



THE AUSTRALIAN NATIONAL UNIVERSITY

Australia's forestry crisis

how it happened and what to do

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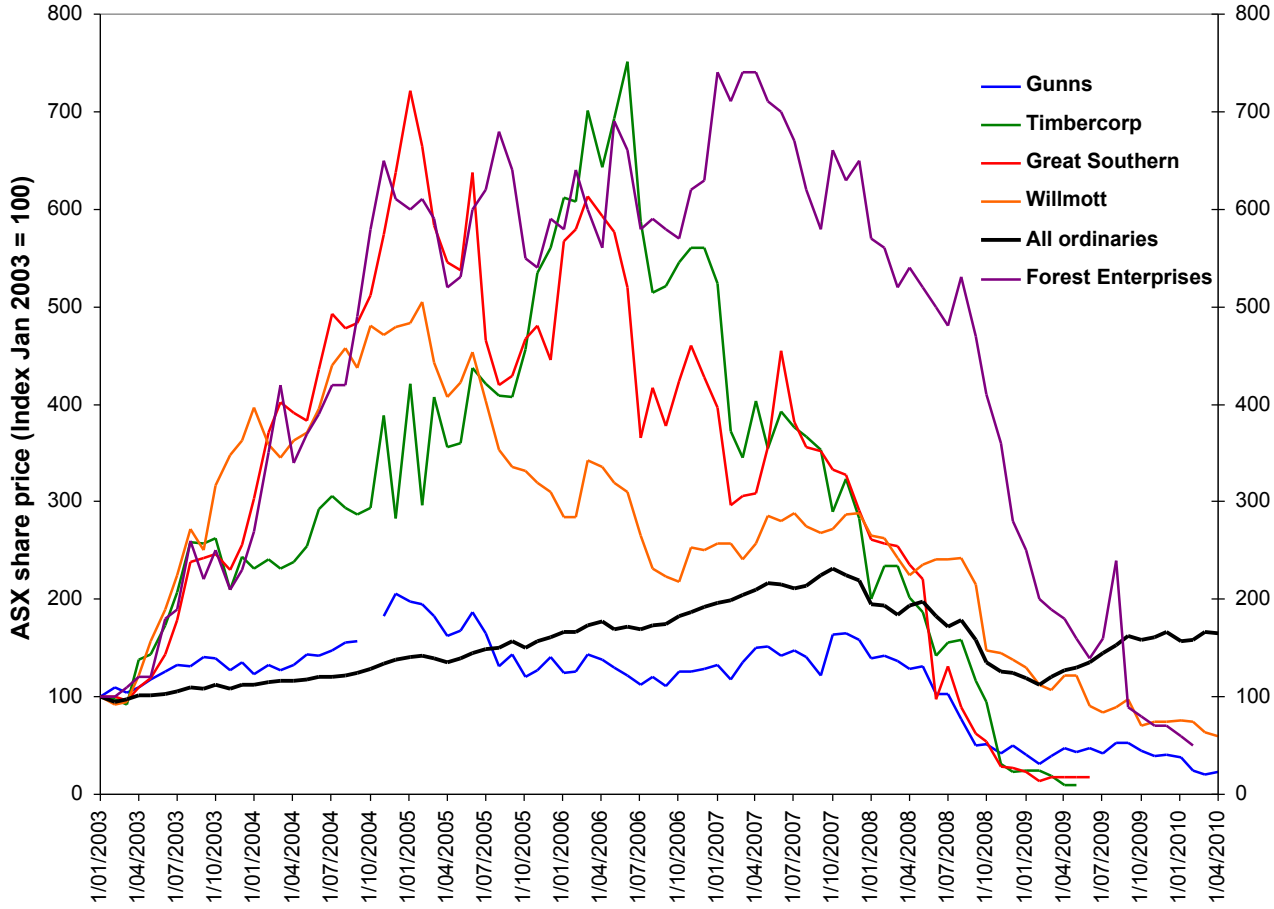
References for the analysis I present in this seminar

- Ajani J. (in press) The global wood market, wood resource productivity and price trends: an examination with special attention to China, *Environmental Conservation*.
- Ajani J. (2010) Climate change policy distortions in the wood and food market, contributed paper to the Australian Agricultural and Resource Economics Society National Conference 2010, Adelaide Convention Centre, February 8 - 12.
- Ajani J. (2009) Submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Agribusiness Managed Investment Schemes.
- Ajani J. (2008) Australia's transition from native forests to plantations: the implications for woodchips, pulpmills, tax breaks and climate change, *Agenda: A Journal of Policy Analysis and Reform*, 15(3), 2008 <http://epress.anu.edu.au/titles/agenda.html>
- Ajani J. (2008) Time for a Coherent Forest Policy—Finally, *InSight*, Centre for Policy Development, 24 October 2008 <http://cpd.org.au/article/time-coherent-forest-policy-finally>
- Ajani J. (2007) *The Forest Wars*, Melbourne University Press.
- Ajani J. (2004) 'Forest policy for sustainable commodity wood production: an examination drawing on the Australian experience', *Ecological Economics* 50, 219-232.

