



THE AUSTRALIAN NATIONAL UNIVERSITY

# Australia's forestry crisis

## how it happened and what to do

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Fenner School Seminar Series  
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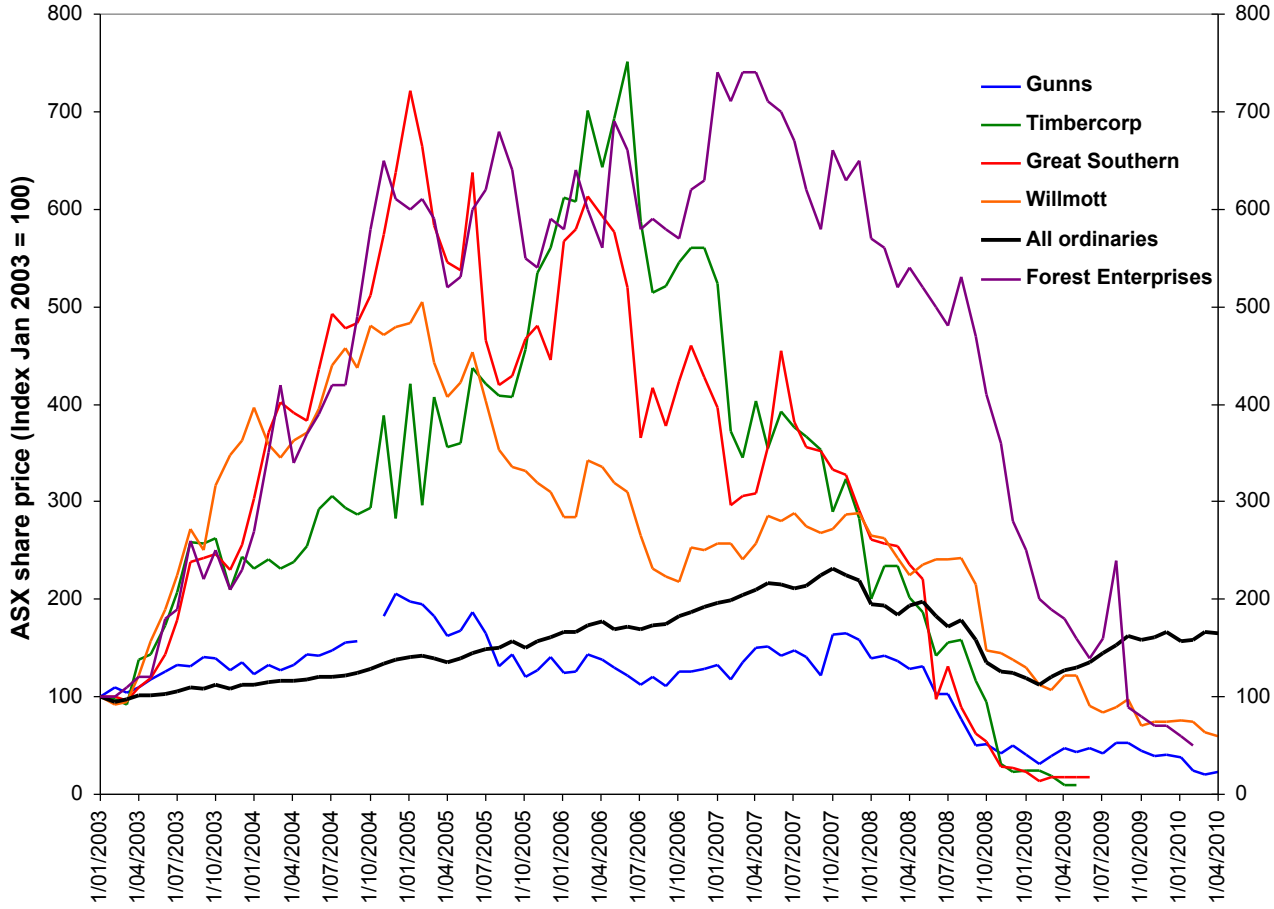
## References for the analysis I present in this seminar

