The Parliament of the Commonwealth of Australia

FISCAL MEASURES AND THE ACHIEVEMENT OF ENVIRONMENTAL OBJECTIVES

Report of the House of Representatives
Standing Committee on Environment and Conservation

November 1986

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Terms of Reference of the Committee

That a Standing Committee be appointed to inquire into and report on:

(a) environmental aspects of legislative and administrative measures which ought to be taken in order to ensure the wise and effective management of the Australian environment and of Australia's natural resources; and

(b) such other matters relating to the environment and conservation and the management of Australia's natural resources as are referred to it by -

(i) the Minister responsible for those matters; *or*

(ii) resolution of the House.

Terms of Reference of the Inquiry

That the Committee inquire into and report on the beneficial and detrimental impact of fiscal measures on the environment with particular reference to:

(a) effectiveness and efficiency in the -

(i) conservation and management of natural resources,

(ii) control of environmental pollution, and

(iii) preservation of heritage; and

(b) integration of environment and economic policies.

Members of the Committee in the 33rd Parliament

Chairman	Mr P. Milton, MP
Deputy Chairman	Mr D.M. Connolly, MP
Members	Mr M.A. Burr, MP Mr R.L. Chynoweth, MP Mr R.F. Edwards, MP Mr G. Gear, MP Mr A.A. Morris, MP The Hon. I.L. Robinson, MP

Members of the Committee in the 34th Parliament

Chairman	Mr P. Milton, MP
Deputy Chairman	Mr A.P. Webster, MP[1]
Members	Mr R.L. Chynoweth, MP Mr R.F. Edwards, MP Mr P.S. Fisher, MP Mr G. Gear, MP Ms J. McHugh, MP Mr C.G. Miles, MP
Secretary to the Committee	Mr J.R. Cummins
Secretary to the Inquiry	Mr I.A. Dundas

Note: 1. Mr Webster replaced Mr Connolly on 25 November 1985

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RECOMMENDATIONS

The Committee recommends that:

1. the Minister for Resources and Energy and the Treasurer review taxation provisions relating to environmental rehabilitation after mining activities and the setting aside of funds to cover anticipated rehabilitation costs with a view to providing tax deductions for such measures.
(paragraph 51)

2. the Minister for Primary Industry and the Treasurer urgently review taxation measures to:

   (i) remove all provisions (such as the Stanton Agreements) which act as either incentives for forest clearing or disincentives to the sound management of privately owned native forests, and

   (ii) ensure that gains from timber harvesting are treated equally under the Income Tax Assessment Act 1936 regardless of how the forest was acquired.
(paragraph 100)

3. the Department of Primary Industry initiate a detailed research program into the financial and taxation aspects of private forestry and the scope for Commonwealth incentives to encourage the development and sound management of native forests.
(paragraph 101)

4. within six months of the Committee tabling its report the Minister for Primary Industry advise the Parliament of progress with the review of existing forestry taxation provisions and the consideration of additional incentives for the sound management of forests.
(paragraph 102)

5. the Minister for Primary Industry and the Treasurer urgently review taxation provisions applying to plantation forestry, particularly plantations of native species to:

   (i) removing existing disincentives, and

   (ii) introduce incentives for environmentally acceptable plantation establishment on previously cleared agricultural land.
(paragraph 116)

6. the Minister for Primary Industry in consultation with the Australian Forestry Council:

   (i) encourage the States to individually adopt private forest practices legislation and assistance programs similar to those in Tasmania, and

   (ii) review the need for a program of loans or grants to supplement State assistance programs.

   (paragraph 117)

7. the Minister for Primary Industry in consultation with the Australian Forestry Council review possible sources of funds and the range of measures which could be introduced, including Commonwealth/State joint venture schemes, to assist the States with reforestation programs on previously cleared farm land and intensive forestry in high value forests.

   (paragraph 125)

8. the Minister for Arts, Heritage and Environment and the Treasurer urgently review taxation provisions which could apply to tree planting and vegetation conservation for nature and soil conservation purposes to promote and encourage tree planting and vegetation retention.

   (paragraph 144)

9. the Minister for Arts, Heritage and Environment and the Minister for Employment and Industrial Relations review the criteria used to assess community employment programs to make funds available for tree planting and vegetation conservation works on private lands in those cases where a community benefit is clearly demonstrable.

   (paragraph 146)

10. the Minister for Primary Industry in consultation with the Australian Soil Conservation Council investigate the introduction of soil conservation conditions as a pre-requisite to drought assistance.

    (paragraph 162)

11. (i) the Minister for Primary Industry in consultation with the Treasurer and the Australian Soil Conservation Council review all aspects of Commonwealth and State soil conservation programs to develop an integrated, comprehensive and effective program, and

    (ii) a principal element of this review be a comprehensive revision of existing taxation provisions and the introduction of new taxation provisions particularly rebates and tax credits.

    (paragraph 185)

12. (i) the Minister for Arts, Heritage and Environment consult with State and Territory Ministers responsible for heritage conservation to review the provisions of the Urban and Regional Development (Financial Assistance) Act 1974 and the intergovernmental arrangements made under the Act, and

(ii) representative National Estate Grants Program Advisory Committees be established in each State and the Northern Territory to oversee the administration of the program.

(paragraph 201)

13. the Commonwealth Government and the Tasmanian Government consult on a specific expenditure program for further restoration and heritage protection works on the Tasman Peninsula.

(paragraph 207)

14. the Commonwealth Government develop a tax rebate provision for expenditure on certified conservation works on properties listed on the Register of the National Estate.

(paragraph 225)

15. the Commonwealth Government in consultation with the States seek to establish a jointly funded revolving fund to provide loans to State National Trusts to acquire and renovate historic properties.

(paragraph 226)

16. separate items be introduced into departmental appropriations to show maintenance and restoration costs associated with Commonwealth owned properties listed on the Register of the National Estate.

(paragraph 231)

1. INTRODUCTION

Scope of the Inquiry

1. When the Minister for Home Affairs and Environment (now Arts, Heritage and Environment) wrote to the Committee to propose an inquiry into fiscal measures and the achievement of environmental objectives he stated that in some cases fiscal measures appear to offer the most direct or most efficient means of government intervention to resolve environmental problems. The Minister was also concerned that many fiscal measures introduced for other purposes have significant environmental effects which are sometimes inconsistent with the achievement of environmental objectives.

2. It became apparent during the early stages of the inquiry that fiscal measures might be helpful in achieving a large number of environmental objectives and that the Committee would not be able to consider all of them in the context of one inquiry. This reflected the wide range of issues where environment remedial action is required, the broad definition of the environment used by the Committee and the extensive use of fiscal measures by governments. Even within the area of Commonwealth taxation measures there are many provisions which might be relevant to the consideration of environmental problems. These provisions are listed in Appendix 4.

3. The Committee decided to concentrate on those issues most often referred to in submissions, those which were most in need of some action and those where it appeared that some progress might be possible. These were the problems of forestry and vegetation conservation, land degradation and heritage conservation.

4. The many other matters which were raised but which the Committee did not look at in so much detail included water resource development, mineral resource development, energy conservation, urban solid waste management and beverage containers, resource recycling, sewage disposal, air and water pollution, noise control, wildlife protection and funding of voluntary conservation groups.

5. The Committee broadly defined fiscal measures as all government activities involving the raising of revenue or expenditure. These activities occur at all levels of government and the roles of the Commonwealth, State and local governments were considered to the extent that they impacted on the issues studied by the Committee.

The Separate Development of Fiscal and Environmental Policy

6. The Commonwealth and the States have responded to environmental problems by introducing specific legislation without generally considering the economic impact of their action. On the other hand economic measures to raise revenue, promote development, improve social welfare or control economic performance have also been introduced without consideration of the environmental impacts. This is an artificial separation because most of the activities that cause environmental concern are the result of economic activity such as industrial and commercial processes or industrial and social infrastructure developments. It is somewhat surprising that governments have not used fiscal measures to control the environmental impact of economic activities in the same way that they have used fiscal measures to control economic performance.

7. A number of explanations were advanced to explain the failure to use economic measures to achieve environmental objectives. Probably the most important factor is the different

attitudes of decision makers in industry, government and the conservation movement.[1] Industry leaders have a strong economic orientation and are concerned to maximise profits. It would be expected that they would not support economic measures designed to protect the environment where those measures involve a significant increase in their own costs. On the other hand the conservation movement is more oriented to the natural sciences and has perhaps been suspicious of economic measures which, for example, attempt to define acceptable pollution levels in terms of economic efficiency. Decision making in government seems to have been characterised by a compartmentalised approach on the part of different departments with different outlooks and by compromise. This has all resulted in little integration of economic and environmental policies.

8. Another major obstacle has been the lack of knowledge about the economic costs and benefits of environmental protection. A lack of multi-disciplinary research reflects the segregation of thinking and environmental economics has not yet emerged as a major academic discipline in Australia. The consequent lack of information has prevented communication between environmentalists and economists.

9. The need to conserve resources and protect the environment is generally recognised by all sectors of society. Specific environmental objectives have been clearly defined in a number of studies including reports and policy statements by Parliamentary committees, government inquiries, industry organisations, academics and the conservation movement.

10. The National Conservation Strategy is a statement of principles and guidelines and clearly identifies the need for conservation and the principles which should apply to economic development and industrial activity. It was endorsed and adopted by a national conference convened by the Commonwealth Government and attended by representatives of all sectors of government,

industry and the conservation movement. The strategy, which notes that economic development and conservation are not separable, identifies four main objectives of living resource conservation in Australia. These are:

- to maintain essential ecological processes and life support systems (such as soil regeneration and protection, the recycling of nutrients, and the cleansing of waters), on which human survival and development depend;

- to preserve genetic diversity (the range of genetic material found in the World's organisms), on which depend the breeding programs necessary for the protection and improvement of cultivated plants and domesticated animals, as well as most scientific advances, technical innovations and the security of the many industries that use living resources;

- to ensure the sustainable utilisation of species and eco-systems (notably fish and other wildlife, forests and grazing land), which support millions of rural communities as well as major industries, and

- to maintain and enhance environmental qualities which make the Earth a pleasant place to live on and which meet aesthetic and recreational needs.