Main data sources

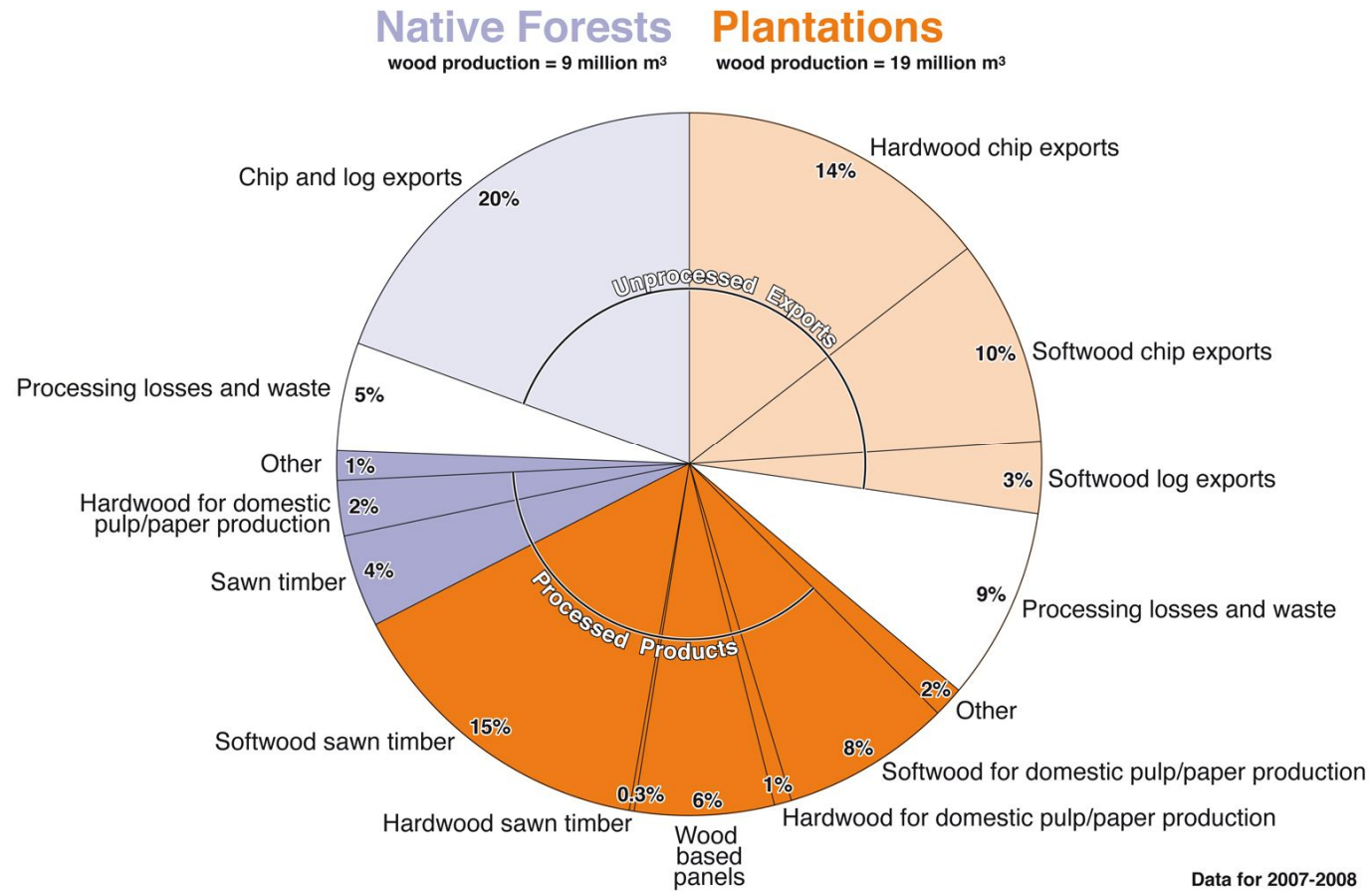
ABARE forestry statistics, ABS, BRS National Plantation Inventory, FAO FAOSTAT & ASX.

Australia's ASX listed plantation MIS companies



Australia's forestry industry 2007/08

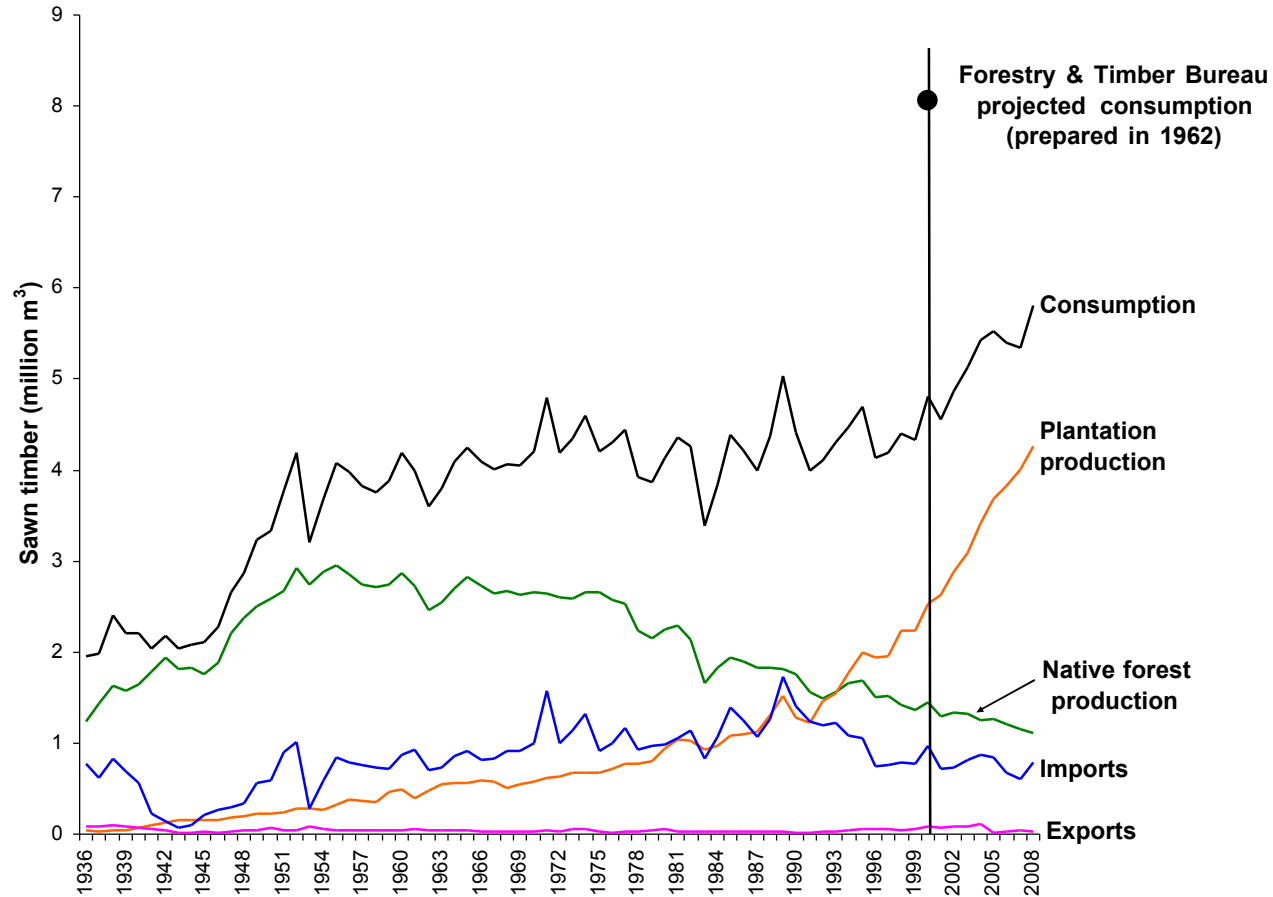
- plantation dominant especially in processing