- 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

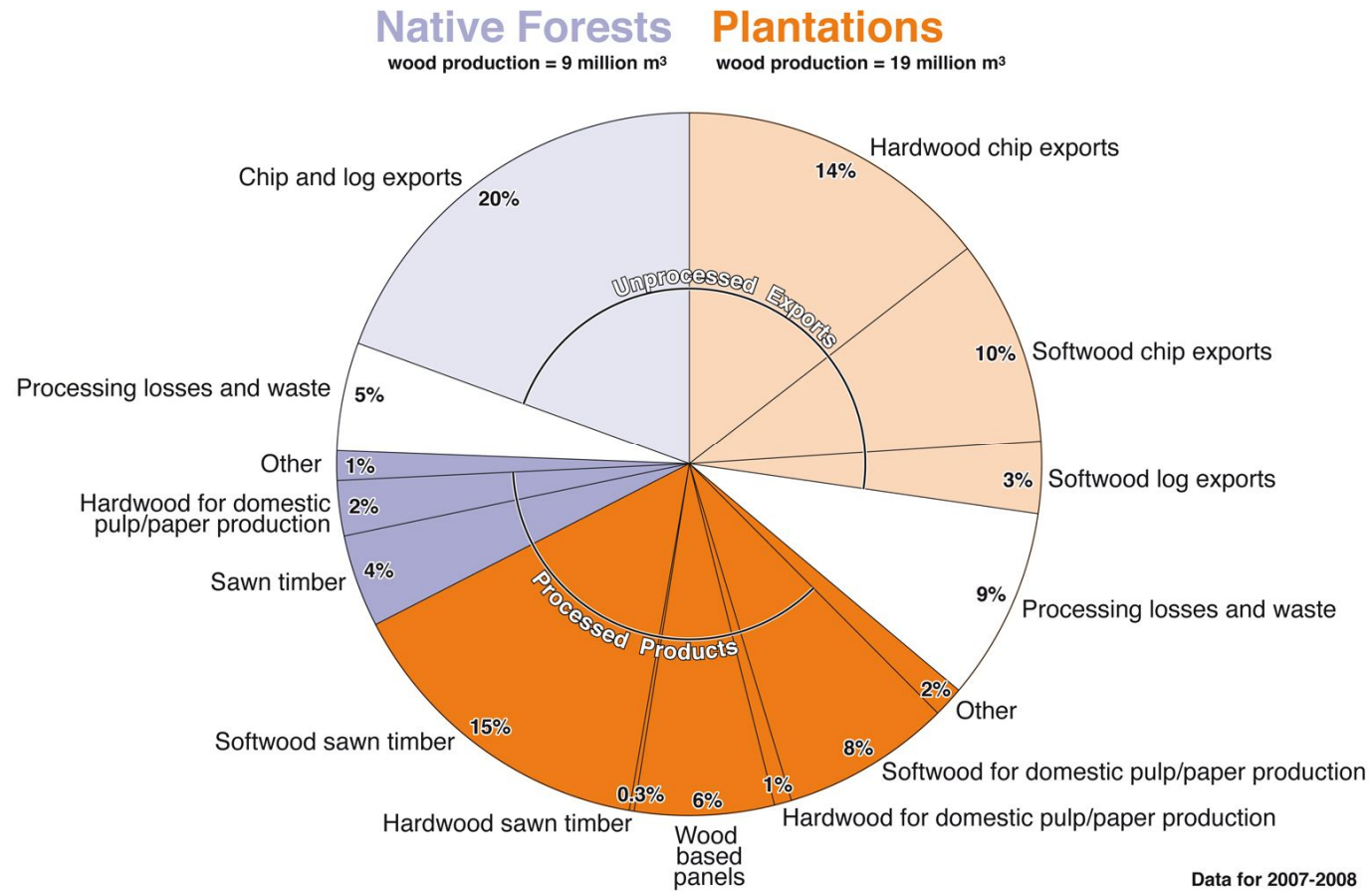
ABARE forestry statistics, ABS, BRS National Plantation Inventory, FAO FAOSTAT & ASX.