11. It was noted that achieving the objectives would be greatly assisted if the Australian community accepted a number of strategic principles including the integration of conservation and development. After the strategy was promulgated an interim consultative committee was formed to advise the Minister on the adoption and implementation of the strategy. In 1985 the consultative committee reported that the image of the strategy was suffering from a lack of real tangible action and that after two years there was little practical evidence that the strategy was being applied.

12. Similar inactivity in the face of a clearly defined need and objective was referred to by the Senate Standing Committee on Science, Technology and Environment when it reported on its inquiry into Land Use Policy. The Senate Committee detailed 16 inquiries since 1972 that unsuccessfully called for the development of a national land use policy. The concept itself seems well supported but unimplementable because governments have failed to identify measures which can be applied to this problem.

13. The obstacles to practical implementation of statements of principle such as the National Conservation Strategy include the division of constitutional power within the Australian federal system, the failure to develop suitable mechanisms and a resistance from those who perceive a conflict between environmental problems and economic development. The elements of Commonwealth fiscal policy provide ways in which these problems could be overcome provided only that economic factors are given due weight and that there is co-operation with the States.

The Commonwealth's Role

14. The Australian Constitution defines and limits the powers of the Commonwealth Government. In practice however, there are many matters where the different levels of government each have a role. It is necessary for the Commonwealth, State and local governments to recognise each other's authority and to co-operate with each other. The Commonwealth and the States both have a role to play in implementing policies which go beyond State borders and involve a national interest. Each level of government must also recognise the indirect and unintended impacts of its actions. This applies particularly to the Commonwealth in the exercise of its fiscal powers.

15. The Constitution does not provide the Commonwealth with any direct powers in respect of environment protection or conservation. However the Commonwealth has become increasingly

involved in these areas through the exercise of its powers derived from the international trade and foreign affairs provisions of the Constitution. The Commonwealth has also achieved dominance in economic policy and its fiscal powers now greatly surpass those of the States to the extent that the Commonwealth is able to strongly influence the States through the provision of general and special purpose grants.

16. The Committee does not intend to discuss the merits of the Constitution or the existing distribution of economic and fiscal powers except to the extent that it is necessary to review Commonwealth/State co-operation on environmental matters. The views of the Queensland Government are worth noting.[2] It stresses that environmental management and protection are State responsibilities. The Queensland Government takes the view that the Commonwealth Government should use fiscal measures primarily to achieve macroeconomic objectives and because of the extremely wide range in fiscal powers available to it the Commonwealth Government is placed in a position of special responsibility in ensuring that environmental implications of fiscal measures are properly assessed.

17. However the Queensland Government also recognises that there is a need for appropriate inter-governmental co-operation and support in a number of capacities, particularly when the matter under consideration crosses State borders or when environmental programs of national significance exist and there is a need for the Commonwealth to provide additional financial assistance. The Committee strongly agrees with this view and this is one of the reasons that the Committee considers Commonwealth fiscal measures to be particularly important in environmental matters.

18. The Committee considers that given the Commonwealth's prominent role in fiscal matters and the powerful influence that fiscal measures can have on environmental objectives it is

important that the Commonwealth and States co-operate in such matters. This will ensure that not only are unintended detrimental effects identified and avoided but that maximum benefit is gained from the positive application of fiscal measures in the pursuit of specific environmental objectives. Without State co-operation the Commonwealth will find it difficult to identify objectives or assess impacts. It will also be difficult to design and implement measures which will be both effective and efficient. This approach is reflected in the Committee's approach to the inquiry where the matters selected for close attention were those where a national program was considered appropriate.

Integration of Environmental and Economic Policies

19. The observation that conservation and economic development are not separable and are elements of the same activity leads to the question of whether macro fiscal policy should be modified to produce improvements in environmental quality. This question is sometimes framed in terms of whether or not economic growth is desirable. Although the Committee believes that specific fiscal measures can have significant environmental impacts it has not addressed the more general question of the desirability of economic growth or the impact of overall macroeconomic policy. This is partly because the National Conservation Strategy emphasises that conservation and economic development are simply aspects of the same problem. Also the prevailing view amongst major political parties is that economic growth will continue to be an overriding objective of fiscal policy bearing in mind other development policies and any questioning of this objective will therefore not be fruitful in the context of the present inquiry.

20. The Commonwealth Treasury contrasts macroeconomic policies which are basically concerned with the overall levels of economic activity with environmental policies which are concerned

with the composition of economic activity in terms of the relevant quantities of various goods produced.[3] The Treasury suggests that there is no need for general macroeconomic policies such as the determination of budgetary objectives, the structure and level of taxation, the conduct of monetary policy or the pursuit of prices and incomes policy to be assessed against specific environmental criteria, and that the effects on the environment of changes in such policies are likely to be so indirect and diffuse as to be incapable of precise measurement. The Committee does not necessarily disagree with this view but considers that the need for economic growth does not in itself justify an individual project where that project has a serious environmental impact.

21. The Treasury states further that the separation of environmental and macroeconomic objectives is not complete since environmental policies can impact on overall levels of activity in a number of ways.[4] They suggest therefore that it is important that environmental policies should be consistent with community aspirations for increases in real income and that the consequence of trade-offs made between environmental and other goods in applying such policies are understood and accepted by the community. The Committee considers however that in making this suggestion the Treasury may have overlooked that Australia is a pluralist society and that different social groups have differing perspectives on the importance of environmental protection.

22. Environmental policies represent part of the overall regulatory frame-work within which businesses operate and the Treasury considers that it is important that environmental policies be designed as efficiently as possible to avoid uncertainty, duplication, delays and unnecessary procedures in the operation of business activity. The Treasury also note that environmental policies impinge on macroeconomic issues because they involve government receipts and expenditure. The priority

given to environmental expenditure programs must be considered within the overall constraints and budgetary objectives in relation to other programs involved in the budgetary process.

23. The Treasury conclude that the consideration of possible fiscal measures to deal with environmental objectives may not be significant in total macroeconomic terms. The measures will however be applied as part of the normal budgetary process and will impinge on general economic activity. It is therefore necessary that environmental fiscal measures proposals are subject to the same analysis that should apply to general fiscal policies to ensure effectiveness, efficiency and equity and to identify administrative problems including the need for Commonwealth/State co-operation.

Endnotes

1. T. Hundloe, submission, p. 2.
2. Queensland Government, submission, p. 3.
3. Evid. p. 255.
4. Evid. p. 256.

2. ECONOMIC ASPECTS OF ENVIRONMENT PROTECTION

24. The principal function of fiscal measures is related to general revenue raising by governments but a very diverse range of fiscal measures is also employed in the pursuit of various policy objectives. There are many instances where governments use fiscal measures to selectively encourage certain activities and to penalise and discourage others. In this context the use of fiscal measures to pursue environmental objectives seems commensurate with the existing practice of using fiscal measures for a variety of purposes. However before proceeding in the following Chapters to discuss fiscal measures which might be developed for certain environmental objectives the Committee considers that it is necessary to review the question of whether fiscal measures should be used for this purpose.

The Need for Government Intervention to Protect the Environment

25. It could be argued quite simply that governments need to take action to protect the environment because unless they do damage will occur and no-one else will act to prevent such damage or repair it afterwards. However where it is proposed to use economic measures for the primary purpose of protecting the environment a more rigorous line of argument needs to be put forward to ensure that such intervention does not in turn lead to economic inefficiency.

26. Economists tend to look at what they call the market place for the definition of, and potential solution to, problems of resource allocation. The pure economic theory view is that while environmental damage must be seen as a potentially important cost of existing production and consumption activities it must also be emphasised that protecting the environment is not in itself a cost free exercise.

27. Economic analysis can only take account of the costs and benefits of those things that people are willing to pay to avoid (costs) or to acquire (benefits). In theory the market place could then be used to try and find a solution to environmental problems by determining how much people are prepared to pay. In these terms a real environmental policy problem exists (and government intervention is required) only when a genuine conflict emerges between alternative uses of environmental resources which cannot be fully and appropriately resolved by market processes, co-operative arrangements or private adjustment. Unfortunately for economic theory the market place fequently fails as a mechanism for resolving environmental problems.

28. The private property rights of most environmental resources cannot be completely defined. Consequently, no market exists which would allow individuals to buy and sell the array of services provided by these resources. Common property resources including the environment are defined by economists as public or social goods. They have three distinguishing characteristics:

- consumption by one person does not reduce the quantity available to others;

- enjoyment cannot be made conditional upon the payment of a price; and

- individuals cannot avoid using the good.

These characteristics make it inevitable that the market will fail and that the government must intervene.

29. None of the submissions received by the Committee argued against government intervention in the environment and most supported the use of fiscal measures, at least in some

circumstances. However there were some differences in opinions about the ways and means in which governments should become involved and the limits which should apply to such intervention. There was also some concern expressed about the economic consequences of inappropriate intervention.

30. The Commonwealth Treasury suggested that for intervention to be worthwhile the resulting benefits must exceed the costs. These costs include not only the expenses involved in physically reducing the problem, pollution for example, but also those incurred by the government in monitoring and administration. The Treasury considered that in most instances the appropriate balance between costs and benefits would involve a level of pollution somewhat greater than zero.[1] In some cases the cost of government intervention may exceed the benefits in which case intervention would not be warranted.

31. The Confederation of Australian Industry agreed that complications do arise which sometimes reduce the effectiveness of market forces in relation to environmental matters.[2] However the Confederation considered that in such situations where environmental requirements result in disadvantage to legitimate developmental activity or detract from the efficient and effective performance of private enterprises a case can be made for government intervention to remedy matters. That is, the Confederation considered that fiscal measures aimed at conserving and protecting the environment should be based on incentives and assistance to industry rather than a regulatory approach.

32. The New South Wales Chamber of Commerce also agreed that the failure of markets to take account of environmental matters established the need for regulatory action and proposed that the appropriate solution would be for the Commonwealth Government to set standards which companies should be able to achieve in their own idiosyncratic way.[3]

33. The Conservation Foundation stated that any measure adopted by governments should ensure that the costs of reducing environmental degradation fall on those who are causing the problem rather than on the community as a whole.[4] This approach is generally referred to as the polluter pays principle.

