

July 30, 2008

The Secretary
Senate Standing Committee on Rural and Regional Affairs and Transport
PO Box 6100
CANBERRA ACT 2600

Submission regarding Carbon Sink Forests Legislation

I wish to express my views on the Bill to grant tax concessions to corporations to plant trees as carbon sinks. My concern is the adverse effect this will have on farmers and productive agricultural land.

As we all know, Australia has been experiencing one of its worst droughts. This has resulted in many farmers becoming desperate because of their lack of income as a result of the drought and the lack of real financial support from government. The facts are that farmers, in seeking to earn a livelihood, are exposed to far more risks than the average Australian. They are forced to be price-takers on three fronts:

- (i) buying their farm inputs from multinational firms which have extensive market power because of the oligopolistic market in which they operate;
- (ii) selling their farm outputs into a domestic market dominated by two supermarkets which have excessive market power because of the lack of up to date and effective trade practices laws, along with being exposed to cheap subsidised imports that do not meet the high quality standards of Australian farmers; and
- (iii) selling their farm outputs into international markets dominated by tariff barriers and subsidies.

On top of this, they face the uncertainty and risks of the natural environment in a continent whose climate swings between extremes of drought and flood. Given the three factors listed above farmers are not receiving a sufficient return on investment (profit) in the good years to carry them through the bad years. It is a wonder that farmers survive at all despite the strategic value of food self-reliance and the vast economic benefits they provide to the Australian economy (export dollars and import replacement). Therefore, I am extremely angry when further measures are proposed that seek to prey on this sector of the economy when a prolonged drought has made many desperate and willing to sell at a price below the true value of their land.

Managed Investment Schemes (MIS) are already distorting food and fibre production because they are primarily tax-minimising schemes rather than real market-driven investment schemes. It is the tax deduction that makes them attractive, not any potential profit (which most never make anyway). The result is that MIS investments are not based on market signals, on laws of supply and demand, or on issues of efficient allocation of land. They ignore market signals that are supposed to ensure resources are allocated to the highest use so that the community gets the greatest return from its scarce resources. The result is that they frequently lead to overproduction and the collapse of rural commodity prices, turning some high-value farm products into low-value products. The net effect is that MIS investments harm farmers and the regional economies they support, as well as the Australian economy in general.

The carbon sink forests tax Bill will have exactly the same distorting effects because the investments are tax driven rather than market driven schemes. Tree plantations are low value agriculture and soak up a lot of water which in turn affects downstream farmers. The proposed carbon-trading scheme will set the price for carbon and thereby the appropriate price of carbon sinks. To introduce specific tax concessions for tree plantations will simply

distort the efficient pricing of agricultural land use under an emissions trading scheme. In addition, the actual carbon sink effect of food and fibre production has not even been accurately quantified (all farming does actually take carbon out of the atmosphere via photosynthesis). It may well turn out that broad-acre farming is a more effective carbon sink than a tree plantation, and the proposed Bill would thus direct investment to a less effective form of carbon sink.

On top of which and most galling of all, is the timing of this Bill during a drought when farmers are desperate. Many may be forced to sell at below the true value of their land. This would be unconscionable. There are plenty of people who like to prey on the weak and vulnerable, it would be appalling if the Government colluded in the asset stripping of farmers by wealthy corporations.

For all the above reasons I urge the Committee to reject the proposed Bill and to give our farmers a “fair go” with actual real support rather than empty words.

Yours sincerely,

Mr Chris Hilder