# Australia's ASX listed plantation MIS companies



# Australia's forestry industry 2007/08

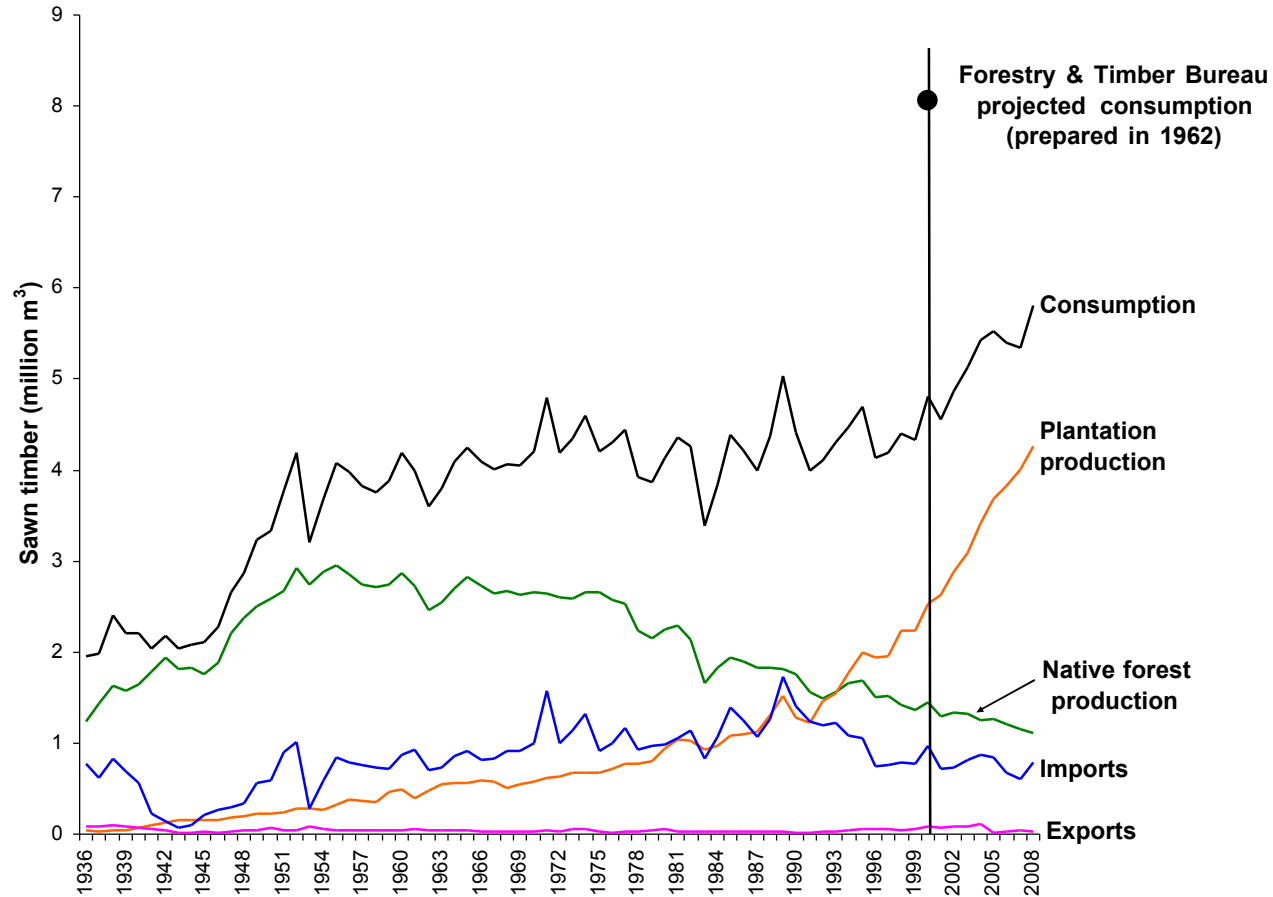
- plantation dominant especially in processing