The Choice of Policy Instruments

34. The policy instruments for regulation of environmental degradation available to governments fall into three groups:

- fiscal controls;
- regulatory controls; and
- mixed systems involving elements of fiscal and regulatory measures.

35. The main difference between fiscal measures and regulatory controls is that the former operate on relative prices whilst the latter involve explicit regulations relating to the quantities involved in commercial or industrial activities, for example, pollution regulations prohibiting the quantities of pollutant from exceeding some specified level. The Department of Resources and Energy advised the Committee that direct regulatory controls are at present the most widespread form of policy instrument for environmental protection but that the use of either fiscal or regulatory measures depends on the circumstances in which they are to be introduced and an effective environmental policy may include elements of both.[5]

36. Economists generally regard fiscal measures such as subsidies and penalty taxes with more favour than regulations. Direct regulations are considered to be administratively more

demanding requiring substantial amounts of technical information and they tend to be inflexible and inefficient. However there are advantages and disadvantages associated with both direct controls and fiscal measures. In relation to pollution it can be seen that direct controls have the following advantages:

- they determine objectives and means without being dependent on economic factors;

- they are the surest means of preventing irreversible effects or a totally unnacceptable level of pollution; and

- the objectives, criteria and surveillance measures are widely understood.[7]

37. On the other hand the disadvantages of direct controls are that:

- economic efficiency is reduced as there is no mechanism enabling standards to be attained at least cost;

- they do not provide incentive to provide more than minimal compliance with the prescribed standard; and

- they are generally difficult to administer and the cost of obtaining the information required to implement them can be high.

38. Using a fiscal measure such as a pollution charge can be seen also to have advantages in that:

- they are flexible enabling each polluter to choose the most effective and efficient way of reducing pollution;

- they provide an incentive to continue improving pollution abatement;

- they achieve a desired improvement in environmental quality at a minimum overall cost; and

- they make available financial resources for restoring damage and for the provision of pollution abatement procedures generally.

39. There are also disadvantages associated with such an approach including:

- trial and error appear necessary to determine the appropriate level of charges; and

- the cost of setting up arrangements for supervising and measuring are usually high.

40. The Department of Resources and Energy advised the Committee that the regulatory approach has been in place for some time. The controls and the underlying policies are now seen as being well accepted and well understood by all parties involved in resource development.[8] The Department considered that the information costs and other costs associated with making a large scale move to fiscal measures would outweigh the benefits that would be achieved.

41. The Committee does not propose to detail all the arguments for or against the alternative approaches nor does it intend to make a judgement on the arguments about whether fiscal measures or direct regulation should be used. However the Committee considers that there may be some merit in the observation that different approaches might be appropriate in different circumstances. After political, social and administrative factors are considered together with economic principles the result may well be an environment program involving a mixture of several different approaches. In some

cases environmental consideration, such as the need to deal with an intractable form of pollution, will be more important than economic considerations and a regulatory approach may have to be adopted.

42. The environmental problems which the Committee considered in some detail and which are discussed in the following Chapters are problems that fiscal measures could be applied to. This does not necessarily mean that the Committee considers that approaches based on fiscal measures would be either effective, efficient or acceptable for the solution of all environmental problems.

The Polluter Pays Principle

43. The polluter pays principle has been adopted by the Organisation for Economic Co-operation and Development (OECD) countries, including Australia, as the principle to be used for allocating costs of pollution prevention and control measures. It is defined as the principle to be used for allocating costs of pollution prevention and control measures to encourage rational use of scarce environmental resources and to avoid distortions in international trade and investment. The principle provides that:

- the polluter should bear the expenses of carrying out environment protection measures decided by public authorities;

- the cost of these measures should be reflected in the cost of goods and services which cause pollution in production and/or consumption; and

- such measures should not be accompanied by subsidies that would create significant distortions in international trade and investment.

44. Successive Australian administrations since 1972 have endorsed this principle. However the consequences of this endorsement and the extent of the application of the principle in Australia and overseas are difficult to identify. It has been argued that some countries which have endorsed this principle actually subsidise those industries which undertake pollution control measures.

45. The Commonwealth Treasury considers that the application of the polluter pays principle is fundamental to efficiency in pollution abatement policies.[9] They consider it a necessary (but not sufficient) condition for efficiency and submitted that departure from the principle will involve an efficiency loss.

46. The Australian Mining Industry Council submitted that the adoption of the principle has not been effective as most OECD countries provide some form of financial assistance for pollution control measures by way of low interest loans, accelerated depreciation, special investment allowance provisions and other measures.[10] The Council contrasted the subsidised situation in other countries with that in Australia and suggested that in terms of environment protection and pollution control the Australian mining industry is highly regulated by comparison with its overseas competitors and other industries within Australia. It suggested that it is clearly inappropriate for the mining industry as a major Australian export earner to face a taxation regime which is more onerous than that applying to its overseas competitors.

47. The Commonwealth Treasury rejected arguments that the polluter pays principle should not be applied to pollution abatement undertaken by export or import competing industries such as the mining industries where their overseas competitors are not subject to similar regulations.[11] They suggested that

where other countries adopt different policies to Australia the appropriate response is not to seek to offset the effect of the policies of other countries but to ensure that Australia's policy properly reflects the interest and preference of Australians. Provided the latter conditions are satisfied then differences in policies, factor endowments and other economic circumstances should then be allowed to balance themselves out through adjustment to trade flows.

48. The problem seems to be not so much with the polluter pays principle, which is apparently well accepted, but with the way the principle is applied. It is a matter of some regret that other countries may not be adhering to all the elements of the principle and this may be placing Australia at a disadvantage. Although it would generally be preferable to conform with the principle the Committee considers that it would be in Australia's interest in some special circumstances to adopt measures which would seem to conflict with the polluter pays principle. An important example of this is the cost of mine site rehabilitation.

49. The Australian Mining Industry Council submitted that current income tax legislation in many cases either does not specifically allow for deductions of the costs involved in restoring and rehabilitating mine sites or, where expenditure is deductible these costs are incurred at a time when the project is not generating income. The Council suggested that a deduction for such expenditure should be allowable when incurred. Alternatively if the taxpayers income is insufficient to absorb such deductions in that year an adequate carry-back period for losses related to such expenditure should be allowed.[12]

50. The Department of Resources and Energy indicated that it would support measures designed to assist companies to make adequate provision for mine rehabilitation costs either in the way proposed by the Australian Mining Industry Council or by

facilitating the putting aside of funds for future rehabilitation.[13] This could be achieved by allowing either a deduction for the estimated total future costs of site rehabilitation or deductions for money paid into approved trust funds established for environmental purposes.

51. The Committee considers that rehabilitation after exploration and mining is an essential aspect of environmental protection. Rehabilitation must be recognised as an integral part of mining operations irrespective of costs or company profitability. The costs associated with mine rehabilitation should be considered a normal cost of mining activity and treated the same as other costs. Accordingly similar tax provisions should apply. The Committee recommends that:

> **the Minister for Resources and Energy and the Treasurer review taxation provisions relating to environmental rehabilitation after mining activities and the setting aside of funds to cover anticipated rehabilitation costs with a view to providing tax deductions for such measures.**

52. Notwithstanding its views in respect of special situations such as mine site rehabilitation the Committee supports the polluter pays principle. Furthermore the Committee considers that the principle applies both ways, that is where the community requires a private individual to provide external benefits, such as those derived from heritage conservation, the community should bear some of the costs in the same way that polluters should bear the cost when they impose pollution on the community.

53. The Committee is aware that in some cases the principle may be difficult to apply. This situation arises for example with some soil erosion problems where the point source and individual contributions to erosion are difficult to identify. Therefore the

remedial measures may have to be taken by the community. In some cases the remedial measures may generate further community benefits above and beyond the reduction of soil erosion. This occurs where measures such as tree planting are undertaken. In these cases the polluter pays principle may either not apply or may be difficult to apply.

Evaluation of Fiscal Measures

54. The Department of Arts, Heritage and Environment attempted to develop an environmentally and economically sound framework for the general assessment of fiscal measures. The Department submitted that systematic reference to a set of five criteria should promote improved decision-making based on informed analysis while ensuring that no major aspects of importance are neglected.[14] The proposed criteria which could be applied regardless of the purpose of the proposed measure are effectiveness, administrative facility, environmental impact, market efficiency and equity considerations. These are outlined below.

a) Effectiveness - This refers to the effectiveness of a fiscal measure in achieving its stated purpose. Successful program design depends on having sufficient understanding of the relevant market relationships and affected groups so that the intended effect of a fiscal measure is achieved.

b) Administrative facility - A fiscal measure should be simple to administer, cost effective and sufficiently flexible to cope with changes. A measure which is complex and burdensome will be less effective and may promote attempts at avoidance and a consequent loss of efficiency or increase in enforcement costs.

c) Environmental impact - Significant direct and indirect environmental effects should be identified and formally incorporated in decision-making on fiscal measures so as to

promote resource efficient and environmentally sound policies. Long-term considerations are of special relevance because of the non-renewable nature of many natural environmental resources.

d) Market efficiency - Consideration should be given to the way fiscal measures affect the operation of market mechanisms including the impact on prices and price relativities and the size and complexity of markets for particular resources.

e) Equity considerations - The distributional effects of fiscal measures require direct consideration. The two main aspects are fairness (horizontal equity) and the ability to pay (vertical equity). Horizontal equity means that all persons within particular income brackets should be treated equally. Vertical equity means that persons should be treated according to their ability to pay and those least able to pay should receive assistance or dispensation. The equity effects of a fiscal measure will depend on the target group and the way the measure is applied.

55. Each of these criteria are more complex than outlined in these brief summaries. The Committee did not analyse these principles but found them useful when considering the need for new measures or amendments to existing provisions in respect of each of the environmental matters looked at in detail. Each criterion might apply equally to the general development of fiscal systems. However where fiscal measures are being considered for specific purposes (such as heritage conservation) the criteria may conflict and a policy decision may be required to adapt or modify the criteria. In respect of using fiscal measures to pursue specific objectives it may be necessary to give weight to one or more criteria at the expense of the other. For example when pursuing environmental objectives it might be appropriate to emphasise the environmental impact while less emphasis is given to other criteria.