Data for 2007-2008
Dr Judith Ajani © ANU 2010

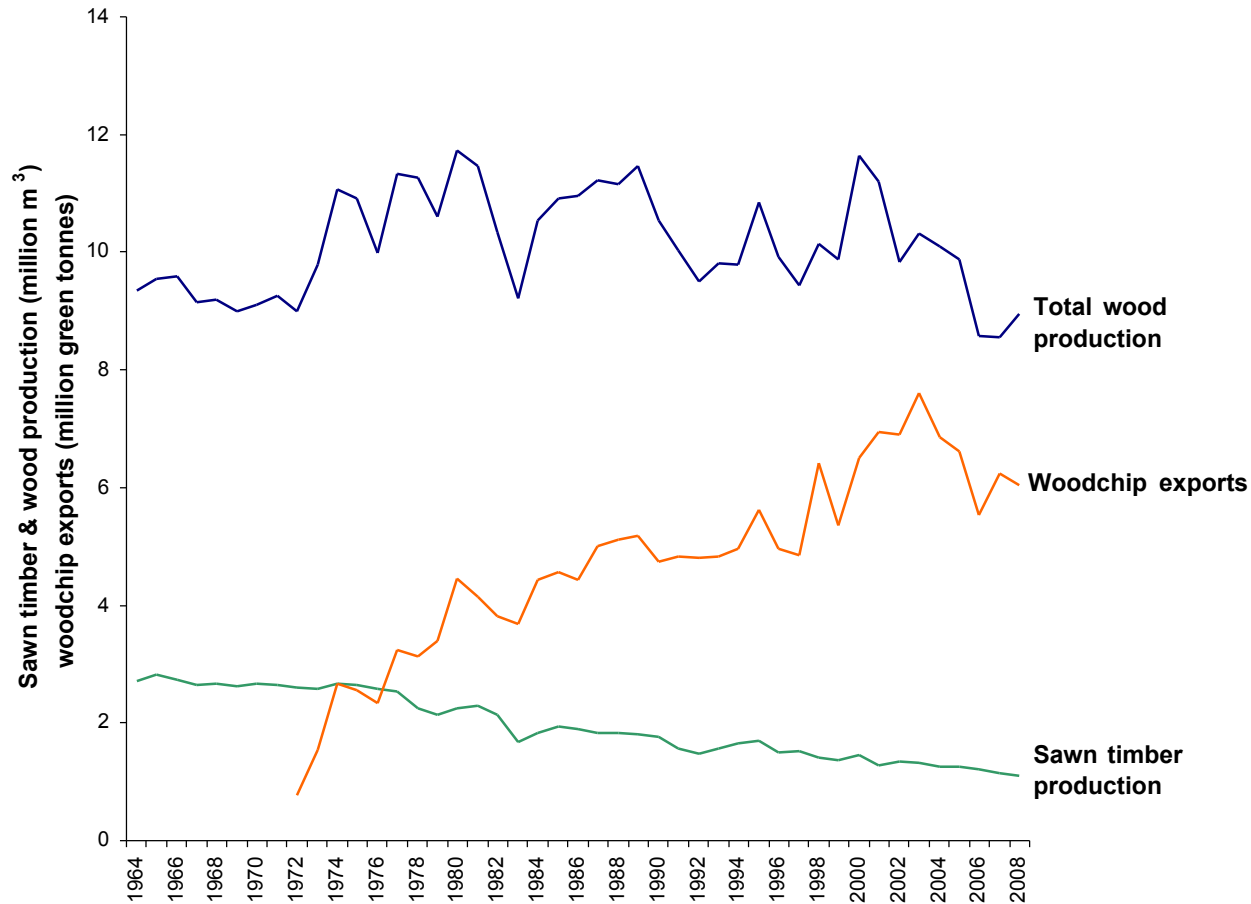
Australia's sawn timber industry

domestic market focus with plantations displacing native forests & imports

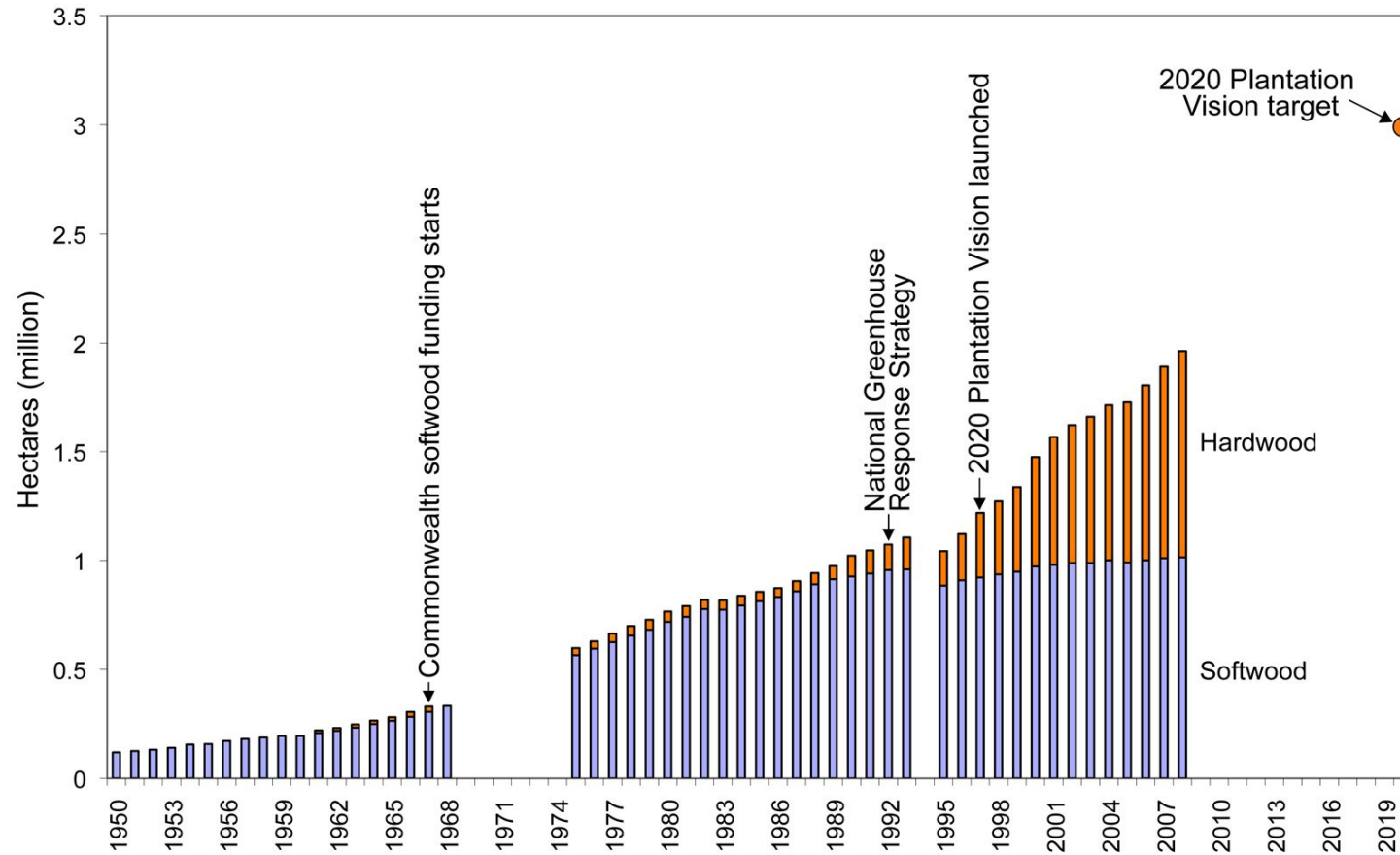


Australian native forest wood production

- no trend decline (until recently?) with woodchip exports dominant



Australian Government supply driven forestry policy



Hardwood chip plantation MIS workings

(using Great Southern 2007 project)

Year 1

Tax minimising 'investor' pays establishment fee (\$9 900/ha) and fully deducts it from taxable income earned from other activities.

Year 12

'Investor' receives income from net harvest proceeds (woodchip sales less costs of felling, cartage, chipping and sale) less 6% for management & maintenance fees and land rent over the 12 years.

Reality

Actual cost of planting and managing over the rotation – around \$2 500/ha.

High productivity and woodchip price assumptions got these high cost projects across the financial line.

The party ends when plantation MIS companies have to face the real wood market.