Data for 2007-2008  
Dr Judith Ajani © ANU 2010

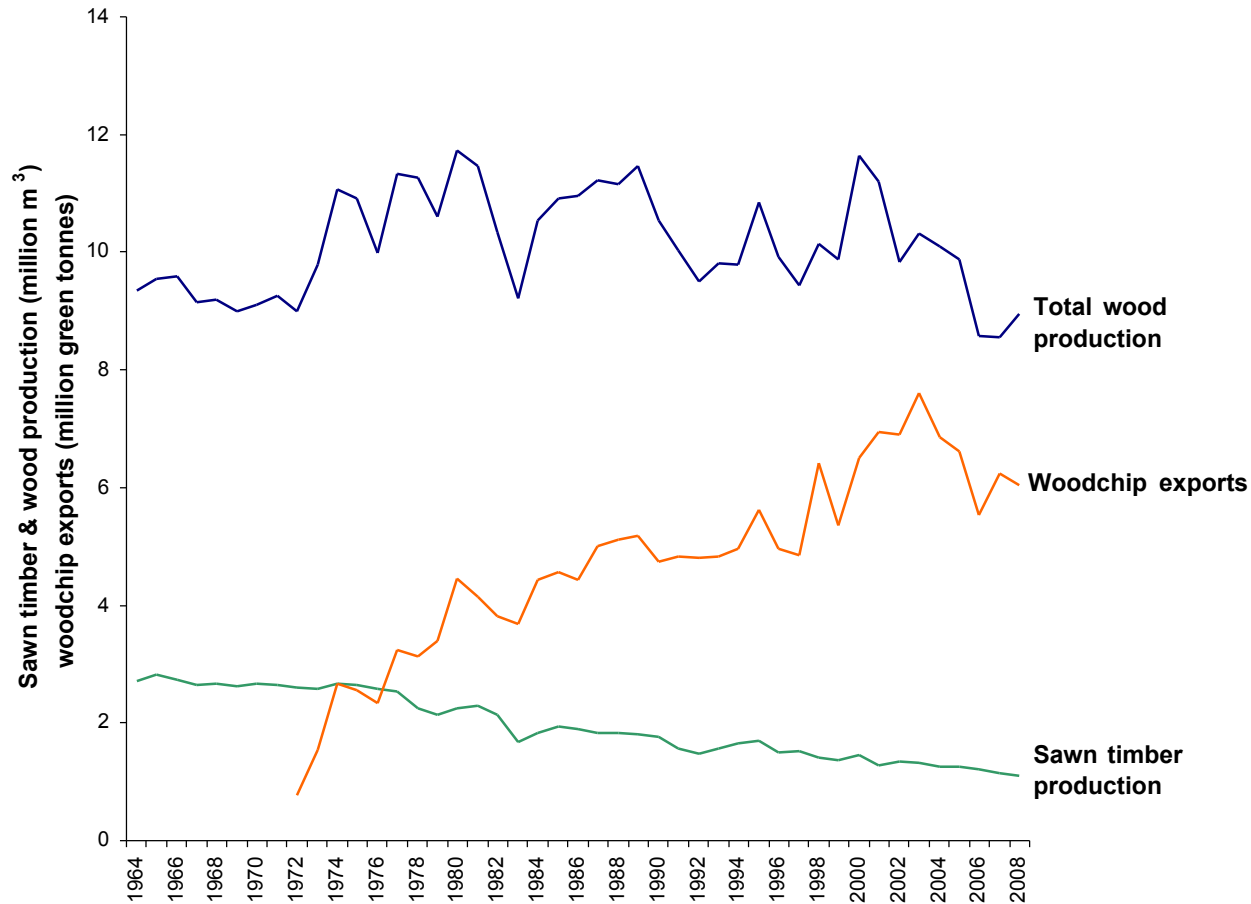
# Australia's sawn timber industry

domestic market focus with plantations displacing native forests & imports

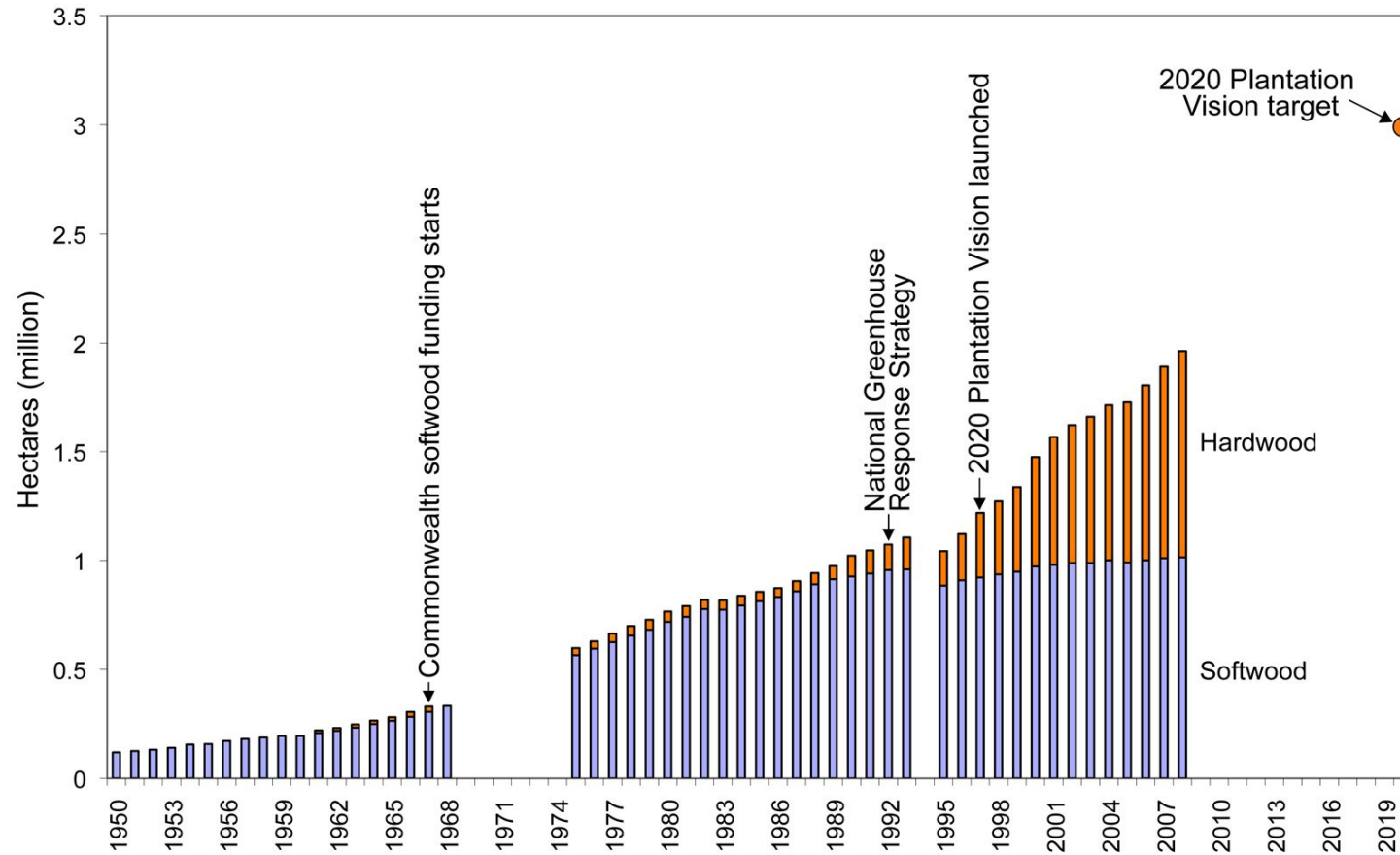


# Australian native forest wood production

- 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.

