



## **Submission to the ‘Australia’s Future Tax System’ Review**

**On**

### **Consultation Paper: December 2008**

#### **Recommendations**

NAFI recommends that:

- Taxation policy is not perversely used as a vehicle for forest policy interference.
- The AFTS Review recognises that Australia’s forests are managed on scales of both time and space across the landscape, in accordance with their relative ecology. The science associated with this management ensures that forests, and their many values, are managed as renewable resources with a variety of age classes.
- The AFTS Review recognises that national forest policy sustainably manages Australia’s forests; for environmental, social and economic values.
- The manipulation of the taxation system to achieve forest management outcomes will only result in perverse economic incentives and reduced governmental control of forest policy.

#### **Introduction**

The National Association of Forest Industries (NAFI) appreciates the opportunity to provide comments on the *Australia’s Future Tax System (AFTS) Review’s Consultation Paper: December 2008*. NAFI appreciates the AFTS Review Panel’s acceptance and consideration of this submission after the due date (as confirmed in correspondence between NAFI and the AFTS Secretariat dated 28<sup>th</sup> April 2009).

This submission refers to specific parts of the consultation paper – particularly *Chapter 14 Natural Resource Charging*. NAFI provides comments on the timescales of resource management, and the impact that these have on the timeframes of management to ensure ongoing sustainability. NAFI also informs the Review Panel regarding the role that existing forest policy plays in regards to addressing the issues of sustainable forest management and associated regulation.

## **Management Timescales of Renewable Resources**

*Chapter 14* of the consultation paper discusses the characteristics that are required for a resource to be considered ‘renewable’. The consultation paper refers to submissions indicating that the management of ‘old-growth’ forests for production is not renewable, due to the long-time frame for regeneration of these resources. This view is incorrect as it does not take into account the integrated landscape and timescale management values that are integral to sustainable forest management, as practiced in Australia.

Forests are not static entities; rather they are dynamic environmental systems subject to ecological succession. The concept of ‘old-growth’ stands in perpetuity is not valid due to the nature of flux across the landscape. A forest described as being at an ‘old-growth’ stage is considered so because it generally exhibits values associated with the final climax stage of the particular ecosystem. However this climax stage is not endemically sustainable – forest ecosystems require disturbance in order to regenerate. If this disturbance does not occur the individuals (and possibly species) die without the catalyst required for regeneration (eg. creation of ash bed for seed germination). Thus there is a need to manage for old-growth values at a landscape scale in order to have representative communities across time and space, with a mixture of forest types, of different age classes.

Australia’s production forests are managed for multiple values (see below) at a landscape scale. Over this landscape, harvesting can occur where the ecology of the relevant forest can be representatively maintained and restored. This means that forest stands with ecologies requiring significant periods of disturbance exclusion (such as those referred to as ‘old-growth’) are managed in accordance with this ecology – forest harvesting only occurs where the environmental and social benefits are not compromised. This may result in the management of forest ecosystems on scales exceeding many hundred years.

*Section 14.2* of the consultation paper notes that, “[r]enewable resources are sustainable, provided the rate of replacement at least equals the rate at which they are depleted” (p. 258). By managing forest resources in order to provide resource replacement at (at least) an equal rate at which they are utilised, Australian forest managers ensure that the many values of the forest are protected, thus rendering the resource management ‘renewable’. National forest policy ensures that forests are managed in accordance with these objectives.

## **Recognition of Triple Bottom Line Values in Forest Management**

Nearly all of Australia’s production forests are managed under a Regional Forest Agreement (RFA) or equivalent State Government forest management arrangements. RFAs are agreements between the Commonwealth and the relevant State Governments regarding the sustainable management of Australia’s forest resources, in accordance with the ecology of the applicable region. RFAs take into account the social, environmental and economic values of forests, and incorporate the protection of these values within the management process.

Australia's sustainable forest management science has reached such a point of refined accuracy, that forests can be managed, at a landscape scale, for multiple values – timber harvesting does not necessarily impact upon environmental conservation or recreational forest use. In fact in some cases, forest management for timber production can enhance conservation and recreational returns to society (eg. through ecologically sensitive fire management regimes). The maintenance of these values is enshrined in national forest policy and, subsequently, there is no need to introduce a 'royalty-type', or any other, taxation mechanism. To do so would create a situation where multiple policy processes overlap, resulting in increased compliance costs and policy complexity.

### **Forestry: A Highly Regulated Industry**

The consultation paper has multiple comments about additional regulation of resource management. These include reference to regulation for "community valuations" (p. 254) and "sustainable extraction limits" (p. 259).

Australia's forest sector is already highly-regulated, with world-leading standards in forest management. National forest policy as implemented under RFAs ensures that community valuations are comprehensively considered in forest management; additional regulation would only result in increased compliance costs and complexity without any positive outcomes. Likewise, sustainable extraction levels have already been identified (in accordance with the ecology of the relevant forests) under the RFAs and forest harvesting is regulated to comply with these levels – once again, additional regulation would only result in increased compliance costs and complexity without any positive outcomes.

The forest management-related regulatory issues identified in the consultation paper are not relevant to taxation arrangements. Issues of forest management policy should be addressed through national, state and local forest policy programmes. The manipulation of the taxation system to achieve forest management outcomes will only result in perverse economic incentives and reduced governmental control of forest policy.

Taxation, as discussed in this regard, is a blunt instrument with the primary aim of raising revenue. It should be used with caution when considering other policy objectives.

### **Recommendations**

NAFI recommends that:

- Taxation policy is not perversely used as a vehicle for forest policy interference.
- The AFTS Review recognises that Australia's forests are managed on scales of both time and space across the landscape, in accordance with their relative ecology. The science associated with this management ensures that forests, and their many values, are managed as renewable resources with a variety of age classes.

- The AFTS Review recognises that national forest policy sustainably manages Australia's forests; for environmental, social and economic values.
- The manipulation of the taxation system to achieve forest management outcomes will only result in perverse economic incentives and reduced governmental control of forest policy.

**NAFI looks forward to further involvement in the AFTS Review process and would appreciate the opportunity to appear before the Review Panel at a suitable time. For further information regarding anything contained herein, please contact NAFI Policy Advisor Sam Rae on (02) 6285 3833, or [sam.rae@nafi.com.au](mailto:sam.rae@nafi.com.au).**