Government tax arrangements

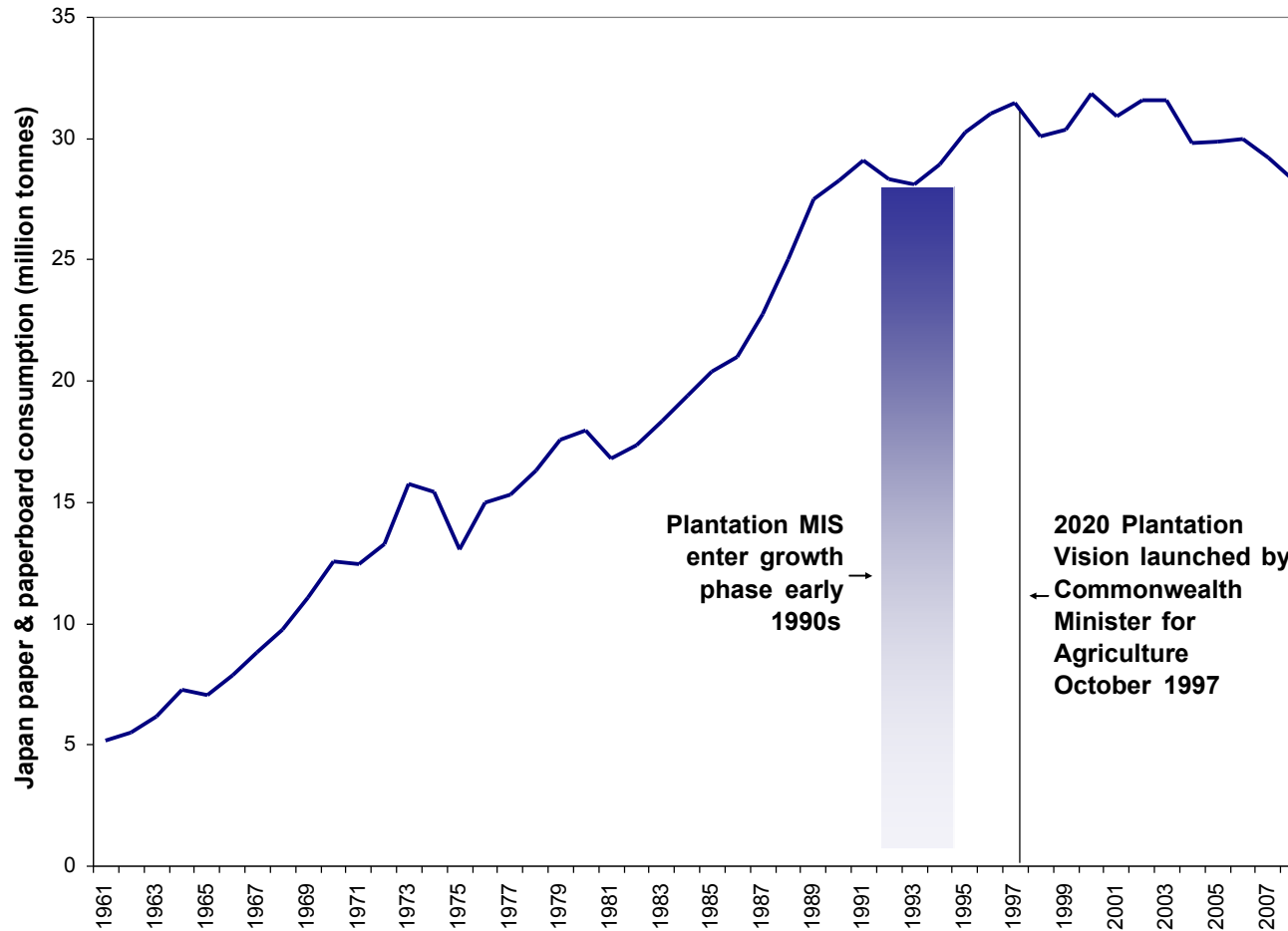
ATO gives 'investors' dispensation from tests deeming their business activity to be commercially viable.

ATO must have judged that plantation managed investments are inherently commercial.

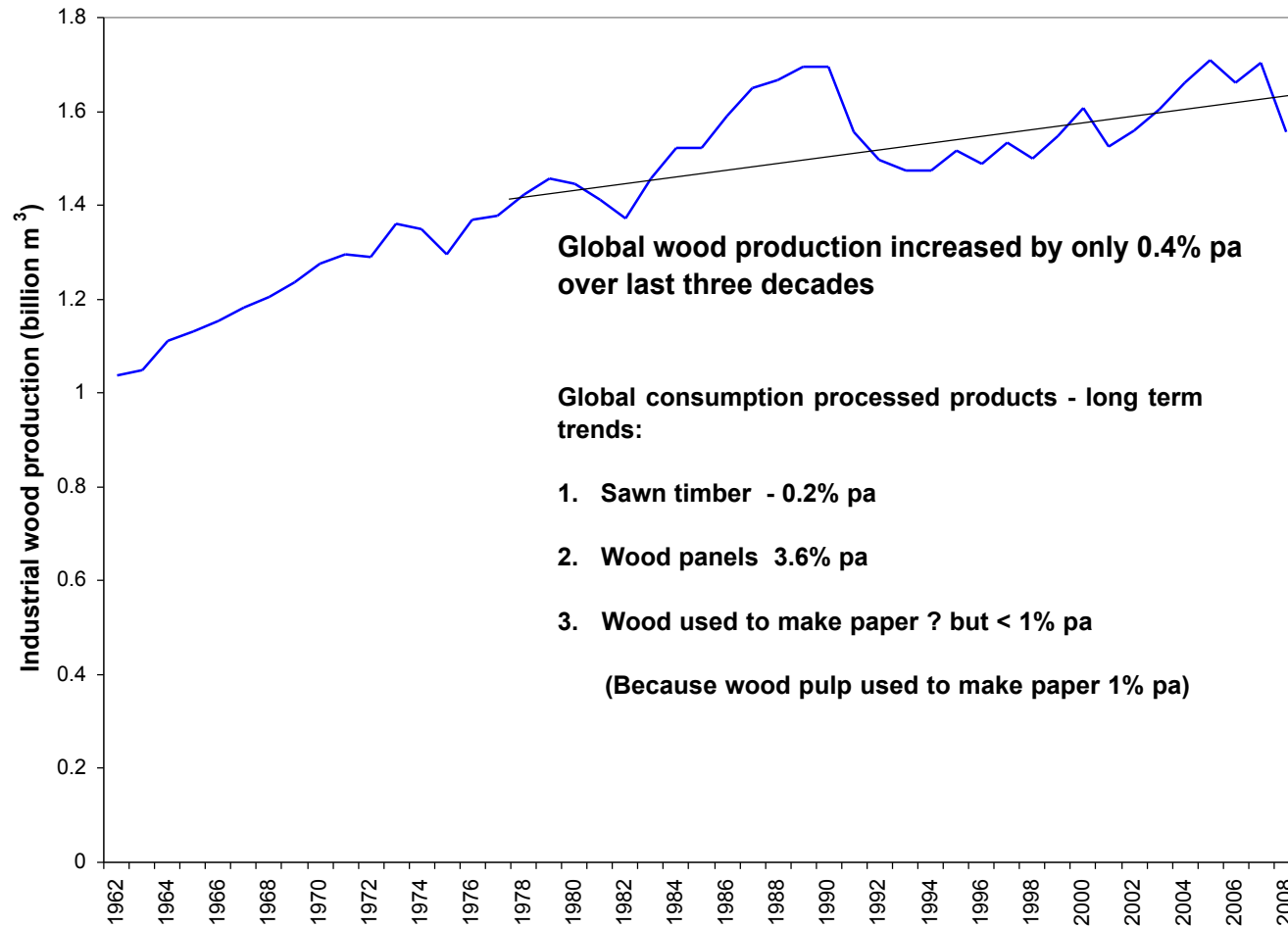
Without this arrangement, 'investors' could not deduct their costs against income earned elsewhere.