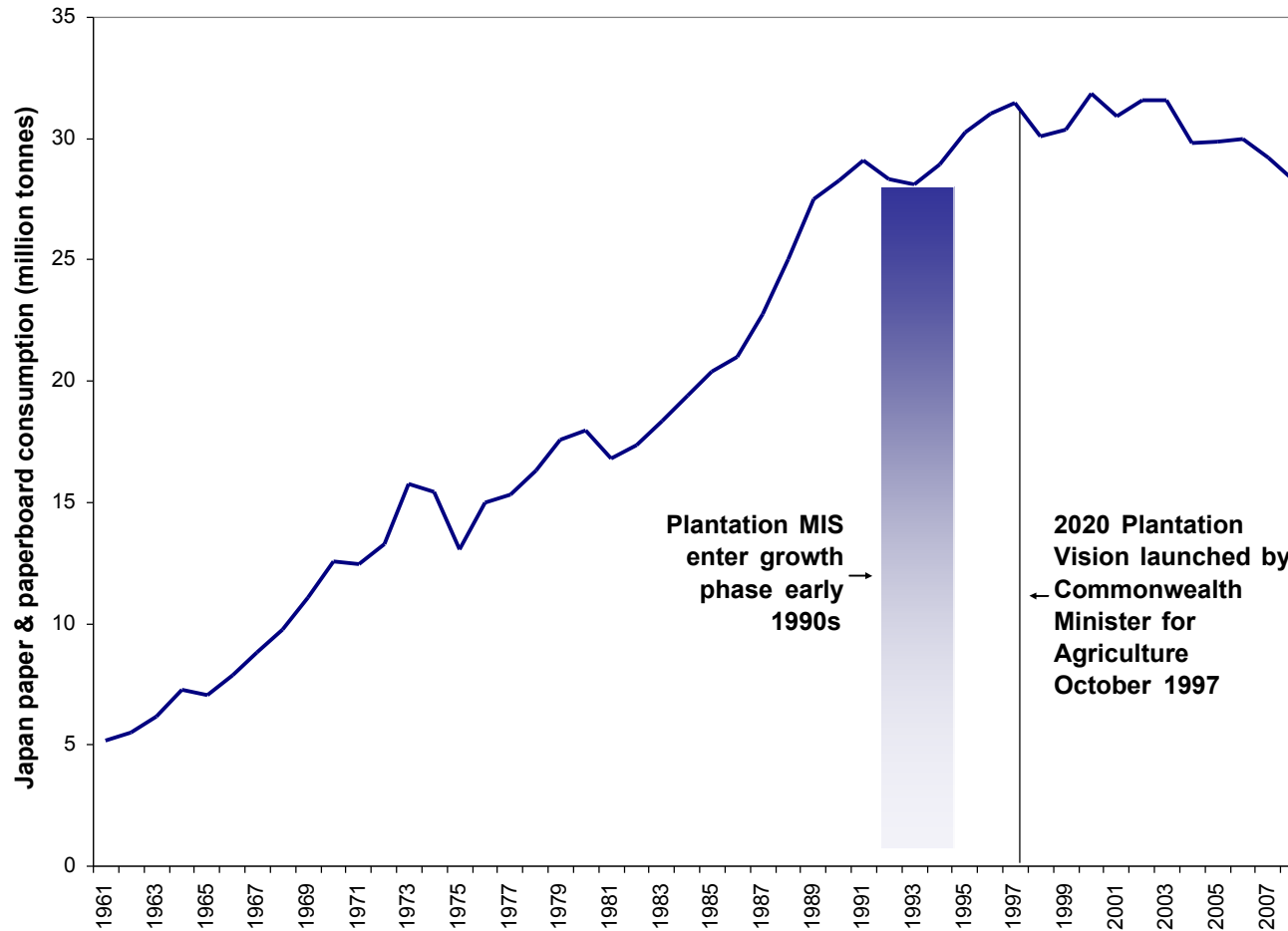
ATO must have judged that plantation managed investments are inherently commercial.