56. The relevance of some of these criteria can be seen when considering measures to apply to heritage conservation. A report prepared for the Australian Heritage Commission suggested that income tax rebates were more preferable as a heritage conservation measure than tax deduction schemes on the grounds of equity because tax rebates at a standard rate across all income earners are more equitable than tax deductibility.[15] Tax deductibility favours those invidividuals earning high incomes and paying higher marginal rates of tax. They receive higher taxation benefits. Rebates were also favoured on the grounds of administrative facility in that the rate at which a rebate is granted can readily be changed but with a tax deductibility scheme the rate is by definition fixed at the rate which tax is levied. Also, tax rebate schemes allow easier discrimination between different types of heritage property (however similar flexibility could be obtained with tax deduction measures by specifying different proportions of total expenditure as deductible for different categories of property). Provisions for heritage conservation are discussed further in Chapter 5.

Endnotes

1. Evid. p. 259.
2. Evid. p. 451.
3. New South Wales Chamber of Commerce, submission p. 11.
4. Australian Conservation Foundation, submission p. 1.
5. Evid. p. 370.
6. M.J. Blyth and M.C. Kirby The impact of government policy on land degradation in the rural sector paper to the 54th ANZAAS Congress Canberra May 1984, p. 10.

7. Department of Environment, Housing and Community Development Managing the environment (ed. P.J. Crawford) A.G.P.S. Canberra 1978, p. 20.

8. Evid. p. 370.

9. Evid. p. 261.

10. Evid. p. 262.

11. Evid. p. 410.

12. Evid. p. 342.

13. Evid. p. 13.

14. Evid. p. 13.

15. Australian Heritage Commission Financial incentives for conserving the built environment March 1985 p. 62.

3. NATIVE FORESTS AND COMMERCIAL FORESTRY

Background

57. More than half Australia's forests have been cleared for agricultural and urban purposes since European settlement.[1] A large part of the remaining forests are contained in forest reserves and other crown lands reserved for timber production. The management of these forests is becoming increasingly controversial as competing demands are made for conservation and for timber production.

58. About 15 million hectares (or 37 per cent of the total area) of native forest is specifically managed for timber production. The supply of hardwood timber from these forests has not kept pace with demand and local supplies have been supplemented by timber imports. Plantation establishment programs involving exotic softwoods have been in place in most States since before World War II but were greatly expanded during the 1960's and early 1970's with help from the Commonwealth Government in the form of specific purpose grants. Despite these programs timber imports continue at significant levels.

59. The plantation area currently represents less than 2 per cent of the total forest area but provides 30 per cent of log supply. The Department of Primary Industry anticipates that this will increase to over 50 per cent by 1990 and estimates that Australia will be self-sufficient in timber products by the turn of the century.[2] The Department also anticipates that despite the apparent abundance of hardwood resources hardwood supply shortfalls could occur early in the next century.

60. Current estimates do not fully take into account the potential dedication of areas as parks and conservation reserves in response to increased demands for conservation. There is an increasing awareness in the community of the need to protect the existing environment and there is also recognition of the role that trees and forests can play in this process. Additional reservation of national parks will however result in greater reduction in the availability of harvestable timber unless alternative sources can be developed.

61. The protection and management of forests is primarily a State responsibility and less than 30 per cent of Australia's forest area is privately owned. The States also have a major role in encouraging tree planting schemes in rural areas and preventing further clearing of remnant vegetation. Local governments also have a role in this area and a major burden falls on the Commonwealth Government to assist with provision of finance and other incentives. The Commonwealth has also sought to exert some influence over the States in respect of commercial and environmental aspects of the export woodchip industry by placing certain conditions on export licences. It has also established the National Tree Program and the Rainforest Conservation Program.

Past and Present Policies

62. The Commonwealth has from time to time introduced policies using fiscal measures including tax provisions to pursue conservation and forestry related objectives. The income tax provisions in Australia are detailed and compared to overseas provisions in Appendix 5. The approach in Australia has been piecemeal and it is doubtful whether the policies were successful or whether they achieved the aims without conflicting with other policies.

a) Native Forest Conservation

63. Until recently fiscal arrangements, particularly Commonwealth taxation measures, did not generally encourage the retention and conservation of forests and native vegetation. In some cases fiscal incentives were offered for the clearing of native forests for plantation establishment or for agriculture.

64. The situation was changed in 1983 when the Government removed full tax deductibility for land clearing costs. This provision had encouraged substantial removal of native vegetation cover and was contributing to a reduction of forest cover on private land. It was removed from the taxation provisions becaused it conflicted with soil and environment conservation at the time when the Government was moving to introduce a national soil conservation program.[3] Before this provision was repealed it allowed expenditure on the destruction and removal of timber, scrub or undergrowth indigenous to the land and certain other development to be deducted over a 10 year period. Its withdrawal was generally welcomed by conservation groups, forestry authorities and soil conservation authorities. The Department of Primary Industry was not able to say how much this provision had contributed to land degradation but noted that its repeal increased Government revenue by $3 million in 1984-85[4].

65. The Australian Forest Development Institute accept that clearing expenses should not be a tax deduction in respect of native forests of high environmental value.[5] However they propose that there are many areas where the remaining tree cover is neither environmentally, socially or economically useful and replacement with a crop of trees should be encouraged. In these cases they recommended that expenses of clearing land should be a legitimate cost to be deducted in full in the year the cost was incurred.

66. The Committee considers that there is no economic or environmental justification for special assistance to land clearing of standing forest. Remnant native vegetation which is considered to have no commercial value may nevertheless have some environmental and conservation value. However the Australian Institute of Forest Development's proposal has some merit in relation to the reforestation of previously cleared and degraded land where native forest has not become re-established.

67. Other tax provisions have also tended to discourage proper forest management but have encouraged land clearing and clear falling. The removal of State and Commonwealth estate duties on standing timber and some moves to treat private foresty as a primary production for income tax assessment purposes have partly overcome these problems.

68. The main remaining problems result from the taxation classification (in certain circumstances) of standing forests as capital for taxation purposes, in particular:

- section 124J of the Income Tax Assessment Act 1936 allows a deduction for that part of the property purchase price attributable to standing timber where income is subsequently received from harvesting the timber, and

- under certain circumstances, referred to as Stanton Agreements, income received from the harvesting of naturally occurring native timber can be tax free.

69. The second situation arises because of decisions in a number of court cases which enable land holders to treat forests as if they are not being managed to yield a continuing supply of timber and that any income from harvesting would represent a once only situation and not be part of a normal taxable income stream.

It has been argued that the prospects of tax free income provided by these decisions encourage the removal of forest cover and discourage active regeneration and management. Regeneration measures could be construed as active engagement in forestry and income from harvesting would then be liable to taxation. The long-term retention and proper management of native forests is further discouraged by the many years it takes to yield a commercial harvest and the effects that this uneven flow of income has on tax liability.

70. The most recent changes to the tax system which were announced in September 1985 include further amendments relating to forestry provisions. The measure which may be most relevant to native forest conservation could be the introduction of a capital gains tax which may make it less attractive for land owners to liquidate standing forests. The impact of the proposed tax can only be assessed over a lengthy period of time.

b) Plantation Forestry

71. The taxation provisions also militate against private plantation establishment. Most private plantations in Australia are owned by a small number of large timber and paper pulp companies and afforestation companies. Only a small proportion of the total area is owned by smaller land holders. Although the intention of private plantation owners is to produce commercial timber there is a number of environmental benefits associated with these plantations. These benefits can be categorised as direct (soil conservation) and indirect (reduction in the demand on native forest). There are also environmental costs associated with plantation establishment but these can be minimised if the forest is established on previously cleared marginal agricultural land.

72. The main taxation impediments relating to plantation foresty are:

- taxation of the income from timber sales at full marginal rates in the year of the sale while the cost of growing the timber may be spread over a 20 - 80 year period; and

- an alleged lack of consistency in the application of the provisions of the Income Tax Assessment Act 1936 due to a lack of precise definition and guidelines which makes it unclear if all expenditure on plantations is an allowable deduction when it is incurred.

73. The recently announced repeal of the partial tax deduction for calls to afforestation companies may also act as a disincentive to plantation establishment. It is doubtful whether this provision provided an incentive to environmentally sound and productive plantation establishment except on the part of major timber companies.

74. Forestry operations attract the same taxation concessions available to other forms of primary production. This includes income averaging over a five year period. While five year averaging might be adequate for general agriculture it only partly offsets the problems caused by the long period between successive harvests in forestry operations.

c) State Forestry

75. Management of forests on crown land is generally the responsibility of the State forestry authorities although some forest areas are managed by other bodies such as water supply authorities and national parks services. One of the main

functions of State forestry authorities is to produce timber for sale to the timber based industries and this has caused conflict with the conservation movement which is concerned that too much emphasis is being placed on commercial concerns at the expense of nature conservation.

76. Lack of financial resources is one of the factors which limits the extent to which forestry authorities can modify their operations to remove any detrimental impacts on nature conservation values. This is particularly the case where the authorities are required to operate on a commercial basis and must finance their own operations from commercial log sales.

77. The Commonwealth has provided fiscal incentives in the form of loans to encourage and assist the States but these measures were aimed primarily at timber production aspects of State forestry activities. The Commonwealth administered a States assistance program under the Softwoods Forestry Agreements Acts 1967 and 1972 which involved the Commonwealth providing loans to the States for the establishment of softwood plantations. In 1975 this Committee criticised the operation of the Acts on environmental grounds. The Committee recommended that money should not be loaned to the States for the planting of softwoods in areas where native forest is to be clear felled except where a thorough and stringently supervised independent research program has been conducted into the flora, fauna and soils of the area and where the planting plan allows for their protection. This program ceased in 1976.

78. In 1979 the Commonwealth introduced the Tasmanian Native Forestry Agreements Act 1979 to provide funds on a dollar for dollar basis with the Tasmanian State Government to;

- establish up to 2750 hectares per annum of eucalypt plantation;

- reforest and rehabilitate western eucalypt forests; and

- thin blackwood regeneration in the north west of Tasmania.

