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WOOD, NOT CARBON THE DRIVER OF PLANTATION EXPANSION

Wood production, rather than carbon sequestration is likely to be the primary driver of Australian plantation development, despite recent commentary suggesting food production will be overrun by trees in the quest for carbon credits.

Since 1997, under the strategic direction of the national plantation strategy, *Plantations for Australia: The 2020 Vision*, the rate of new plantation establishment has averaged 75,000 hectares per year. The majority of new investment comes from the private sector via forestry managed investment schemes (MIS).

2020 Vision coordinator David Thompson points out future wood supply shortages in Australia, particularly for sawlogs, is an issue which needs to be addressed.

“If you take hardwood and softwood sawlog supply projections out to 2050, and convert those to sawn timber equivalents, then look at per capita consumption of sawn wood and ABS population projections, it is clear we will not have enough wood to meet domestic demand” he says.

“Depending on the ABS population projection used, the supply shortfall for sawn hardwood is in the range of 0.9-1.2 million m³ per annum, and 0.6-2.2 million m³ for softwoods. And if we continue to reduce native forest harvesting, these deficits will increase”.

Thompson says a key focus for the future is the need to switch current investment from short rotation pulpwood crops for woodchip, to longer rotation sawlog crops to meet looming sawlog supply deficits.

“Most MIS activity has been in the pulpwood market. Like many agricultural commodities, woodchips are largely exported, providing a valuable source of export income, and have spawned jobs and investment in regional areas. However we are anticipating that new taxation rules for MIS investors will stimulate more investment in longer rotations for sawnwood”.

Wood production has been, and continues to be the primary driver for plantation investment, not carbon trading. Until the legislative framework for an Australian emissions trading scheme is operational, carbon sequestration from planted forests remains a fortunate by-product of growing wood, and a potential future source of income. But by no means is it the current financial trigger.

Even if clear market signals were in place for plantation carbon trading, Australian Securities & Investment Commission (ASIC) regulations (Regulatory Guide 170) explicitly prevent forestry MIS companies from including financial forecasts in their product disclosure statements, unless there are reasonable grounds to do so.

If these projections are dis-allowed for wood - which can be made with a relatively high degree of accuracy - then something as speculative as income from carbon trading is definitely off the agenda given the uncertainty surrounding an Emissions Trading Scheme (ETS).

Thompson says recent concerns over planned carbon plantations in Western Australia, and tax deductibility for carbon forest sinks under legislation announced in 2007 needs to be put in perspective.

“The proposed arrangement in WA is not an MIS model, even though it involves a company operating retail forestry projects. The proposal is to plant 50,000 hectares of lower value degraded land. 50,000 hectares represents just 0.02% of agricultural land in WA, not a massive displacement of food production. These plantings of mixed species will not be harvested, but will become permanent forests providing benefits in addition to carbon sequestration such as salinity control and biodiversity enhancement”.

The commentary on the taxation treatment of forestry MIS is often misleading. “The term 100% up-front tax deductions is often used when referring to forestry investments, and it implies that investors pay no tax. This is incorrect, as the investment cost is simply deducted from their other income, and they pay tax on the remaining taxable income”.

The investment funds are also taxed when they become income in the hands of MIS employees or their contractors, and the investor pays tax when the trees are harvested. Initial tax deductibility is an essential feature of attracting investment into a long term and cash-flow disadvantaged investment like forestry.

It has been suggested that the planting of tree monocultures to remove greenhouse gases from the atmosphere is illogical, however Thompson says precisely that opportunity is being pursued in agriculture, with the push for soil carbon credits under cropping and grazing land.

“Just as sequestering carbon in trees is positive spin-off from producing wood for housing, so too sequestering carbon in the soil while producing food is a smart environmental and economic strategy. Both forestry and agriculture have a lot to offer in terms of housing and feeding the population, while also benefiting the environment”.

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