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

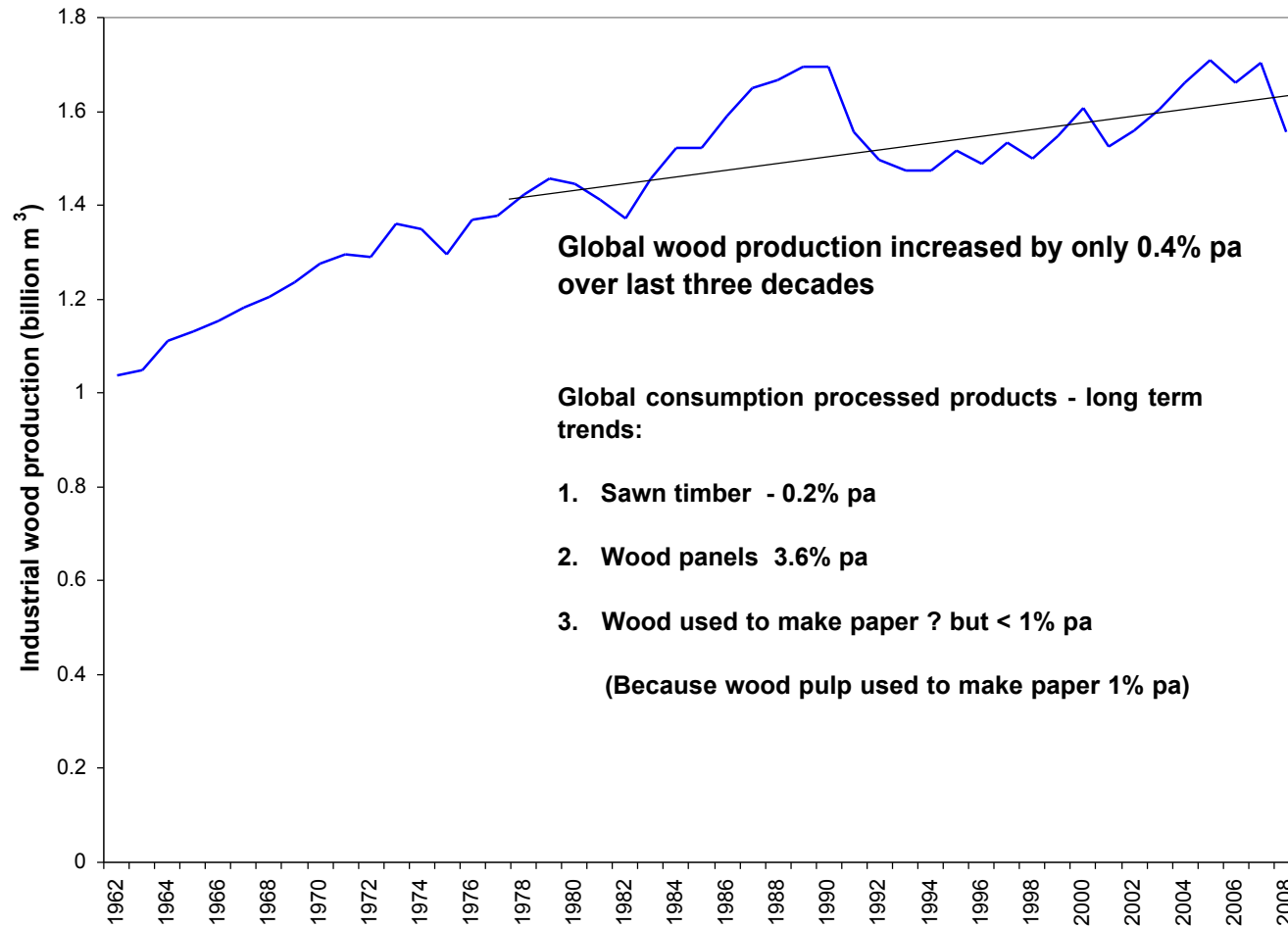


# Japan buys 85% of Australia's hardwood chip exports

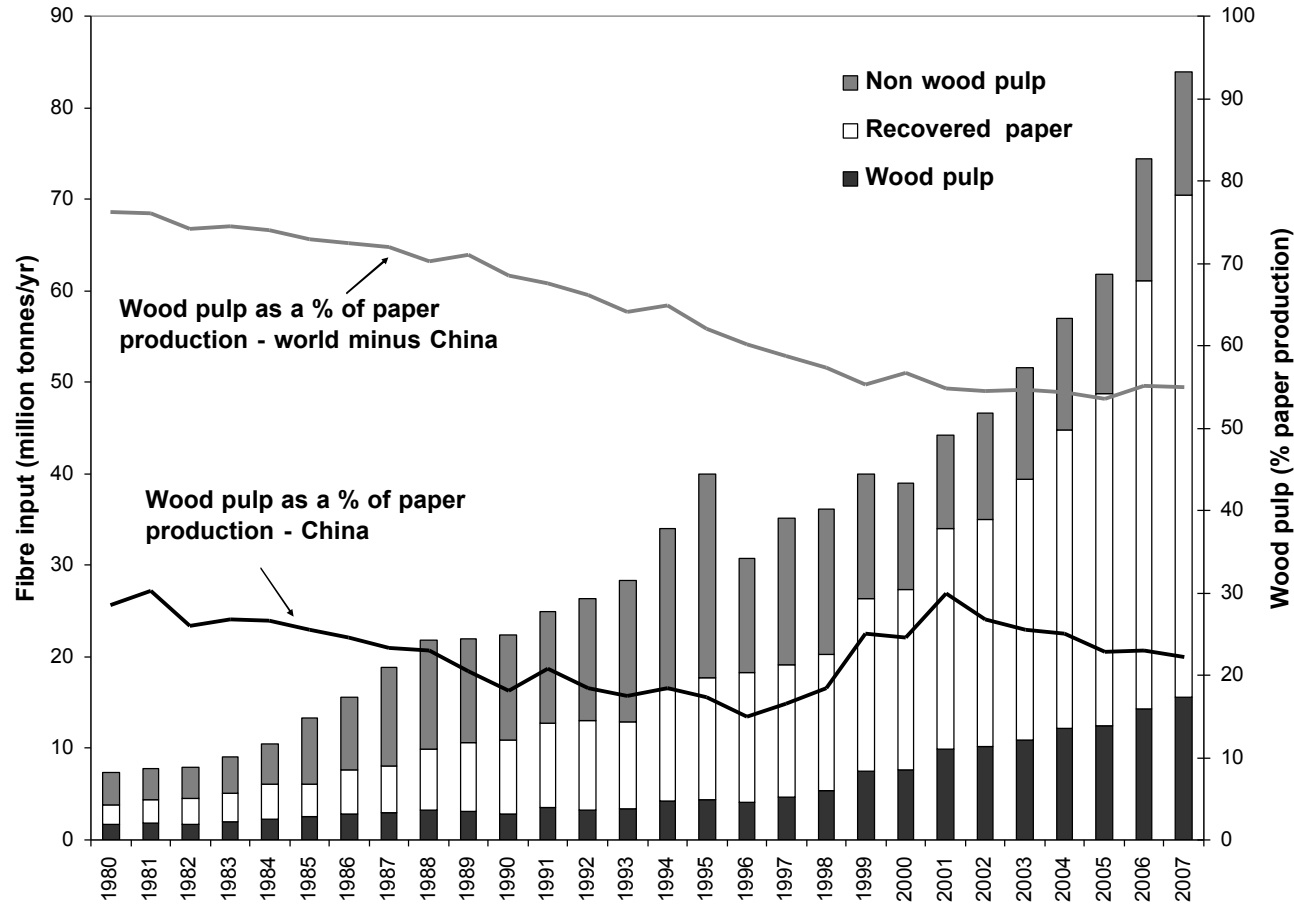
- a no growth market since the 2020 Plantation Vision launch