79. In 1980 the program was varied to increase the maximum area that could be planted and to provide funds for the acquisition of land for plantation establishment. The actual area planted was well below the maximum target and a considerable proportion of the funds provided were not utilised. This is attributed to the prevailing interest rates and the way that the repayments were to be structured.[6]

80. The Tasmanian State Government provides fiscal incentives for private forestry to individual land holders. These involve subsidising the cost of sowing areas which had been logged, grants for part of the cost of planting eucalypts in plantations, a native forest loan agreement and grants to subsidise the cost of trees from the Forestry Commission's nursery for people who want to plant small areas of special species. In 1985/86 these schemes involved about $300 000.[7] The schemes are described in Appendix 6.

Possible New and Amended Fiscal Measures

81. The Committee received several proposals for amendments to the existing fiscal measures and for new measures designed to encourage private forestry and the conservation of State forests. Most of these related to direct measures by way of taxation provisions or specific purpose grants to the States.

82. The environmental objective of any fiscal measure related to forestry should be to encourage the retention and sound management of native forests so that environmental values are maintained while periodic harvest of commercial timber can be made. The Department of Primary Industry suggested that in terms

of environmental objectives any forestry fiscal measures might be evaluated in terms of the degree to which it enables government and forest managers to achieve the following:

- maintain or develop forests on all land determined as being best suited to forestry;

- establish plantation forests on suitable previously cleared land or substantially cleared land;

- manage forests to incorporate sustainable multiple use and maintenance of essential ecological processes and genetic diversity;

- establish and maintain forests on land identified as environmentally degraded or prone to degradation;

- encourage tree planting for amenity or other purposes on private and public land in rural and urban areas; and

- reserve and protect representative samples of forest ecosystems and significant historical and archaeological sites on forest land.[8]

83. A further conservation objective might be to encourage and assist the establishment of plantations of either native hardwoods or exotic softwoods or to encourage intensive commercial management of native forest where this would result in a reduction in the need to harvest timber from existing native forests of high environmental quality.

84. The measures required to encourage correct environmental practice in relation to commercial forestry on privately owned lands are different from those required to encourage land holders to retain remnants of native vegetation or

to plant trees on properties specifically for benefits such as soil conservation. The major problem with private commercial forestry is to distinguish the capital from income flows. This does not apply to amenity or non-commercial planting which is discussed in Chapter 4.

a) Private Forestry

85. The proper practice of private forestry can produce environmental benefits as well as contributing to farm management and individual log supplies. This depends on the adoption of good management practices. Some land owners however do not regard native tree cover as having sufficient economic or conservation value and clear fall their forests to provide a one time economic return and increase the area of cleared land. There can be serious environmental damage associated with such forest clearing. Therefore measures to encourage the sound management of privately owned native forests seem warranted.

86. Commercial management of private forests might be regarded as contrary to environmental objectives but the Committee does not consider that this is necessarily the case and believes that conservation and commercial management can be compatible. The Nature Conservation Council of New South Wales submitted that the provisions of the taxation system should be reviewed with the aim of stimulating private hardwood forest operations based on a sustained yield or sustained resource operation basis.[9]

87. Although 73 per cent of Australia's potentially productive native forests, mainly consisting of hardwoods, is State owned there are forest holdings of commercial significance. Private forestry is particularly significant in Tasmania where private forests yielded 40 per cent of the pulp wood and 25 per cent of the saw log harvested between 1971 and 1981.[10] The private forestry contribution in Tasmania has however been

declining and the Tasmanian Forestry Commission estimates that there will be a domestic reduction in pulp wood availability after the year 2015 unless action is taken. The Commission also considers that saw log harvesting on private land can only be sustained for approximately another 35 years.

88. The Tasmanian Forestry Commission stated that 15 per cent of the non-industrial private forest had been lost to wood production with the land being turned over to agriculture since 1970. The annual rate of loss was in the order of 8400 hectares per year.[11] The area available for commercial management is less than the total currently standing because the intention to clearfall some forest still remains. The Commission stressed that the ownership of native forest by farmers is significant and that ownership was an important factor to consider when developing and targetting programs to encourage private forestry. In Tasmania farmers figure prominently in the ownership of the non-industrial private forest resource (see table 1).

TABLE 1

PRIVATE NATIVE FOREST OWNERSHIP (TASMANIA)

Category	Ownership (%)
Farmers	55
Forest industry	22
Business/Professional	11
Wage and salary	7
Retired	5

Source: Tasmanian Forestry Commission, Supplement to the Tasmanian Government's Submission.

89. According to the Private Forestry Council of Tasmania the concept of sustained yield does not apply to individual small scale private forest owners in the same way as it applies to large State owned forests.[12] Even where farmers manage existing forest stands they will eventually wish to sell off the old growth trees and either re-establish a new tree crop or develop their land for agriculture. However State or regional private forest utilisation limits imposed by the State Government could have the effect of providing a continuing yield to industry. Revision of taxation provisions together with appropriate planning and regulation by State governments could result in a significant reduction in the rate of forest clearing, if not a retention of existing forest cover in the long term. Such revision should result in the removal of provisions which currently mitigate against regeneration of native forests and which encourage premature harvesting before the forest has reached maximum yield.

90. The Australian Forest Development Institute recommended the following changes to federal taxation provisions to remove the disincentives to private forestry:

- that an owner of native forest should be able to elect that his activities are a business and subject to income tax rules without suffering a taxation disadvantage compared to those persons who elect to regard their forests as a capital gain and are thereby prevented from carrying out any proper forest management;

- there should be a significantly lower flat rate of tax applicable to the sale of timber from native forests in recognition of the community benefit that flows from native forests;

- where standing native trees form part of a business there should be provision for indexing the value of those trees in recognition of the long periods that are required to grow the forest; and

- that taxpayers should be able to elect that their standing timber be treated as stock in hand at the end of the year so that they avoid a massive payment on harvesting.

91. The Institute has also proposed several new taxation provisions which go beyond the removal of existing disincentives. They consider that there is a case for government incentives to encourage private investment in forestry and forest products processing plants to reduce the current import bill of $1.3 billion for forest products.[13] The problems to overcome are the extremely long investment periods involved and the uneven income returns which result in periodically very high marginal tax rates.

92. The Institute does not support the indiscriminate application of incentives and considers that where the forest products industry has proved to be viable there is less justification for special support and that State forests should continue to be the principal source of timber. Private sector output should be encouraged to take up production when public owned forests are under pressure. In this regard blanket application of tax incentives may be inappropriate where they would result in commercial forest development in regions where there is no timber based industry or where a regionally adequate supply of timber already exists. Even so the contribution that incentives would make to improve land management and conservation might make the measures justified.

93. The Department of Arts, Heritage and Environment also consider that the tax provisions need revision not only to encourage environmentally sound management but also to improve efficiency and to remove the existing horizontal inequity.[14] The Department suggests that the problem of distinguishing capital from income associated with private forestry could be overcome by ensuring that tax is paid on forest products regardless of the condition of acquisition or methods of sale. The options proposed to achieve this were a flat rate severance tax on the volume of timber sold (although it was recognised that this would violate vertical equity), a capital gains tax or amendments to the Income Tax Assessment Act to allow the Commissioner of Taxation to review valuations on standing timber and purchase price and thereby reduce abuse of section 124J of the Act. If the capital gains tax does not make the Stanton Agreements irrelevant as an incentive to land clearing, the Act itself will have to be amended to require that all gains from timber sales be treated as taxable income.

94. The Bureau of Agricultural Economics reports that the introduction of a low general rate of tax as proposed by the Australian Forest Development Institute would have little impact on land owners' ability to exploit the Stanton Agreements interpretation of the taxation provisions.[15] Therefore it would be necessary to introduce a tax on all timber sales. Abolition of the Stanton Agreements would remove the artificial incentives to clear forests by applying normal taxation provisions but it would not impose any penalty on land owners who nevertheless clear forests for agricultural purposes. The Bureau argues that there is no obvious reason why Government should wish to encourage more land clearing and forest cover removal than would otherwise take place under a neutral taxation system. The fact that existing provisions apparently had such an effect must be regarded as an accidental artefact of the taxation legislation. It violates the horizontal equity principle, in that it can favour one land holder over another with the same income and nett assets simply because of technicalities in the acquisition of title and methods of sale.[16]

95. The Tasmanian Forestry Commission expressed concern that taxation concessions will only be effective where land holders have a taxable income.[17] In 1981/82 23 per cent of farmers paid no tax and this situation has probably declined with the down turn of export commodity prices. The Commission concludes that the greatest response to taxation concessions, including rebates, is likely to occur where an income is large. Concessions are least likely to be effective in marginal situations where little or no tax is paid and they suggest that more direct incentives are also required.

96. In addition to taxation reform the Tasmanian Forestry Commission suggested specific government assistance where land holders are prepared to declare a private timber reserve under State government forest practices legislation, an increase in the availability of information and education to private land holders through increased funding of extension works, and a three year research program (funded by $300 000 from the Commonwealth) to examine incentives for private foresty.

97. Taxation provisions are recognised as inadequate and have been criticised since at least the early 1960's, but to date little progress has been made except for the removal of the land clearing incentives and the recognition that some forestry activities should be treated in the same way as normal agriculture for taxation purposes. The changes that have been made relate mostly to plantation establishment. In 1977 the Tasmanian Government commissioned a Board of Inquiry into private forestry in Tasmania. The inquiry found that the taxation provisions were a major disincentive to the establishment and proper management of forests and highlighted the need for taxation reform.

98. In 1981 the Senate Standing Committee on Trade and Commerce reported on Australia's forestry and forest products

industries. The Senate Committee also found that the taxation legislation acted as a substantial disincentive to private forestry and encouraged the reduction of the total area of private forests. The Committee recommended that within six months of the tabling of its report that there be an examination of all aspects of taxation applying to forestry and the forest products industries.

99. Before the Government responded to the Senate Committee's report it received a submission jointly from the Australian Forest Development Institute and the Private Forestry Council of Tasmania. This submission which was supported by the Australian Forestry Council restated the need for taxation reform relating to private forestry. The Government responded in November 1982 stating that examination of the taxation treatment of forestry could only be meaningful in the context of the taxation treatment offered other industries and that the matter would be reconsidered after further research. The problem remains unresolved despite further submissions from the Australian Forest Development Institute and the Private Forestry Council.