Japan buys 85% of Australia's hardwood chip exports

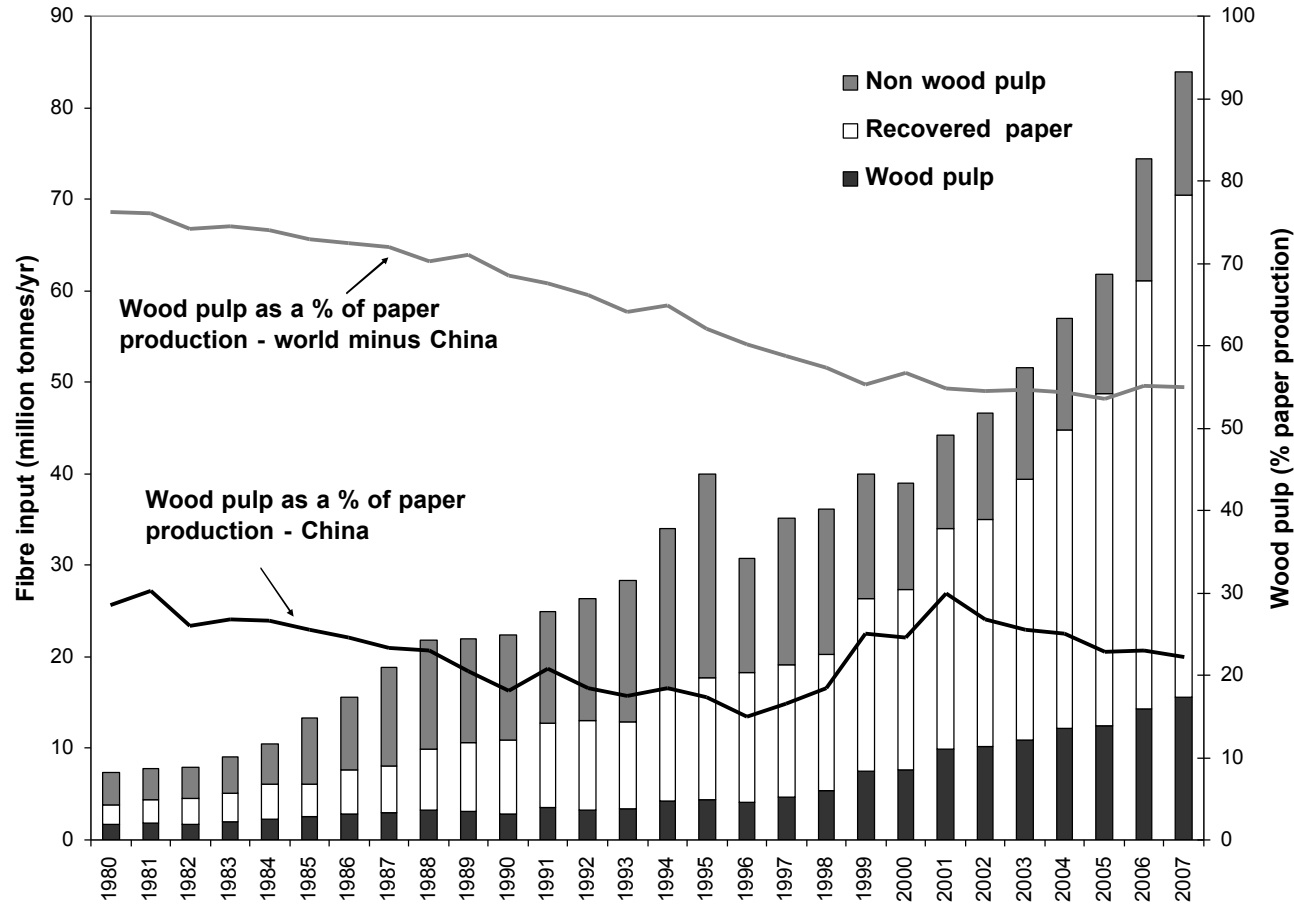
- a no growth market since the 2020 Plantation Vision launch



Traditional markets not driving strong global demand for wood



China's smart paper industry strategy is matched against Australia's naive understanding