# Traditional markets not driving strong global demand for wood



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

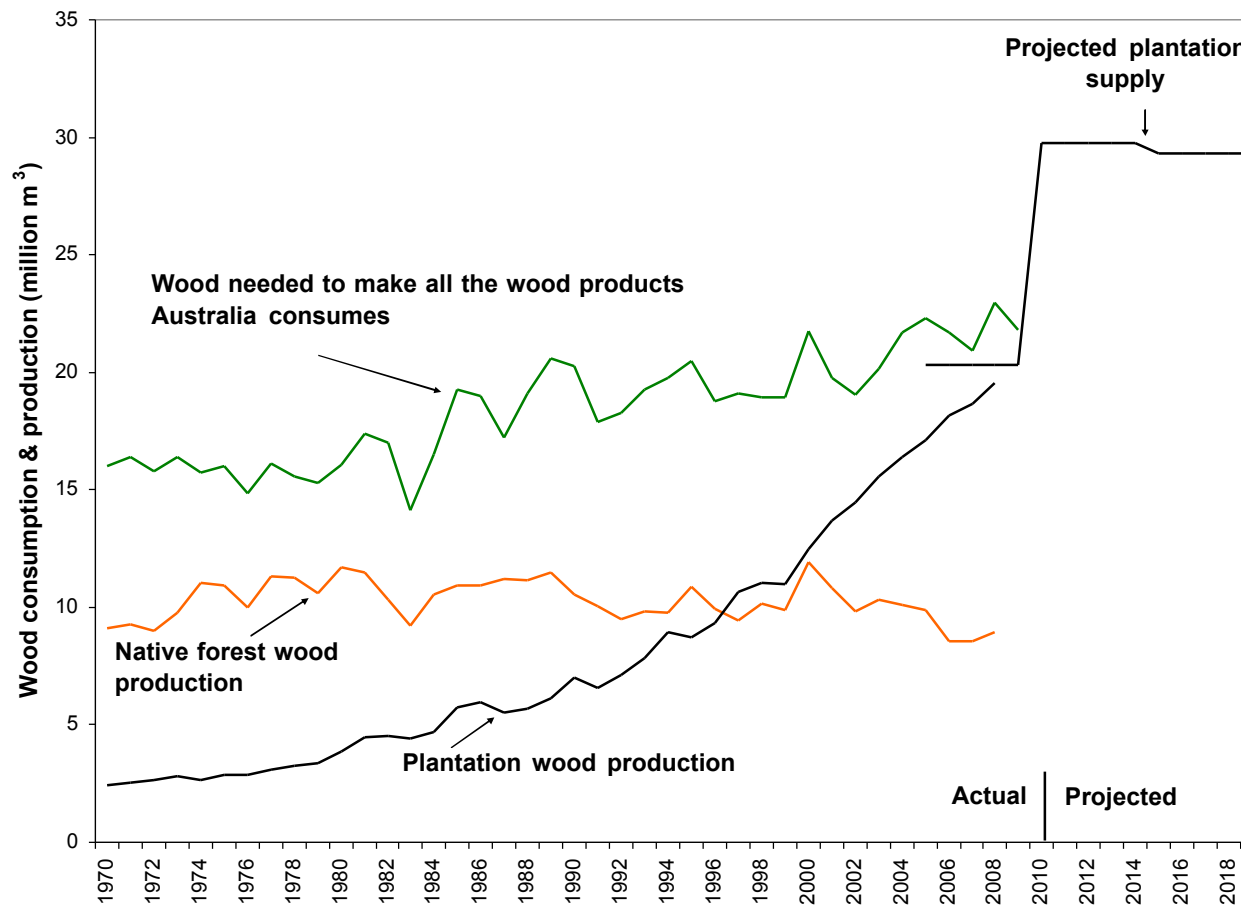


**China's strategy to avoid driving a wood shortage (ie higher wood prices):**

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

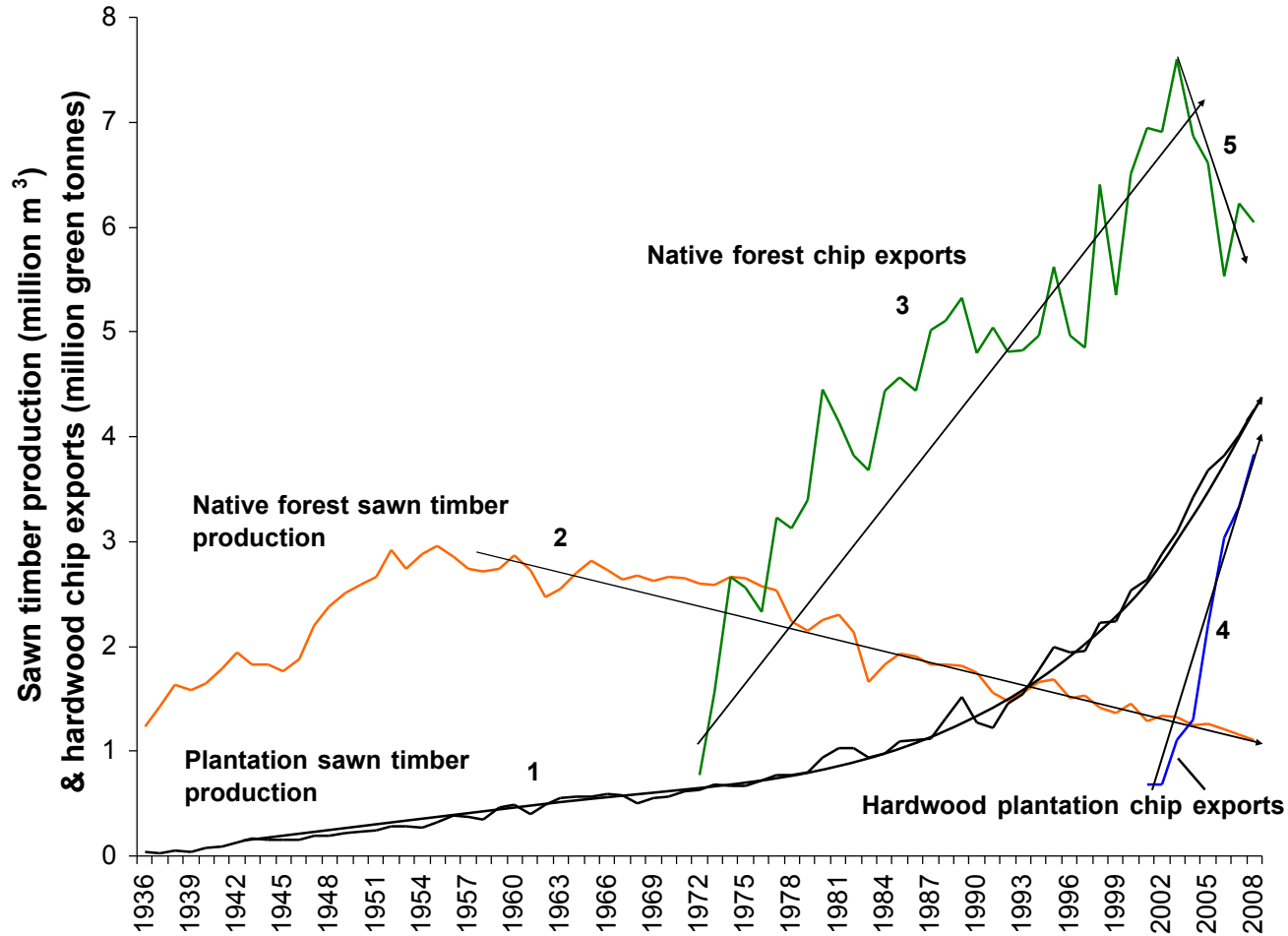
# Australia's existing plantations can meet our wood needs

