Victorian Farmers Federation

31 July 2008

SENATE STANDING COMMITTEE ON RURAL AND REGIONAL AFFAIRS AND TRANSPORT
Committee Secretary
Senate Rural and Regional Affairs and Transport Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Sir / Madam,

Re: THE IMPLEMENTATION, OPERATION AND ADMINISTRATION OF LEGISLATION UNDERPINNING CARBON SINK FORESTS

Thank you for the opportunity to provide input into the ongoing development of taxation arrangements for forestry.

The Victorian Farmers Federation is Australia's largest state farmer organisation, representing 19,000 farmer members across 15,000 farm enterprises. Victoria is home to 25 per cent of the nation's farms, and despite farming on only three percent of Australia's available agricultural land, Victorian producers are responsible for 30 per cent of the nation's agricultural product. As the leading representative organisation for farming interests in Victoria, the VFF speaks on behalf of our state's dairy, livestock, grains, horticulture, chicken meat, pig and egg industries.

The amendments to Division 40 of the Income Tax Assessment Act 1997 do not hold any particular concerns for the VFF. The ability for private small-scale farm forestry to access the deductions for carbon sink establishment is an important component. Many commercial farmers and other small landholders undertake small-scale plantations to provide multiple environmental and production benefits.

These plantings are most often multi-species plantings in corridors or strategic clusters. They are often implemented to provide shelterbelts, salinity control, erosion control, riparian protection and amenity. They also provide shelter and corridors for native animals, adding significantly to biodiversity values. In many areas farmer and landcare groups have undertaken a landscape approach to these plantings in order to maximise the benefits they provide.

Plantings of this type have been occurring for some time and many landholders have planted the volume of land area that provides the economic, production and environmental benefits desired. Facilitating the next phase by allowing a tax deduction for carbon sink plantings will result in more of these multi-benefit land works. This will assist to reduce Australia's carbon footprint as well as provide a range of other environmental benefits for the Australian community.

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However, the VFF is concerned that the proposed arrangements would not allow a landholder to make a claim on the capital expenditure on non contiguous plantings. This would be counterproductive, as there will in many cases be appropriate outcomes achieved from small area plantings across a farm. There may also be occasions where plantings are interrupted by an existing stand of vegetation or some other geographical feature. Many farmers also design a strategic landscape approach to planting in small areas to minimise disruption to production while still providing significant environmental and sequestration benefits.

The VFF urges the Committee to re-examine the requirement for contiguous planting.

The VFF has some reservations about the potential impacts of establishment of large-scale single species plantations for carbon sink purposes. These reservations are based on the negative externalities that can be associated with plantation forestry and include:

- reducing available water;
- reducing biodiversity; and
- negative social and economic impacts on rural communities.

While the detailed operation of the Carbon Pollution Reduction Scheme (CPRS) has yet to be announced, it is clear that carbon management will become a cost on business. How this cost is managed and the balance between reducing carbon in the production system, purchasing carbon permits or finding sequestrations such as plantation forestry, is difficult to predict. In addition, the economic choice for businesses will depend largely on the price placed on carbon permits and the interaction with the cost of abatement or sequestration.

Large-scale commercial plantations for carbon sink purposes are most likely to be single species in relatively dense plantings. Plantations tend to sequester carbon more quickly than environmental plantings, and can contain significantly more carbon.[1] It could be reasonably assumed that business will seek least cost options in managing carbon and will have an economic preference for plantations that sequester the greatest volume of carbon in the shortest time, which on the current evidence would suggest a preference for dense single species plantations with resultant impacts on biodiversity, communities and water supplies.

The evidence that land use change from open grassland to timber plantations reduces water yields is substantial.

> *It is an inescapable conclusion that in general, trees use more water than grasses or agricultural crops, because of their deeper roots, longer growing seasons, ability to absorb more radiation and greater height and roughness of canopy that tends to increase evaporation.*[2]

The exact degree in specific circumstances and the long-term consequences of this additional water use are less well understood, but studies have shown a fifty per cent reduction in runoff during peak growth for some species[3]. Given the concerns and obvious problems with streamflow, groundwater and consumptive water supplies, food production any incentive program that drives development of plantations must be examined with considerable vigour.

The current Kyoto carbon accounting rules requires permanency of sequestration. The research that has to-date been conducted on the socio-economic impacts of plantation forestry on rural communities has focused on commercial plantations that will be harvested. This process does establish points in the plantation lifecycle where economic activity is generated in the management and harvesting of these plantations. However, the local economic activity generated by plantation

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[1] Australian Greenhouse Office (2006) *A Guide to Forest Sink Planning, Management and Carbon Accounting*

[2] CSIRO (2007) *Tree water use in forestry compared to other dry-land agriculture crops in the Victorian context*; Department of Primary Industries

[3] Kuczera, (1985), in URS, (2007), *Wood and Water sustainability assessment study, prepared for DSE*

developments for carbon sequestration and therefore not intended for harvest, will be significantly reduced.

The commercial plantation sector has been supported by significant tax advantages through Managed Investment Schemes (MIS). Some changes have been made to the tax advantages that forestry MIS investors are able to access following a review of the tax rulings by the Australian Taxation Office. A different approach to address the distortionary impacts of MIS was taken in the non-forestry sector. The reason for shielding forestry from the removal of the tax advantages was to facilitate achievement of the Federal Government's 2020 forestry targets.

The decision on the forestry MIS was made without the introduction of the CPRS in mind. The introduction of a price on carbon in 2010 could well facilitate a significant expansion in the area of plantation forestry. The CPRS Greenpaper states a possibility that the inclusion of plantation forestry could lead to land use distortions. The VFF is concerned that the tax treatment of forestry MIS and the CPRS will lead to significant and multiple distortionary impacts on land use. In addition, this could cause negative externalities in socio-economic impacts on rural communities, detrimental environmental outcomes through reductions in biodiversity and water yields. Further, it will reduce food production, and rural employment.

The VFF urges the Committee to conduct a thorough review of all tax arrangements for plantation forestry with consideration of the introduction of the CPRS. This review should address

- ***the distortions in land use that may occur with the CPRS;***
- ***the distortions caused by MIS arrangements for plantation forestry by themselves and as they interact with the CPRS; and***
- ***socio-economic and environmental impacts that will arise from a significant expansion of plantations in some areas.***

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. Rural areas are already facing considerable economic and social challenges from changes in climate and reductions in water availability. Therefore, adding to the reduction in rural economic activity through distortionary tax arrangements operating in conjunction the CPRS must be avoided.

Questions in regard to this submission should be directed to VFF Executive Manager Policy, Graeme Ford.

Simon Ramsay
President