100. The Committee considers that continued clearing of native forest is not in the national interest and that taxation provisions which encourage such clearing should be removed. There is a well established need for review and reform of the taxation provisions and the delays that have occurred to date are unwarranted at least in respect of the removal of disincentives. The Committee recommends that:

> **the Minister for Primary Industry and the Treasurer urgently review taxation measures to:**
>
> - **remove all provisions (such as the Stanton Agreements) which act as either incentives for forest clearing or disincentives to the sound management of privately owned native forests; and**

- **ensure that gains from timber harvesting are treated equally under the Income Tax Assessment Act 1936 regardless of how the forest was acquired.**

101. The impact of the capital gains tax on forest clearing is unknown at this stage and will need to be monitored. The Committee agrees with the Tasmanian Forestry Commission that this matter and other questions will have to be considered particularly in relation to the introduction of possible incentives to private forestry development. The Committee recommends that:

> **the Department of Primary Industry initiate a detailed research program into the financial and taxation aspects of private forestry and the scope for Commonwealth incentives to encourage the development and sound management of native forests.**

102. Given that the need for taxation reform was identified some time ago and that successive Commonwealth Governments have been slow in reacting the Committee finds it necessary to further recommend that:

> **within six months of the Committee tabling its report the Minister for Primary Industry advise the Parliament of progress with the review of existing forestry taxation provisions and the consideration of additional incentives for the sound management of forests.**

103. The research program to be carried out by the Department of Primary Industry should consider the alternative measures proposed as well as considering questions such as:

- assistance measures which are likely to motivate the land holder;

- incentives provided by current prices given that likely harvest is some distant time in the future;

- how well informed are land holders about existing incentive schemes; and

- can assisting private forestry be more productive or more efficient than spending the same sum of money on public or industrial forests?

104. The Committee considers that the Tasmanian Forestry Commission's proposal for specific grants where land holders agree to declare private timber reserves has merit but cannot recommend that such a scheme be introduced until all States adopt private foresty and forest practices legislation similar to that in Tasmania. Even with such legislation such schemes would be difficult to administer and it would be difficult to ensure that grants are only provided where there is some real economic and environmental benefit to society. Selective allocation of grants to some private foresters in favour of others might generate inequities in any grants system and this might preclude introduction of a national Commonwealth scheme but this is another matter which should be the subject of research by the Department of Primary Industry.

b) Plantations

105. The pattern of private plantation ownership contrasts to the ownership of native forests. Large industrial companies (mainly vertically integrated paper pulp manufacturers) and investment companies predominate. Relatively little of the private plantation resource is in the hands of small land holders and farmers (see table 2).

TABLE 2

PRIVATE PLANTATION OWNERSHIP (AUSTRALIA)

Category	Ownership (%)
Industrial Enterprises	61
Investment Companies	
Farm Forests	39

Source: Bureau of Agricultural Economics, Taxation and Private Forestry in Australia, some current issues, paper by J. Douglas, N. Mullen and I. Bruce presented to the Conference of Forest Economists, Sydney 1983.

106. Most private plantations are exotic softwood species (principally *Pinus radiata*) but there are some comparatively small plantations of native hardwoods. In Tasmania there has been an increasing number of developers and land owners who have been establishing hardwood plantations. This has been associated with the incentives introduced by the Tasmanian Government and with the reforestation and plantation establishment activities of the State's woodchip export companies (partly in response to export licence conditions).

107. The measures introduced by the Tasmanian State Government have been supported by industry which has introduced minor incentives, advisory and extension services and joint venture schemes. However there has been no assistance provided by the Commonwealth other than that provided through the primary producer taxation provisions and the now withdrawn taxation deductions for one-third of calls paid to afforestation companies.

108. The Tasmanian Forestry Commission believes that they have had some success in encouraging private plantation establishment but they have so far failed to make up the annual loss of 8400 hectares of native forest which has been cleared for agriculture. Whilst plantations have greater productivity and produce a harvestable crop in a shorter time planting has been inadequate to entirely compensate for the loss of native forest.[18]

109. The main problem with private plantation forestry is to provide incentives in those instances where it is perceived that there is some social benefit and to ensure that primary producer provisions are applied appropriately and equitably. The need for specific incentives and extension of primary producer provisions is outlined by the Australian Forest Development Institute which points out that currently major payments from plantation forests for individual taxpayers are taxed at the full marginal rate in the year of harvesting. This is despite the long period of little or no return. The Institute proposes that the income from the produce of afforestation should be taxed at a standard flat rate rather than the taxpayers marginal rate.[19]

110. Income equalisation schemes currently in place to help farmers overcome the problems caused by taxation of periodically fluctuating incomes could be made more applicable to plantation forestry activities. This would require a lengthening of the equalisation period and possibly a lifting of the income ceilings.

111. The Bureau of Agricultural Economics, while not arguing against an extension of income equalisation procedures as they apply to forestry, suggest that there are also other methods to overcome period inequity. These include:

- land holders establishing areas of planting over a number of years and using averaging procedures to spread the income period further; and

- manipulation of the timing and nature of output from forests by changing thinning and fertilising regimes.

112. Such alternatives would normally only be available to larger forest owners where economies of scale in establishment and harvesting can be created. However the Bureau suggest that where an individual is practising forestry as a marginal addition to normal farm activities it may be preferable to establish a plantation over a period of years and that cost efficient harvesting techniques for small wood lots might evolve.[20]

113. A further option to off-set the disincentives caused by long investment periods in forestry follows from the ability of forest investors to claim deductions for costs incurred due to forest management over the life of the investment period. In some instances private plantation owners might see this as a compensation to the higher taxation paid in years when timber is sold.

114. The Tasmanian Forestry Commission is cautious about the ability of taxation provisions to assist plantation establishment stating that there is no control over where trees are planted, site suitability, species planted or on-going commitment to manage the trees planted.[21] The Commission suggests that more direct incentives are also needed. These would include the provision of loans and grants and the introduction of Commonwealth/private forest owner joint venture schemes similar to those introduced by the paper pulp companies in Tasmania.

115. The Committee concludes that uneven income flow is a serious barrier to plantation establishment in Australia and that taxation provisions need to be reviewed. The limits placed on the income equalisation schemes were designed to provide assistance to those farmers most in need of tax relief rather than to encourage any particular activity. However forestry appears to be a special case in terms of period inequity and potential environmental benefits.

116. The Committee considers that private plantation establishment ought to be encouraged. The aim of any measures which could be introduced should be primarily to encourage development of a timber resource which would help reduce the pressure to harvest native forests and which would therefore result in a greater area being excluded from logging. The environmental impact of any such measures should also be fully evaluated. Incentives should be limited to those instances which do not involve clearing of native forests. A range of measures are possible and the Committee recommends that:

> the Minister for Primary Industry and the Treasurer urgently review taxation provisions applying to plantation forestry, particularly plantations of native species to:
>
> - removing existing disincentives; and
> - introduce incentives for environmentally acceptable plantation establishment on previously cleared agricultural land.

117. Special encouragement may need to be given to the establishment of plantations of native hardwoods and there may be a case for loans or a grants program in certain areas. The Committee recommends that:

> the Minister for Primary Industry in consultation with the Australian Forestry Council:
>
> - encourage the States to individually adopt private forest practices legislation and assistance programs similar to those in Tasmania; and
> - review the need for a program of loans or grants to supplement State assistance programs.

c) State Forestry

118. While most of the evidence refers to the need for the Commonwealth to remove disincentives and encourage sound management of private forests there were also some proposals for Commonwealth assistance to the States. It was suggested that the States could be assisted by a program of grants or loans designed to help remove the financial constraints which result in the State Forestry Authorities doing less than is desirable in the areas of:

- plantation establishment on previously cleared agricultural land;
- intensive forestry in high value forests;
- the provision of assistance to private forestry; and
- nature conservation and amenity tree planting.

119. The Department of Primary Industry proposed that grants could be made available to the States for:

- encouragement of forestry projects in decentralised growth areas where the land has been determined to be best suited to forestry;
- creation or expansion of assistance schemes aimed at encouraging farm forestry and tree planting for non-wood values on public and private land;
- purchase of cleared land for plantation establishment;
- protection of samples of representative forest ecosystems and historical and archaeological sites within forested areas; and

- investigations into sustainable multiple use and the economics of agro-forestry systems.[22]

120. The Australian Conservation Foundation suggests that there may be a place for Commonwealth grants to the States to enable plantations to be established on land of marginal value for agriculture. This would be in place of clearing of native forest for plantation establishment.[23]

121. The Tasmanian Forestry Commission identified tree planting on derelict farm land as a priority task and hopes to expand a current program of 1200 hectares per annum if additional funds can be found.[24] The farm land was alienated from crown forests for agriculture but is now disused. The best use for this land would be reafforestation by either the Tasmanian Forestry Commission or the large industrial forest companies operating in the State. The Commonwealth was proposed as a possible source of funds to assist the State to purchase some of this land. The assistance scheme established under the Tasmanian Native Forestry Agreement Acts 1979 and 1980 were potentially worthwhile but the failure of the scheme suggest that any fiscal measure which might be applied to this problem must be carefully designed. The Tasmanian Forestry Commission stated:

> "while the operational program has been successful the *funding and repayment arrangements are of considerable* concern to forest managers. While forestry is still in a development phase throughout Australia and requires long term investments, interest payments on State or Commonwealth funding cannot be realistically expected during the first rotation of the forest. Given the long rotation periods, 50 to 80 years for eucalypt saw log forests, funding by grant rather than loan is preferred if development objectives are to be achieved".[25]

122. A national grants or loans scheme could be very expensive. The Department of Primary Industry stated that the Australian Forestry Council had recently considered possible reforestation schemes. Consideration was limited to programs to arrest soil salinity but it was considered that expenditure of up to $6 or 7 million per annum would be required for a minimum worthwhile program.[26] The Tasmanian Native Forestry Agreement Acts schemes, although limited in scale and applicable to one State, nevertheless provided for expenditure of up to $236 000 per annum in 1980/84.

123. The Committee notes that the experience with the Tasmanian Native Forestry Agreement Acts suggest that grants may be a more suitable means of providing assistance than loans but the Committee is also aware that the current financial considerations probably preclude the development of a grants program.