– opportunity for major native forest protection with forestry industry growth



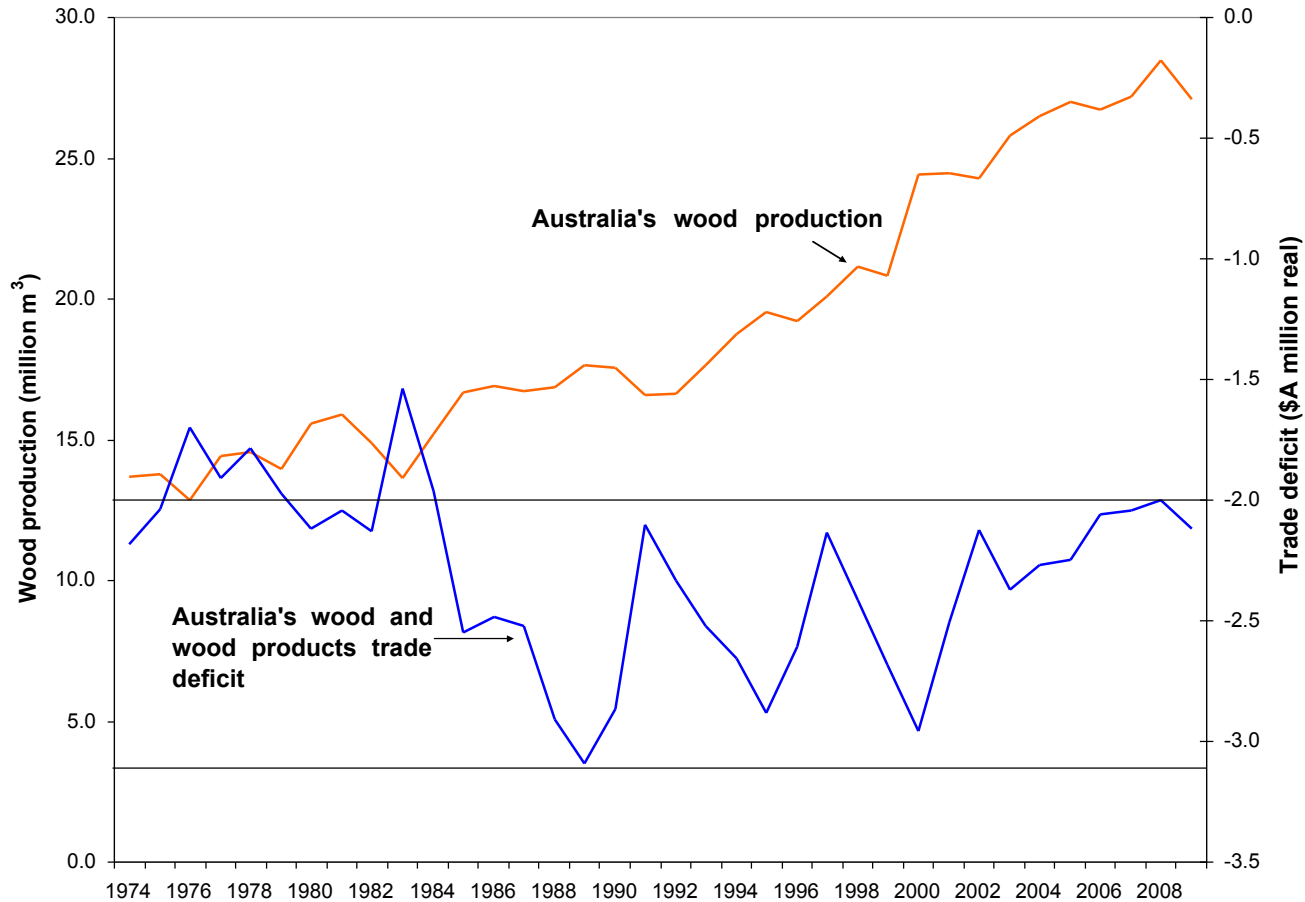
# The Australian Government drives forestry

– 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**