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Retail forestry investment integral to Australia's wood and paper industry



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Forestry plantations funded through managed investment schemes, also known as 'retail forestry', are now an integral part of Australia's wood and paper industry, with domestic and export processing facilities becoming increasingly dependent on this expanding plantation estate for their long-term wood supplies.

Maintaining a stable tax and regulatory environment is essential for large-scale private investment to continue to be available for establishing and replanting these plantations for the value-adding wood and paper products industries in regional Australia.

These were the two main messages given to the Agforce Queensland 2009 State Conference today by Alan Cummine, Manager - Plantation Investment with the Australian Plantation Products and Paper Industry Council (A3P).

Wood and paper industry increasingly reliant on retail forestry

"Retail forestry is now creating the scale of resource needed to maintain future wood supply to existing mills and to underpin hundreds of millions of dollars of investment in new and upgraded facilities.

"From about 5% in the mid-1990s, retail forestry now accounts for over a third of the total national plantation estate of almost 2 million hectares. This private investment regularly funds over 80% of all new plantations each year, as well as a substantial proportion of replanting in harvested areas."

Mr Cummine said Australia's plantation estate had been built mainly by State Governments over several decades, with financial assistance from the Commonwealth. But since this assistance ended, State forest agencies had been directing their efforts mainly to replanting rather than expanding their plantations.

He added that the replanting of harvested retail forestry plantations was already leading to a slowdown in the demand for new plantation land. This trend will continue as more plantations reach harvest age, thereby easing the level of competition with other agricultural land uses for suitable land.

"Further evidence of how integrated retail forestry has become is the move to vertical integration within the companies. Five of the major retail forestry companies already operate or are investing in their own facilities to process sawn timber, veneer, woodchips and other specialty plantation products, much of it to supply the domestic market. This trend can be expected to continue as plantation estates reach critical mass in new regions and the first plantations approach harvest age.

"Studies have shown conclusively that the levels of new permanent jobs, businesses and community services increase significantly in the harvest, transport and processing phases of a new plantation industry."

Tax arrangements recognise forestry as a long-term investment

Mr Cummine explained that it is inherently difficult to attract private investment into plantation forestry, because of the long periods between establishment harvesting — between 10 years to produce pulpwood and 20-30 years to produce hardwood and softwood sawlogs. This is the reason that all other countries with large plantation industries have used grants, subsidies, bounties, concessionary loans and special tax incentives to encourage investment in the private plantation resource.

"The Joint Parliamentary Committee on Corporations and Financial Services, in its recent report on aspects of agribusiness managed investment schemes found that the "inherent disincentives" to invest in long-term forestry warrant the retention of Australia's existing tax deductibility arrangements for retail forestry, as provided under Division 394 of the *Income Tax Assessment Act 1997*.

“Although these arrangements are now in the form of a specific statutory deduction, they retain the same basic principle that has prevailed for decades — that is, 100% deductibility of eligible expenditure in the year the investor incurs that expenditure. All Australian businesses, including all primary production enterprises, are entitled to deduct 100% of their eligible expenditure in the same way, except their deductions are under the general business deduction provisions of the Income Act.”

Mr Cummine explained that retail forestry investment does not receive unfair tax advantages not available to other primary producers. He said it is also important not to ignore the numerous special tax concessions and other assistance available to different rural industries.

“The tax deductibility for retail forestry investment does not lead to a direct reduction in tax revenue that the Government could otherwise spend on diverse public services and infrastructure. If this standard tax entitlement were to be removed, the lost retail forestry investment would not magically become available to the Budget. Instead, it would be redirected into the much larger pool of highly tax-effective negatively geared share and property portfolios and financially engineered products, rather than into rural Australia to create jobs, businesses and wealth.

“In addition, all the funds collected from retail forestry investors quickly become taxable income in the hands of the retail forestry companies and their employees, contractors and suppliers, and the investors later pay substantial income tax on their net income from harvest.”

Tax law integrity measures provide greater certainty for investors

Mr Cummine explained that the Parliament had imposed a number of integrity measures on the statutory deduction for retail forestry.

“One of these imposes what is in effect a tax prepayment on the companies, requiring them to bring forward their company tax on gross funds collected into the same year the investors claim their deductions. While this unique condition ensures tax neutrality in the Budget, it imposes a significant cashflow burden that the retail forestry companies have to make provision for.

“The most important integrity measure is the requirement that 70% of all the funds raised must be spent as ‘direct forestry expenditure’ — establishing, managing and harvesting the plantations, plus the annual costs of land. This ‘70% DFE test’ specifically excludes the manager’s expenditures on marketing the projects, commissions to financial planners, insurance, financing, contingency funds, general business overheads and other similar costs.

“Over the next few years, the ‘70% DFE test’ will impose tighter discipline of the companies, as well as provide greater certainty that investors funds are being spend for their primary purpose.

Regulating greater investor protection

“Further regulatory steps to increase the level of investor protection may result from the Government’s consideration of the report of Parliamentary Joint Committee’s Inquiry into the recent collapse of major agribusiness companies Timbercorp and Great Southern. The retail forestry sector will be cooperating with the Government in any reasonable moves to enhance the level of investor protection in retail forestry projects.

“Regardless of whatever tighter corporate regulation may emerge, retention of the entitlement to deduct eligible expenditure in the year the investor incurs it will remain a necessary condition to maintain the flow of private investment into plantation forestry to support Australia’s regionally-based plantation products and paper industries,” Mr Cummine said.

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