124. An alternative might be for the Commonwealth and the State to enter into joint venture schemes. An outline of a possible joint venture scheme proposed by the Tasmanian Forestry Commission is described in Appendix 7. Although such schemes would hopefully generate income back to the Commonwealth there would be a long period where the Commonwealth would be incurring costs but not receiving any returns, and the difficulty of allocating funds in the short term during a period of budgetary constraint still remains. It would be undesirable to enter into such a scheme under these conditions because reforestation programs should have some prospect of continued guaranteed funding over long periods and it is unlikely that the Commonwealth could enter into long term schemes under present economic circumstances. However the proposal is worthy of more consideration.

125. A further alternative might be for the Commonwealth to raise funds from a new revenue source and to apply these funds specifically to a States grants program. This could involve, for example, a levy on woodchip exports. The Committee does not have sufficient evidence to fully consider such proposals and notes that there are already conditions placed on some export licences which require companies to reforest private lands. However the Committee considers that there is merit in the proposals for Commonwealth grants or loans to the States for purchasing agricultural land for plantation establishment, particularly hardwood plantation, and more intensive forestry and accordingly recommends that:

> **the Minister for Primary Industry in consultation with the Australian Forestry Council review possible sources of funds and the range of measures which could be introduced, including Commonwealth/State joint venture schemes, to assist the States with reforestation programs on previously cleared farm land and intensive forestry in high value forests.**

126. In addition to the economic constraints, grants and loans schemes should only be used for projects when it can be shown that environmental benefits such as a reduction in logging of native forests can be identified.

Endnotes

1. Institute of Foresters of Australia, submission p. 2.
2. Evid. p. 89.
3. Evid. p. 122.
4. Evid. p. 87.
5. Evid. p. 573.

6. Evid. p. 659.

7. Evid. p. 663.

8. Evid. p. 92.

9. Nature Conservation Council of NSW, submission p. 9.

10. Tasmanian Forestry Commission, supplement to the Tasmanian State Government's submission, p. 11.

11. Tasmanian Forestry Commission, p. 11.

12. Evid. p. 611.

13. Australian Forest Development Institute, supplementary submission, March 1986.

14. Evid. p. 32.

15. Bureau of Agricultural Economics Taxation and Private Forestry in Australia, some current issues, paper presented to the Conference of Forest Economists Sydney 1983 by J. Douglas, N. Mullen and I. Bruce.

16. Bureau of Agricultural Economics, p. 9.

17. Tasmanian Forestry Commission, p. 23.

18. Tasmanian Forestry Commission, p. 16.

19. Australian Forest Development Institute, p. 2.

20. Bureau of Agricultural Economics, p. 11.

21. Tasmanian Forestry Commission, p. 24.

22. Evid. p. 95.

23. Australian Conservation Foundation, submission p. 4.

24. Evid. p. 659.

25. Tasmanian Forestry Commission, Operation of the Tasmanian Native Forestry Agreement Acts 1979 and 1980, p. 2.

26. Evid. p. 118.

4. RURAL TREE CONSERVATION

The Value of Trees in Rural Areas

127. In addition to the pressure on native forests Australia is also experiencing a reduction in tree cover and remnant vegetation in agricultural lands. There is a problem of tree decline due to disease, insect attack and lack of regeneration as well as a loss of vegetation cover caused by land clearing. In South Australia it is estimated that 75 per cent of native vegetation cover in agricultural regions has been cleared and in some areas this figure rises to 90 per cent.[1] The Victorian Government stated that unless increased action is taken to reverse tree loss in rural Victoria the economic and social future for farmers and the rural community is under threat in many parts of the State.[2] It is estimated that even if 5 million trees a year were planted in Victoria on farm land the present level of tree cover would only just be maintained.

128. Past attitudes favoured the removal of tree cover but governments and an increasing number of land holders are now realising the economic benefits of trees and shrubs and the need to retain remnant vegetation cover. On cleared farm lands the removal of tree cover has resulted in increasing and serious environmental problems, particularly soil erosion, silting, loss of water quality and stock losses.

129. Tree planting and vegetation conservation not related to private commercial forestry activity (where timber production is not a major concern) can provide economic and environmental benefits, particularly soil conservation. The links between land clearing and soil erosion and other forms of land degradation are well established.[3] Soil loss directly affects agricultural productivity and efforts to restore degraded land or to prevent further erosion are costly.

130. The conservation of native vegetation and the establishment of trees on farms have a wide range of private and social benefits even where timber production is not an objective. Social benefits include the control of soil erosion, reduction in soil salting and acidification, less siltation of reservoirs and the maintenance of wildlife habitats including the encouragement of insect feeding birds. Private benefits include increased livestock and crop production due to the increased shelter, honey production, emergency stock fodder and a supply of firewood and fencing material. However these benefits are not always recognised by land holders and are often relevant to the community as a whole. Therefore government intervention by way of subsidies or other incentives has been required to encourage tree planting and conservation on private land.

131. Some assistance programs are available at both Commonwealth and State level. The Commonwealth's main involvement is through the National Tree Program, the aim of which is to arrest tree decline in Australia by encouraging all levels of government, community organisations and individuals to conserve, regenerate, plant and maintain trees and to develop public awareness of the value of trees.

132. The Commonwealth Government provided $520 000 for the National Tree Program in 1984/85 to establish a national information program and for support through State and Territory co-ordination committees, demonstration projects and other activities. The 1986/87 Budget provided $620 000 for the Program. Funds have also been made available from the Community Employment Program to sponsor tree planting and vegetation conservation projects.

Incentives for Vegetation Conservation

133. A study prepared for the South Australian Government on the economic aspects of retaining trees on farms reports that all major investigations into soil and water conservation stress

that prevention is less costly than repair.[4] The problem is to encourage proper management practices including the retention of stands of native vegetation. The Income Tax Assessment Act 1936 provides some deductibility for expenditure on tree planting on farms as part of soil conservation programs. The Act does not provide assistance where trees are planted for other purposes and does not generally provide taxation measures relevant to the protection and retention of existing stands of vegetation on farms. Nor are taxation provisions relevant to non-profit voluntary conservation and community groups or local councils.

134. According to the Victorian Government the major expenditure usually involved in tree establishment (whether for stock shelter, shade or other purposes) is for fencing to protect young trees, but the taxation provisions only allow fencing expenditure for these purposes to be depreciated at a maximum of 4 1/2 per cent per annum.[5] It is argued that this provides little incentive for private land holders to plant trees.

135. The study prepared for the South Australian Government recommends a number of measures to assist tree planting and vegetation conservation on rural lands. The report firstly recommends that there be a tax rebate for the cost of establishing and maintaining trees on farms. The existing legislation provides for a deduction from assessable income for capital expenditure in respect of soil and water conservation measures. The South Australian report proposes that these provisions be extended to apply to the capital costs of farm trees related to nature conservation and should also cover costs which relate to expenditures incurred in the day to day maintenance of areas set aside for trees for water, soil or nature conservation purposes.

136. As a further inducement the report proposes an additional rebate set at 10 cents in the dollar which would apply over and above the other deductions. It also proposes that there

be a rebate of 10 cents in the dollar on the tax liability of a farmer in proportion to the area of the farm given over to trees. For example, if there was a tax liability of $10 000 and 20 per cent of the farm was given over to trees there would be a tax benefit of $200. It is estimated that in terms of budget revenue lost that a rebate for the cost of establishing and maintaining trees on farms would cost the Commonwealth $8 million whilst a rebate in proportion to the area of farm trees would cost $18 million.[6]

137. The Chairman of the Victorian Farmers Federation Farm Trees Program Council submitted that tax deductibility is a major incentive for farmers to proceed with tree growing and that there is an urgent need for the Commonwealth to offer a 150 per cent deductibility for all costs incurred in the year of expenditure for tree planting and protection.[7]

138. The South Australian report notes the problems of vertical inequity associated with taxation deductions where greater benefits are conferred on farmers with high incomes than on farmers with low incomes. It is for this reason that the report recommends that rebates be applied rather than deductions. The reports argues that a fixed rebate on approved expenditure on conservation would yield the same benefit to farmers regardless of their taxable income. It further argues that another reason for applying a rebate is that the rate can be set according to the judged relative share between private and public contributions to the cost of the conservation activity undertaken. That is, if it is considered that 90 per cent of the benefit of trees on farms is a private benefit and that 10 per cent represents a public benefit then the public contribution for this tax concession would be 10 cents in the dollar.

139. Some State Governments and Local Government Authorities have become involved with schemes to encourage amenity planting and vegetation conservation by way of grants and concessions,

advice and public education and research. For example, in South Australia the provision of monetary incentives to farmers to retain native vegetation under a heritage agreement scheme enabled some 15 000 hectares of private land to be brought under protection.[8] The inducements and incentives made available under this scheme were applied in various ways, for example, grants for providing stock proof fencing around natural heritage areas and the remission of rates and taxes applicable to that land. In return the land holders entered into agreements to maintain the areas for conservation purposes. It was found that this scheme in itself was not adequate to alleviate the problem of land clearing and to a certain extent the Commonwealth taxation provision for tax deductions for land clearing which applied until 1983 worked against this scheme.

140. In 1985 the South Australian Government introduced a new scheme based on a Native Vegetation Management Act. This Act, in addition to continuing the control of clearance of native vegetation, provides a broader range of incentives and inducements to land holders to retain native vegetation. It also provides financial assistance where a drop in property value occurs as the result of any controls or restrictions on land clearing which might be imposed as a result of the new legislation.

141. The Tasmanian Government administers a treescape project to encourage amenity forestry on private land. This involves the provision of financial grants on a dollar for dollar basis towards the actual cost of establishment, protection and cultural works of specific projects approved under the scheme. Advice and technical supervision is also provided. In special circumstances the scheme can be applied to public lands but does not apply to land within town boundaries, land owned by industrial companies or the development of rural sub-divisions or commercial sites. Priority is given to projects which will:

- arrest and repair the effects of rural tree decline;

- perpetuate species, stands and associations of endangered or especially significant trees and shrubs and the dependent plant and animal life;

- enhance the rural scenery and historical buildings by broad scale landscaping of areas in general public view;

- develop parks and recreational areas on private lands having public access; and

- provide farm shelter and erosion control.

