of catchments and aquifers towards either full allocation or the threshold level of interception.

To complement the BRS work, The River Catchment Water Quality Initiative, a component of the Tasmanian Community Forest Agreement, provided \$1 million for a river catchment water quality initiative. The first priority is to assess the impact of chemical use on water quality in Tasmania's river catchments. The program builds on State chemical audit and water monitoring programs to assess the impact of chemical usage in Tasmania's water catchments.

Under the Australian Government Water Fund, Tasmania has received \$2.5 million to implement the *Enhancing Water Planning in Tasmania* project. With a contribution of \$690,000 from the Tasmanian Government, the \$3.19 million project focuses on the collection of critical information on water catchments throughout Tasmania. Information gathered under *Enhancing Water Planning in Tasmania* will help water managers understand and predict the fluctuations of surface and groundwater resources, and will guide future water planning decisions.

Recommendation 10

5.40 The Committee recommends that the government review the application of the Mandatory Renewable Energy Target (MRET) legislation as it applies to the plantation woody crop industry.

The Australian Government has already undertaken measures to address this recommendation.

An Independent Panel reviewed the MRET legislation in 2003 and provided its report, *Renewable Opportunities, A Review of the Operation of the Renewable Energy (Electricity) Act 2000* (The Act), to the then Minister for the Environment and Heritage, the Hon Dr David Kemp on 30 September 2003.

The MRET Report was tabled in Parliament on 16 January 2004. The Government responded in the context of its Energy White Paper, *Securing Australia's Energy Future* in June 2004. The Government agreed with the independent panel's recommendation to make it easier for plantations to qualify for Renewable Energy Certificates (RECs) and improve access for plantation biomass by broadening the definition of energy crops as an eligible energy source. Legislative amendments required to enable these changes came into effect in September 2006.

Subsequent regulatory amendments have broadened the definition of energy crops and removed the requirement for energy crops to be grown for the 'primary purpose' of producing energy. This amendment allows plantations to be eligible as energy crops. Further regulatory amendments to clarify the conditions for eligibility of plantation biomass are being developed.

Recommendation 11

6.36 The Committee recommends that the government investigate the possibility of introducing a taxation incentive related to the period of time a plantation is grown, however urges the government to keep in mind the necessity for the industry to meet environmental goals without significant subsidies and tax benefits.

On 10 May 2005, the Government announced 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. The terms of reference for the review included consideration of 'whether the operation of the Income Tax Assessment Acts impedes investment in longer term forest rotations which produce higher value products'. The Government received public submissions, and also conducted targeted consultation with forest industry representatives.

On 29 May 2006 the Government announced proposed taxation arrangements for plantation forestry. A further round of submissions and consultations occurred.

On 21 December 2006, the Government announced new arrangements for the taxation of investments in forestry managed investment schemes (MIS). The Government noted that the new arrangements will ensure the continued expansion of Australia's plantation forestry estate, so reducing Australia's reliance on native forests and on overseas imports. The new arrangements also recognise the critical role plantation forestry plays in sequestering greenhouse gases.

Under the new arrangements, from 1 July 2007, investors in forestry MIS will be entitled to immediate upfront deductibility for all expenditure provided that at least 70 percent of the expenditure is expenditure directly related to developing forestry ('direct forestry expenditure'). There will be an integrity rule requiring that arm's length prices be used in determining the value of expenditure directly related to forestry. The arm's length prices for purchased services would include the normal profit margin that an arm's length supplier would require.

On 8 May 2007, the Government announced that, from July 1 2007, initial investors in a forestry MIS will be allowed to trade their interests once they have been held for a period of at least four years. The four-year restriction will apply only to the initial investors in a scheme. The measure will apply to interests in a pre-existing scheme, meaning that taxpayers who invested in a forestry MIS prior to 1 July 2003 will be able to trade their interests as of 1 July 2007. The legislation also contains rules to provide tax symmetry between investors' costs and proceeds and to minimise tax arbitrage.

While eligibility for the statutory deduction is not related to the length of time a plantation is grown, the Government believes that secondary market trading in forestry MIS interests should encourage investment in both short and long rotation plantations as investors will no longer be required to hold their interests until harvest.

Recommendation 12

8.205 The Committee recommends that the Minister for Agriculture, Fisheries and Forestry, as a matter of urgency, finalise and publish the Commonwealth's response to the Final Recommendations Report on the Inquiry on the Progress and Implementation of the Tasmanian Regional Forest Agreement (1997).

See response to Recommendation 13 below.

Recommendation 13

8.206 The Committee recommends that, within 12 months of the publication of the Commonwealth's response to the Final Recommendations Report on the Inquiry on the Progress with Implementation of the Tasmanian Forest Agreement (1997), that this Committee conduct a review of operations under, and the enforcement of, the Forest Practices Code. The Committee should be able to seek expert advice in the conduct of its inquiry and the Committee would expect the immediate co-operation of both State and Commonwealth Governments. In the absence of full co-operation, the Committee foreshadows that it will recommend an immediate independent review with more compelling and drastic powers.

On 13 May 2005 Prime Minister John Howard and Premier Paul Lennon signed The Tasmanian Community Forest Agreement. Under this Supplementary Agreement the Parties Agree:

1. To fully implement the actions recommended in the Report of the Inquiry on the progress with Implementation of the Tasmanian Regional Forest Agreement (2002), subject to the exception outlined in relation to Recommendation 4.5 of the Report. The Commonwealth Government acknowledges the value of Threatened Species Listing Statements in providing interim direction for many rare and vulnerable Tasmanian species currently without Recovery Plans. However, under its current legislation, the Commonwealth cannot accredit such Statements as an alternative to Recovery Plans for threatened species. Recovery Plans will continue to be the mechanism for compliance with the Commonwealth *Environment Protection and Biodiversity Conservation Act 1999*; and,
2. That this Supplementary Agreement represents a full and final response to the Report.