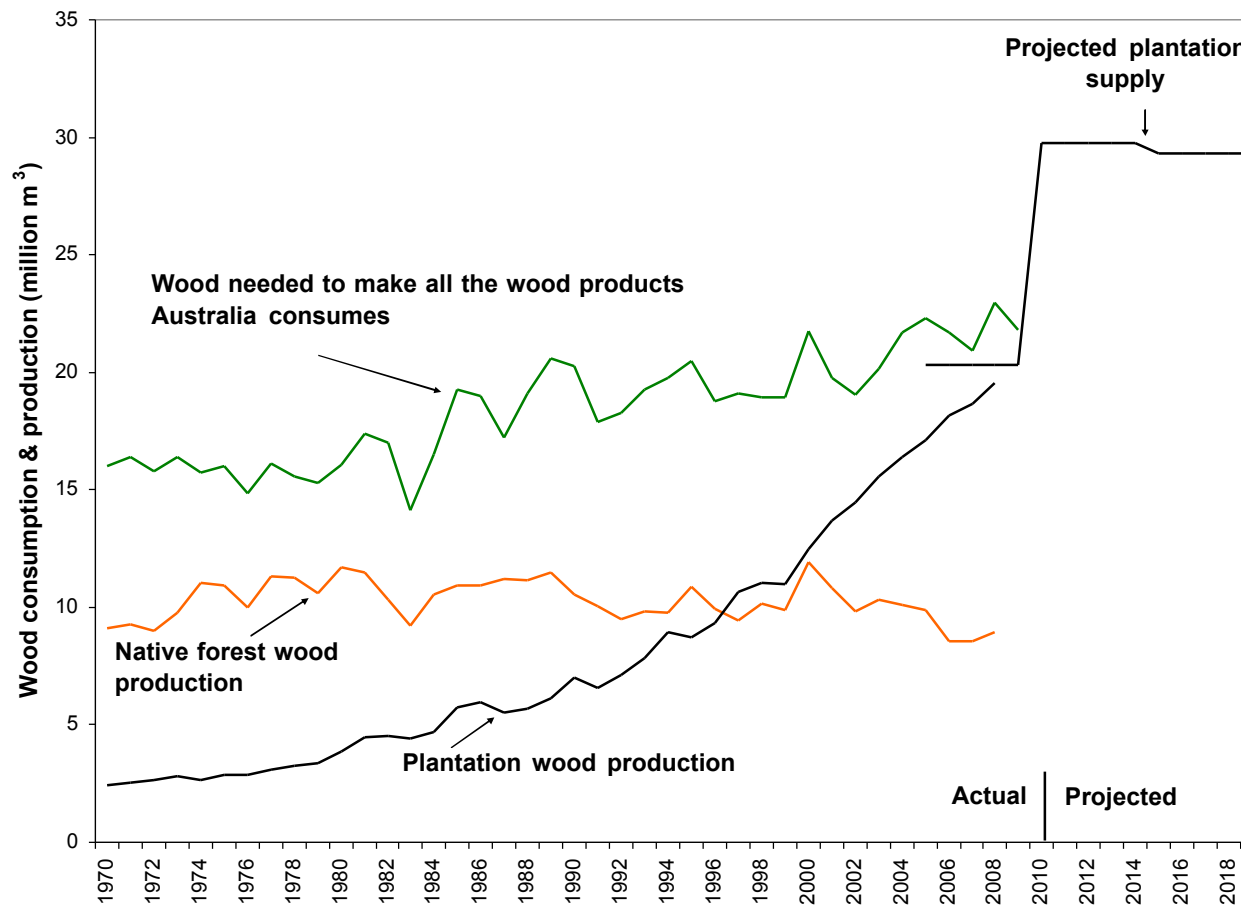


China's strategy to avoid driving a wood shortage (ie higher wood prices):

- **Pre-emptive price setting**
- **Resource saving:**
 - paper recycling
 - wood based panels
 - high pulp-yielding mills
- **Plantation expansion**

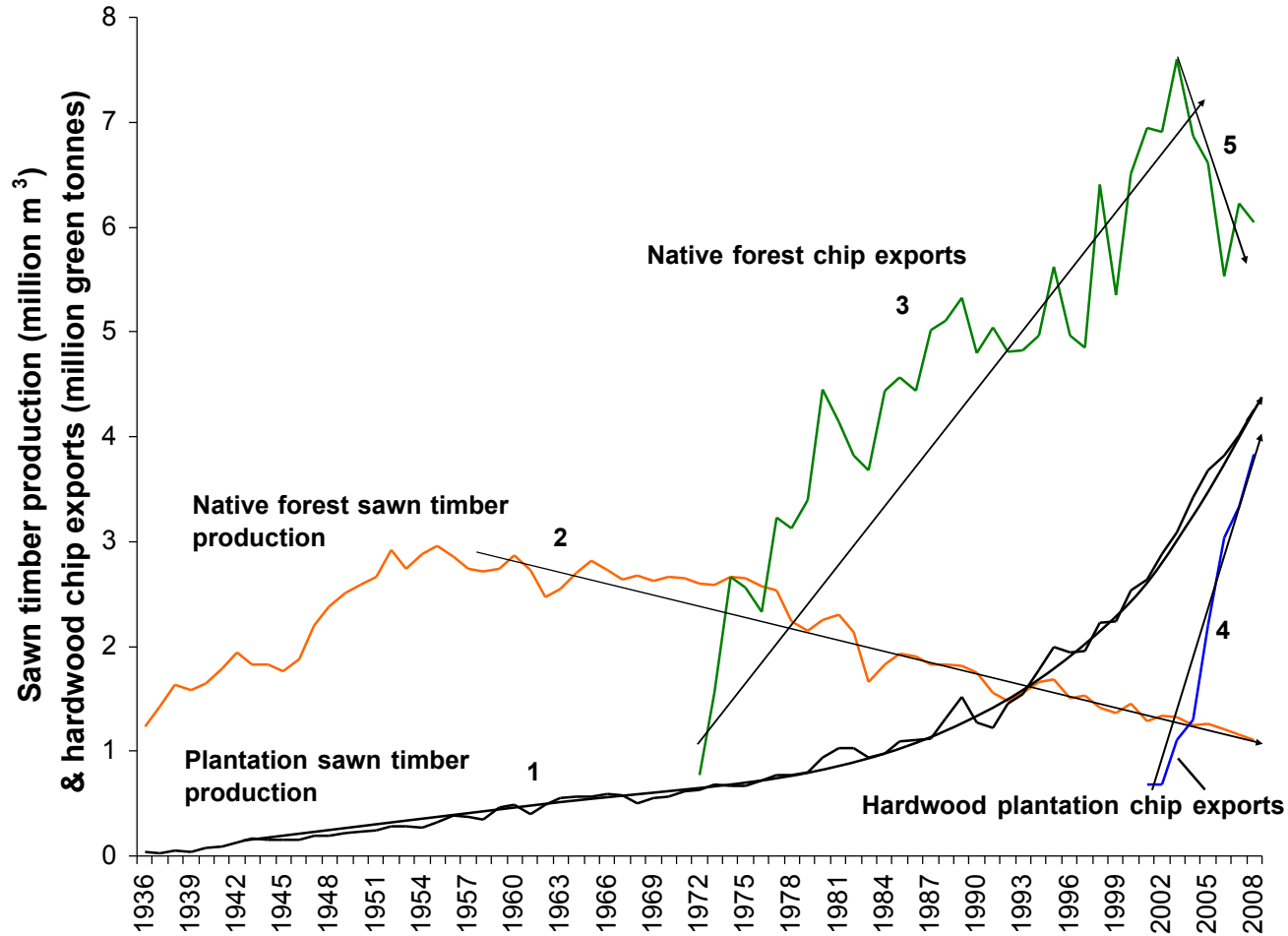
Australia's existing plantations can meet our wood needs

