Dissenting Report

Senator McGauran, Liberal Party of Australia

Introduction

The legislation and guidelines do not represent a valuable policy addition to the national objective of reducing greenhouse gas emissions.

The evidence received at the Committee hearings strongly supported this proposition.

The obvious result of providing a tax incentive to one sector of the market, in this case the carbon sink forest investors will be to raise the rate of return on investment. Consequently the value of land increases, marginal and prime, for the purposes of carbon sink investment.

In contrast, traditional agricultural land void of an equivalent tax incentive suffers a similar decline in the rate of return. Consequently, rural land will lose its value as a food producing resource.

In short it is not a level playing field.

The added downside to this tax incentive, as distinct to the tax incentives given to Managed Investment Schemes, is the carbon sink forest is permanent and therefore the market for food producing land cannot make a comeback if returns should improve for food producers over and above the distortion the tax incentive has created.

The Committee heard the permanency was envisaged to be some 100 years!

The tax incentive and accompanying guidelines are a clear case of distorting the market and creating an unfair advantage that will inevitably lead to a misallocation and inefficient use of resources including capital.

The importance of food producing land in Australia is being devalued by these tax incentive guidelines.

The effect of this is threefold

1. In a time of anxiety regarding world food shortages the long-term effect from a major food producing country like Australia lowering its food production will further exacerbate the situation. Equally Australia will lose valuable export income.

2. Given the majority of the farming sector is made up of family farms, this efficient social and economic unit will be undermined by the distortions that will be produced by the tax incentive.

3. Farming families are a foundation stone of the economic and social life of small towns and regional cities. The Small businesses, schools, hospitals, etc of these small

> towns and regional cities are primarily reliant on a viable farming sector for their own economic viability. These economic regions will be detrimentally affected by the loss of productive farming land.

The proposition that certain land can be quarantined from the legislation is not convincing. At best, a bureaucratic and subjective nightmare is created, at worst, it is unworkable. This is due to the variable factors of farming, such as drought and prices. Such variables occur across farming regions, affecting the returns in so-called prime land and marginal land.

A practical example is the cattle station of the Northern Territory specialising in the live cattle export trade yet the successful operations are being undertaken on so – called marginal land compared to the family dairy farm in Victoria that is struggling with prices yet being farmed on so – called prime agricultural land. At differing times the cattle station and the dairy farm's rate of return on capital and profit fluctuate. Further the rates of return and profit are in the eye of the beholder. For example the family farmer will likely take the factor of lifestyle into account over maximizing return whilst the corporate operation focuses more on maximising profit.

It is a perilous role for the Federal Parliament to direct the market as to what land is classified as marginal agricultural land and what land is classified as prime agricultural. It should be principally the market that drives the choice of agricultural land production in Australia together with the economic decisions made every day by the farmer.

Impact on prime agricultural land.

The evidence submitted to the Committee was compelling in regard to the potential impact of the tax incentive on the food producing sector.

The Queensland Farmers Federation (QFF) stated that:

> "…we would have to be worried about any scheme that saw arable land which was being farmed productively for food and fibre being taken out of production. Climate change and increasing climate variability have the potential to limit Australia's capacity to produce food and fibre for both domestic and export consumption. Food security and food pricing should be seen as part of a national food policy. The removal of 85 000 Ha of land from agricultural production by 2011 is not good policy unless there is a requirement to assess the social, economic and environmental impacts of these tree plantings, This becomes even more significant when most of these plantings are likely to be in the higher rainfall areas."[1]

Impact on rural communities and industries

The Environment Association noted the undesirable impacts in rural Tasmania, stating:

> "Australia's attempts to sequester carbon to mitigate global climate warming are likely to promote a mass expansion of artificial plantings in

1 *Submission* 51, p.2 sell also *Submission* 23, p.1, *Submission* 39, p.1, *Submission* 24, p.1, *Submission* 49, p.2

> Tasmania. A great social concern for Tasmania is that farming activity is being replaced by artificial plantations which employ very few. The reduction in farming activity, the local production of food and associated employment is a long-term loss that may well have severe impacts for the viability of our community."[2]

The Victorian Farmers Federation (VFF) stated that the change of land use from production agriculture to carbon sink forestry will result in a transfer of economic activity from rural areas to businesses requiring the carbon offset. The VFF noted that rural areas are already facing considerable economic and social challenges from changes in climate and reductions in water availability.[3]

Other aspects of the Legislation and guidelines

The Committee heard evidences that even in its administration and operation the legislation and guidelines are flawed. The intent of the legislation, to introduce a tax incentive to establish carbon sink forests that will contribute to natural greenhouse gas emission targets, will not be fully realised.

Permanancy of new plantings

Concerns were expressed in relation to the permanency of the new plantations, and whether the carbon is sequestered permanently. Australian Network of Environmental Defenders Officers (ANEDO) stated that:

> "neither the Bill, the Explanatory Memorandum, nor the Guidelines provide that any trees planted under the scheme are to remain a 'carbon sink forest' for any sustained period of time. There is no requirement that the trees planted to establish a carbon sink forest reach an age (ie, at least 10-20 years) to significantly contribute to the purpose for which they were supposedly planted – to provide a carbon store.
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> The "establishment expenditure will be immediately deductible for trees established in carbon sink forests in the 2007 – 2008 to 2011 – 12 income years (inclusive)". It is therefore currently possible for an entity to plant trees immediately obtain the tax deduction and not be concerned whether they succeed in growing or not. Additionally, there are no provisions preventing the land set aside for carbon sink forests to be sold at a later date or cleared."[4]

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2 *Submission* 56, p.10.

3 *Submission* 46, p.3. See also *Submission* 44, pp 6-7

4 *Submission* 48, pp 4-5. See also *Submission* 32, p.2; *Submission* 35, p.3; Mr Williams, Greening Australia, *Committee Hansard*, 24 July 2008, p.40.

Flexible nature of the guidelines

Other submitters expressed concern that the Guidelines are not sufficiently comprehensive. For example, greening Australia expressed concern that the Guidelines do not provide specific direction on a range of environmental impacts including water quality, restoration and protection of carbon stocks, impacts on habitat, permanence or perverse outcomes with inappropriate plantings.[5]

Carbon Price

The Library economics section when writing on the legislation's possible effect on prime agricultural land being taken out of production highlighted the price carbon is set under the Governments Emission Trading Scheme as being a determining factor.

> "The major uncertainty in the above argument (agricultural land production lost to carbon sink forest) is the impact of any Australian emissions trading scheme. In particular, what the price per tonne of CO_2 will be and whether emissions credits generated by forestry will be included in this scheme. If the price of one tonne of CO_2 is sufficiently high, the emission credits generated by forestry are of the same value and are included in an Australian Emissions Trading Scheme (ETS), then the potential gains to a firm that makes significant emissions may be sufficiently large for it to purchase significant areas of agricultural land for the purposes of planting a carbon sink forest."[6]

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5 *Submission* 35, p.3

6 *Nielson, Leslie, Parliamentary Library, Background Note, Draft, Tax deductions for Carbon Sink Forests p.12.*