Recommendation 14

9.24 The Committee recommends Strategic Element 5 be amended to provide that the National Plantation Strategy Coordinator prepare an annual report detailing the plantation industry's performance against the expected outcomes of each of the 14 principal Actions required by the 2020 Vision program.

The government response to this recommendation is provided under the heading 'Grouped Recommendations concerning the Plantations Coordinator'.

Recommendation 15

9.25 The Committee recommends that the National Plantation Strategy Coordinator's annual report also indicate the extent of research and/or assessment work (and results) carried out by the Coordinator, industry and other agencies, applicable to plantation development.

The government response to this recommendation is provided under the heading 'Grouped Recommendations concerning the Plantations Coordinator'.

Recommendation 16

9.26 The Committee recommends that the National Plantation Strategy Coordinator's report is presented to the Minister for Agriculture, Fisheries and Forestry, and to the Minister for Environment and Heritage, and to the Ministers equivalent in each State.

The government response to this recommendation is provided under the heading 'Grouped Recommendations concerning the Plantations Coordinator'.

Recommendation 17

9.27 The Committee recommends that the National Plantation Strategy Coordinator's report is tabled in the Commonwealth and State Parliaments within a month of the relevant Minister receiving it, so as to allow scrutiny by the parliament and the community of the achievement of 2020 Vision goals.

The government response to this recommendation is provided under the heading 'Grouped Recommendations concerning the Plantations Coordinator'.

Grouped recommendations concerning the Plantations Coordinator

Recommendation 3

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The Australian Government supports these recommendations in principle.

The Plantations 2020 Vision Coordinator Project continues to be supported by the Australian Government, the State and Territory Governments and the national plantation industry representative organisations - the Australian Plantation Products and Paper Industry Council and Australian Forest Growers. The Australian Government continues to work with the other partners of the Vision to determine reporting requirements for the Coordinator. The Coordinator Project published a '2020 Vision Progress Report Against Actions' in April 2005 and is in the process of preparing the 2007 update.

The Plantations Vision 2020 Coordinator's annual report has primarily focussed on financial acquittal and activities undertaken for approval of the Vision partners via the Private Forestry Consultative Committee.

The practicality of Ministers tabling within a month of receiving reports would need to be examined.

There is merit in reports of the Plantations Vision 2020 Coordinator including where possible, information on research being undertaken as a means of disseminating this in a coordinated fashion, within the resources of the coordinator to undertake the task. The Australian Government notes there are likely to be resourcing issues for the Vision partners in terms of funding should the Coordinator's reporting requirements be expanded.

AUSTRALIAN GOVERNMENT RESPONSE TO THE SENATE INQUIRY INTO AUSTRALIAN FOREST PLANTATIONS

MINORITY REPORTS

SENATOR SHANE MURPHY

Recommendation 1

The Government must take steps to require the Australian Taxation Office to bring forward taxation measures that will allow for continuous trade in plantation timber.

This recommendation is addressed in the main response to Recommendation 11.

SENATOR BOB BROWN

Recommendation 1

Abolish special deductions for plantation establishment by managed funds (12 Month prepayment rule).

As mentioned in the response to Recommendation 11, the Australian Government has decided to introduce a specific statutory deduction for contributions to forestry managed investment schemes, provided the relevant requirements are met (including that at least 70 per cent of the expenditure is expenditure directly related to developing forestry). Therefore, the Australian Government does not support this recommendation.

Recommendation 2

Ensure that private sector investment in hardwood plantations is not commercially undermined by state government subsidies on chip logs from native forests.

While the Australian Government recognises the importance of equitable conditions for public and private forestry business operations, there is no evidence that the price of native forest pulpwood is affecting investment in hardwood plantations. Therefore, the Australian Government does not support this recommendation.

Recommendation 3

That the Commonwealth act to bring Tasmania into line with other jurisdictions by prohibiting broad-scale clearing of native vegetation for plantation establishment.

Under the Tasmanian Community Forest Agreement, signed on 13 May 2005 by the Prime Minister and the Tasmanian Premier, the Australian and Tasmanian Governments have agreed on an approach to phasing out broad scale clearing and conversion of native forest in Tasmania. Clearing and conversion of state owned native forests will be phased out over 5 years and over 10 years on private land. A cap on clearing or conversion of native forest on both private and public land will be established to retain 95% of the 1996 area of native forest. On 3 July 2007 Forestry Tasmania announced that conversion of native forest to plantations would cease immediately on Crown land. In addition, Gunns Limited, Tasmania's largest private forest owner also announced an immediate end to native forest conversion on its properties.

Recommendation 4

That the Commonwealth Ministers for Agriculture, Fisheries and Forestry and Environment and Heritage commission an independent review of Tasmania's forest management system, with the power to subpoena witnesses and evidence; it should be completed within 12 months.

Authority over the management of Tasmanian state-owned and privately-owned forests rests primarily with the legislature of Tasmania. The Commonwealth's primary involvement in forestry management by Tasmanians is through contractual agreements and undertakings with the Tasmanian Government and in particular, the Tasmanian Regional Forest Agreement and its supplementary agreement, the Tasmanian Community Forests Agreement. The accountability of the Tasmanian Forest Practices System has already been reviewed through the 5-year review of the Tasmanian Regional Forest Agreement (the Tasmanian Community Forests Agreement represents a full and final response to the 5-year review). The Australian Government is committed to supporting the RFA and to working within RFA processes with all stakeholders. The Australian Government is committed to supporting the RFA going forward, including the review process set out in the Agreement. Therefore, the Australian Government does not support this recommendation.