– opportunity for major native forest protection with forestry industry growth



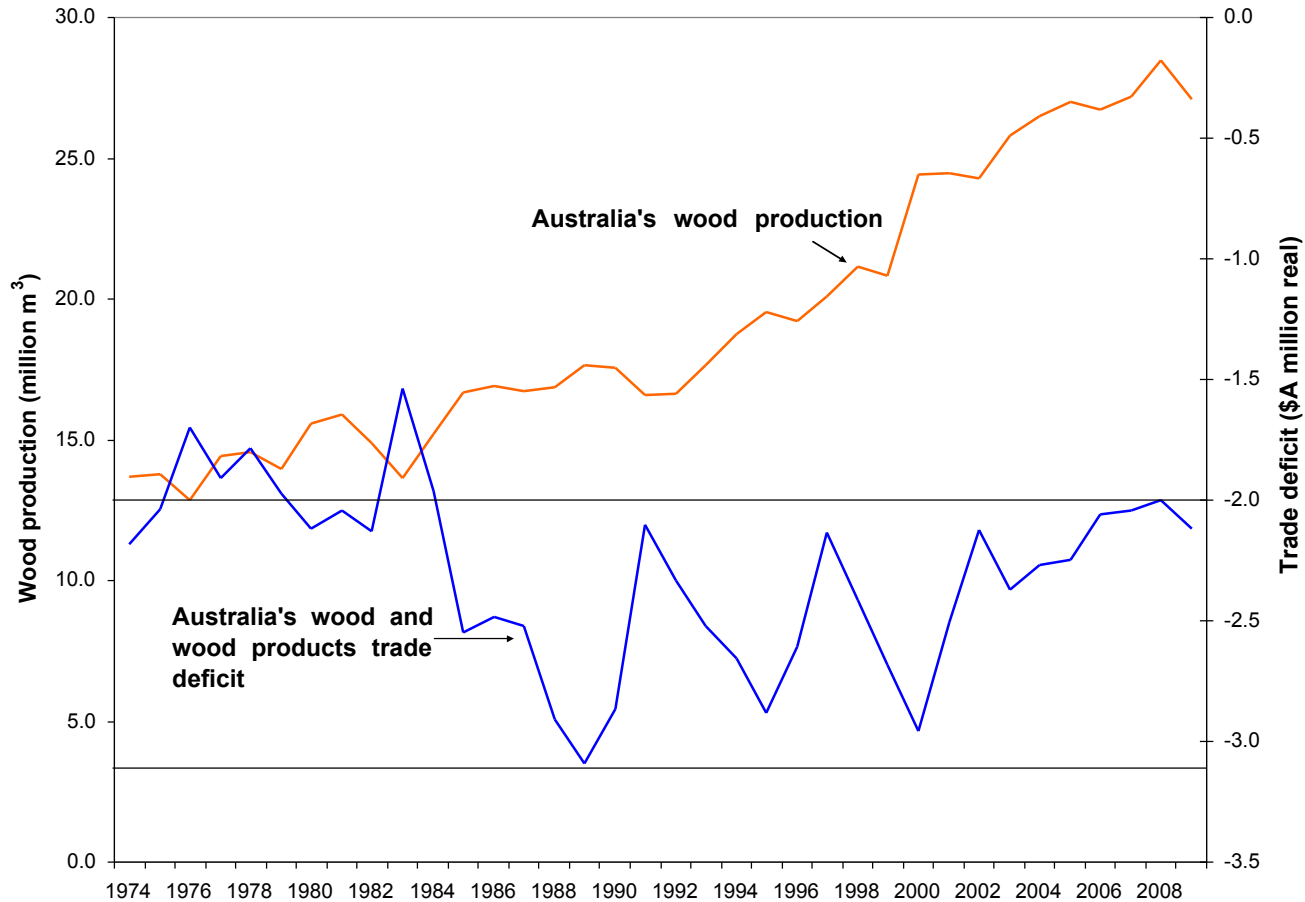
The Australian Government drives forestry

– unintended consequences & missed opportunities



Forestry trade deficit underpins wood shortage misperception

- defers policy to substitute plantations for native forest wood
& encourages over-planting



'With this Vision, the prospect of converting the nation's current \$2 billion trade deficit in wood and wood products into a sizable trade surplus is totally feasible.'

Minister Anderson

Launching the Vision
2 October 1997

'... we still have a \$2 billion trade deficit in the trade of timber and forest products.'

Minister Burke

'Australia's Forest Report Card'
21 May 2008

What to do

- 1. Terminate plantation MIS**
 - Driven by tax minimisation not wood market realities - land & water misallocation, waste of public funds
- 2. High level political engagement to reset forest policy (industry & environment)**
 - Liberate policy from forestry industry lobby, forestry union & bureaucratic compaction
- 3. Tackle the issue (finally) – who should take the wood growing risk?**
 - If partly Government, need good processes for good regulations
- 4. Use today's forestry industry situation strategically – put in conflict-ending backstops**
 - Close options for native forests in the energy market
- 5. Science based carbon stock policy for natural environments**
 - Planting carbon sink forests not the only option, nor the first best
- 6. Science research into energy production options for Australia**
 - Full life cycle analysis of each
- 7. Major future directions-setting review of Australian agriculture**