



SENATOR THE HON ERIC ABETZ
Minister for Fisheries, Forestry and Conservation
Liberal Senator for Tasmania

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Dear Mr Loone

Thank you for your letter of 5 October 2006, regarding your invitation to attend a meeting of the Western Rivers Trust Forum at Deloraine on 23 October. Unfortunately due to prior arrangements I am unable to attend on this occasion.

I trust you appreciate, as a Federal Minister, I usually require more notice to be able to attend a function. I also note that my staff advised you would have a full response before the meeting. I therefore found your advertisement to be unnecessarily provocative. Nevertheless, as requested I have responded to your queries below.

Response to Questions

1. *What area of Tasmania is presently occupied by MIS plantations?*

The total MIS plantation area in Tasmania comprises about 47,000 hectares of hardwood and softwood plantation, which represents 21 per cent of the total plantation estate of 227,200 hectares.

2. *The MIS investor is typically charged \$8,000-\$9,000 per ha for just the trees. It costs between \$1,200-\$1,700 to plant them. Where does the balance go?*

A survey of MIS companies undertaken by the plantation taxation review, indicates that the costs associated with establishment, management, product development, marketing, overheads and taxes represents 82 per cent of the average retail price of an MIS project. I do not consider that the average profit margin of 18 per cent for these companies to be excessive, relative to the profit margins of other sectors.

Further I believe there is little benefit in arguing over actual returns to these MIS plantation companies. Individuals are investing in these projects because they provide an acceptable return. In most cases they choose this type of product to diversify their investment portfolio so that their risk is spread among a range of asset classes. If investors

believe that these products do not provide an acceptable rate of return, or the company selling the product is gaining an unacceptable profit at their expense, then they are unlikely to invest. With around 75,000 investors involved in these companies and nearly \$2.4 billion invested in the last five years, it is apparent that these investments are valued as a viable product.

3. *2,300 agricultural jobs have disappeared in the past five years as 87,000ha of agricultural land went under plantations. Forestry also lost jobs over the same period. Where are the jobs being created and how many?*

The Australian forest industry employs 91,400 people with around 70 per cent of the total workforce employed in the plantation sector. In Tasmania, the forest and wood products industry is of particular importance contributing around \$1.3 billion annually to the state economy and employing around 10,000 people or around five per cent of the total workforce.

With a large increase in resource availability and significant industry expansion expected over the next five years, employment in the plantation sector is expected to increase by about 12 per cent. A large proportion of this increase is expected in Tasmania. The Gunns pulp mill and other investment in the forest sector supported by grants associated with the Tasmanian Community Forest Agreement, are expected to provide a substantial increase in employment in the forest sector in Tasmania over the next five years.

A recent study by the Bureau of Rural Sciences (BRS) on the socio-economic effects of plantation development found that plantation expansion does not induce population decline in rural areas. There is also evidence that where plantation development has taken place rural communities have either experienced population growth or the rate of decline has been reduced in response to the movement of plantation workers and their families to these communities. Furthermore expansion of the plantation estate and industry development at the local level not only stems the rate of rural decline, but can contribute to sustainable population and economic growth once harvesting commences.

4. *\$1.25 billion reportedly went into MIS schemes in the past year. How much went into political donations to the Tasmanian Liberal Party?*

I find the innuendo in this question to be very offensive. Political donations are subject to strict public disclosure requirements. You can access this information through the Australian Electoral Commission

5. *Farms purchased for MIS plantations generally have their infrastructure razed to reduce valuation. The trees are exempt from valuation for rates purposes. How does this help support local government?*

It is important to recognise that in many instances the alternative to the MIS companies purchasing farmland is a neighbour buying the property to expand their operation and gain economies of scale. There are also several large national and multinational companies operating on a very large scale in Tasmania, who are purchasing farmland to expand their

operations. In these instances, the existing house lot and other infrastructure is not always maintained.

Further, MIS companies often try to subdivide the house lot from the main property when they purchase land. The house lot is then used to house their employees or in some instances, is maintained by the previous land owner to enable them to retire with dignity without leaving their house.

6. *Councils are presently barred from prohibiting plantations. Councils' discretionary power to refuse approval to forestry was effectively removed in 1998. What is to stop plantations from displacing, say 50% of our farms?*

It is also important to note that in most major plantation regions sales of agricultural land for plantations represented less than 25 per cent of all agricultural land sales.

To place your concern in context it needs to be understood that although the area of agricultural land declined by 29 million hectares between 1994 and 2004, less than 0.7 million hectares (or 2 per cent) have been converted to plantations.

Looking to the dairy industry as an example, Australian Bureau of Agricultural and Resource Economics statistics indicate that the total number of dairy farms fell by nearly 28 per cent between 1994 and 2004, while the number of dairy cows increased by about 14 per cent. This reflects the consolidation of dairy farms to increase their efficiency and viability. It has led to increased productivity and allowed them to run larger herds on a smaller area of land.

Market forces and common sense dictate a sensible balance will be achieved, as witnessed by dairy farmers out bidding tree farmers at recent land sales. The power or otherwise of Councils is clearly a matter for State Governments and not the Federal Government.

7. *Gunns indicates it wants an additional 50,000 ha of plantation for its pulp mill. How many additional agricultural jobs will be lost as a result?*

It is not evident that any agricultural jobs will be lost as a result of the Gunns proposal. However, it is important to note that the pulp mill is expected to generate up to 8,000 direct and indirect jobs in the construction phase. When the mill becomes operational, it is expected to provide up to 1,500 direct and indirect permanent jobs in Northern Tasmania. This venture will also be a significant contributor to the Tasmanian economy, generating annual revenue of more than \$350 million.

8. *As we continue in the driest year on record, how much of our catchment yield is likely to be intercepted by plantations?*

The Bureau of Rural Sciences (BRS) have been analysing the issue of plantations and water use. Their analysis indicates that where plantations represent less than 20 per cent of

the area in a catchment, the amount of water interception and impact on stream flow is negligible. There are very few catchments in Australia where the plantation area is approaching the 20 per cent threshold level.

It is important to note that improved water planning and management is a key requirement of the nationally endorsed National Water Initiative (NWI), which focuses on secure water entitlements and secure ecological outcomes. States and territories have committed to preparing statutory water plans for surface and groundwater systems and, as part of this commitment, they have also agreed to address land-use change activities that have the potential to intercept significant volumes of surface or ground water.

The NWI sets a broad approach to interception, with specific implementation to be settled by state and territory governments through comprehensive and transparent water planning processes. This approach requires states and territories to assess land use change activities in water systems and set water system threshold limits for land-use change activities, having regard to regional circumstances and taking account of both positive and negative impacts of water interception.

For a genuinely robust analysis of water usage, comparisons need to be made to other land uses.

9. *The revenue from a hectare of plantation on harvest will probably average less than \$1000 gross per ha per annum. Can you name a crop that is less productive?*

As with other agricultural crops, plantation returns are heavily influenced by the productivity of the land and the type of wood produced. Comprehensive studies on the competitiveness of plantations in Australia have estimated that properly sited plantations produce a commercial rate of return of between 5 and 11 per cent.

Analysis by the Australian Bureau of Agricultural and Resource Economics indicates that the average returns for the top third of production for agriculture has risen steadily over the past decade from 2 per cent in 1993-94 to 3.5 per cent in 2003-04. Similarly, the average return from grain crops (the highest yielding sector) has risen from 4.2 per cent in 1993-94 to 5.8 per cent in 2003-04. Therefore, compared to other agricultural activities, on average plantations provide a higher rate of return.

10. *Given that, wherever possible, MIS managers seek to purchase land with standing timber to add another revenue stream, and that Tasmania is the only state that has no legislation to control the clearing of forest on private land, in what way (s) do these enhance biodiversity, water catchments, and an interstate and international tourist industry worth \$788 million per annum?*

The Tasmanian Community Forest Agreement (TCFA) sets out provisions for a cap on clearing and conversion of native forest, including the phasing out of broad-scale clearing and conversion of native forest on public land by 2010 and private land by 2015. The revision of the Permanent Forest Estate Policy and the preparation of Implementation Guidelines, is the responsibility of the Tasmanian Government. Assessment criteria for

regulating forest clearing and conversion will ensure the protection of regional biodiversity and water quality values to meet salinity objectives.

There is no evidence that tourism is negatively impacted by plantation expansion. Forest based tourism opportunities in Tasmania are expanding through assistance provided by the Australian Government as a result of the TCFA. The support for the tourism sector provided in the TCFA aims to assist with the development of forest based tourism in a controlled way. For instance, new reserves established in the Styx and Tarkine will be managed to encourage visitor access while protecting the unique conservation values of this area.

Thank you again for bringing your concerns to my attention and the opportunity to respond to your questions.

Yours sincerely

ERIC ABETZ