142. The Commonwealth administers a National Tree Program which in 1986/87 is expected to involve expenditure of $620 000. The aim of the National Tree Program is to arrest tree decline in Australia by encouraging all levels of government, community organisations and individuals to conserve, regenerate, plant and maintain trees and to develop public awareness of the value of trees. The Government provided $520 000 in 1984/85 for a national information program and for local support through State co-ordination committees, demonstration projects and other activities. The National Tree Program is linked to the Community Employment Program through the Department of Arts, Heritage and Environment in sponsoring major tree related projects in the States. The Victorian Government has proposed that the value of this link could be fully exploited if Community Employment Program grants were made available for projects on private land, where tree planting programs would have clearly demonstrated community benefits.[9]

143. The National Tree Program is of great value but some improvements could be made. The Tasmanian Government has suggested that funding should be made available for a minimum of three years to ensure that trees planted survive through an

on-going maintenance program and that the Commonwealth could assist either directly or by the provision of funds to the States to assist with the employment of staff to administer and adequately service the scheme.[10]

144. Whilst grant schemes, whether administered by the States or the Commonwealth, are useful, it is likely that a greater response could be achieved by appropriate taxation measures. The Committee does not consider that the National Tree Program should in any way be diminished but should continue to play an important role in those areas where tax measures will not be effective. However the Committee recommends that:

> **the Minister for Arts, Heritage and Environment and the Treasurer urgently review taxation provisions which could apply to tree planting and vegetation conservation for nature and soil conservation purposes to promote and encourage tree planting and vegetation retention.**

145. This review should be conducted in consultation with the States to ensure that as far as possible any new measures which might be introduced work in harmony with State programs such as those administered by the South Australian Government.

146. The Committee also notes that tree planting schemes under the Community Employment Program have made valuable contributions on public lands and recommends that:

> **the Minister for Arts, Heritage and Environment and the Minister for Employment and Industrial Relations review the criteria used to assess community employment programs to make funds available for tree planting and vegetation conservation works on private lands in those cases where a community benefit is clearly demonstrable.**

Endnotes

1. Greening Australia (South Australia), submission p. 1.
2. Victorian State Government, submission p. 12.
3. Evid. p. 43.
4. P.C.R. Edwards and N.J. Thomson The economic case for encouragining the retention of trees and native vegetation on farms, submission to the Minister for Environment and Planning, South Australia 1985.
5. Victorian State Government, submission, p. 12.
6. Edwards and Thompson, p. 32.
7. R. Jamieson, submission p. 1.
8. Evid. p. 109.
9. Victorian State Government, p. 13.
10. Tasmanian Forestry Commission, p. 20.

5. LAND DEGRADATION

The Nature and Extent of Land Degradation

147. The seriousness of the land degradation problem facing Australia is so great that it is difficult to comprehend but there should be no doubt that if the trend is not reversed it could have serious consequences for the economy and the environment. For example a recent article in the Journal of the Australian and New Zealand Association for the Advancement of Science suggests that measurement of soil erosion in some northern areas of Australia indicates that the resource life of some soils could be as little as 80 years if no changes in management are made.[1]

148. Soil erosion is probably the most significant element of land degradation but there are other aspects to the problem. A report on taxation measures and soil conservation prepared by the Bureau of Agricultural Economics defines land degradation as the process by which land deteriorates through the actions of natural agents (such as water, wind, gravity and temperature) and/or land use and management practices.[2] While the main agents of land degradation are water and wind which result in erosion one of the most important factors affecting the extent and seriousness of the problem is the loss of vegetation cover. Therefore the matters discussed in the previous Chapter are also important to the question of land degradation.

149. The Bureau states that in many areas of Australia agricultural land has been developed without due regard to the potential for erosion and that wide-spread losses of productivity and environmental quality have resulted. The Department of Primary Industry stated that despite technological advances in Australian agriculture and over 100 years of experience Australian land users have failed to either develop or adhere to land management systems that are consistent with the long term sustainable utilisation of the soil resource.[3]

150. In some arid areas overgrazing has brought about vegetation reduction with consequent erosion and loss of organic matter and a deterioration of soil structure and fertility. The clearance of vegetation, especially of deep rooted plants, also affects the ground water with resulting problems of dry land salination. Other land degradation problems that can occur are soil compaction resulting from excessive stocking and the overuse of heavy machinery, and loss of soil structure resulting from repeated tillage.

151. A collaborative Commonwealth/State study of soil conservation published in 1978 found that just over half the area in agricultural and pastoral use in Australia required treatment for land degradation if productivity was to be maintained. Capital works alone required to arrest this problem was estimated to be near to $200 million in 1985 prices. While 43 per cent of the land in need of treatment was identified as requiring only an alteration in management practices 57 per cent was found to require treatment with capital works. The report identified both on-site and off-site effects (see table 3).

152. The cost of land degradation is difficult to assess but it is considered to be very large. The Department of Primary Industry stated that indications are that local government authorities alone spend approximately $30 million per year to overcome the damage caused by soil erosion and land degradation. Losses due to reduction in productivity would be substantially greater than this. The Bureau of Agricultural Economics cites as an example that on land identified as requiring conservation works a 3 per cent reduction in yield would reduce the gross value of rural production by $120 million.

153. Yield reductions are very variable and it is difficult to separate reductions due to soil loss from reductions or variations due to other factors, but the Bureau notes that in

some areas yield loss due to land degradation is reported to be as much as 30 per cent.[4] This would include the northern New South Wales wheat lands, where yield reductions of 30 per cent have commonly been reported following a season of bad sheet erosion.[5]

TABLE 3

THE COST OF LAND DEGRADATION

On-site effects	Off-site effects
. Reduced productivity due to: - erosion - salination - loss of inputs (eg. seed) - increased difficulty in working land	. Sedimentation of waterways . Dust pollution . Burial of crops and improvements
. Undermining of improvements (eg. fences, roads)	. Damage to pumping equipment
. Loss of valuable land area	. Water turbidity

Source: J.E. Haynes and M. Sutton Taxation Measures and Soil Conservation Bureau of Agricultural Economics Occasional Paper No. 43 Canberra 1985.

154. A further indication of the cost can be seen in Victoria where salinity has been estimated to cause annual production losses of up to $12 million and on a national basis it has been estimated that 420 000 square kilometres of Australia has been degraded by salting as a direct consequence of settlement and agricultural activity.

The Impact of Government Policies

155. Past and present government policies have not always had a positive impact on soil degradation. This includes the impact of policies and programs which were designed specifically with soil conservation as a major objective. The history of agricultural policy has been characterised by government promotion of production expansion, new land development, settlement programs, government intervention to stabilise commodity prices and measures to protect producers from imports.[6]

156. The Committee received several submissions which referred to the general impact of government policies on agricultural productivity and hence indirectly on the extent to which land managers could undertake soil conservation measures. The New South Wales Soil Conservation Service discussed the link between prevailing and perceived factors which influence the rural economy generally and the control of soil erosion. The Service pointed out that the rising costs of farm inputs and the unpredictability of market prices are tempting some farmers to use their land beyond its long term capability and that farmers are frequently forced to intensify their land use to cover production costs and achieve adequate returns of capital outlay.[7] Under these pressures land with a marginal agricultural capability is being brought into production and the potential for erosion is increasing. The Chairman of the Victorian Farmers

Federation Farm Trees Program Council expressed concern that measures such as the fringe benefits tax, fuel levies and other taxes and imposts will result in farmers spending less on soil conservation.[8]

157. On the other hand some assistance measures such as fertiliser subsidies and drought assistance schemes have been criticised for contributing directly to land degradation. The Australian Conservation Foundation suggested that the financial assistance given to graziers during the recent drought enabled them to maintain stock numbers resulting in increased environmental degradation, and that the knowledge that relief will be provided in drought years encourages over stocking.[9]

158. Similarly the Department of Arts, Heritage and Environment referred to the possibility that the subsidies on agricultural fertilisers may have discouraged substitution or research into methods for using fertiliser more efficiently.[10] Thus subsidisation encourages the greater use of fertiliser in place of legume crops or pastures with likely adverse consequences for soil structure. Increased use of chemical fertilisers also contributes to pollution affecting water quality for agriculture, human use, aquatic plant and animal communities. Higher cropping or stocking rates made possible as a result of increased fertiliser applications increases the pressure on land resources and may result in a lower level of sustainable production in the long term.

159. The Committee does not have the evidence to evaluate the arguments surrounding the fertiliser subsidies and drought assistance measures but is concerned that these policies may be counter productive. Policies such as these are designed for purposes other than soil conservation but the concerns expressed about these policies as well as general economic policies emphasise the need for policy makers to consider the indirect environmental impacts of their policies.

160. The New South Wales Soil Conservation Service suggest that cross compliance between soil conservation measures and other policies is an effective means of encouraging soil conservation and has been well used and tested in the United States.[11] Cross compliance is the concept of requiring soil conservation objectives and practices to be included as conditions of approval for farmers to gain financial and other relief measures available from government sources. The Soil Conservation Service identified a number of possible avenues where cross compliance could be required, for example the approval of certain items of deductibility under the Income Tax Assessment Act 1936 could be subjected to compliance with changes in land management practices or the construction of higher standard soil conservation works. Also compliance with recognised soil conservation practices such as lower long term stocking rates and conservation farming practices could become the criteria for eligibility for drought relief or fodder and freight subsidies.

161. There would be significant administrative difficulties in implementing soil conservation cross compliance requirements because there would be a need to define what constitutes proper soil conservation practices. These might vary greatly from region to region or even from property to property. Inspections and approvals would also be required to ensure that work conformed to defined practices and to ensure continuing maintenance. Nevertheless the Committee considers that this approach could be useful in encouraging soil conservation without creating extra demands on government finances, particularly in relation to drought assistance programs.

162. One alternative might be for farmers to accumulate credit points equivalent to their direct expenditure on soil conservation as identified on their taxation returns. These credit points could then be considered when eligibility for

subsequent drought assistance is determined. Any proposed cross compliance scheme would need to be evaluated in terms of equity, efficiency, effectiveness and ease of administration and would be possible to introduce a scheme only with the agreement and co-operation of the States who would have the responsibility for implementing the system in the field. The Committee recommends that as a forerunner to the introduction of a soil conservation/drought assistance cross compliance scheme that:

> **the Minister for Primary Industry in consultation with the Australian Soil Conservation Council investigate the introduction of soil conservation conditions as a pre-requisite to drought assistance.**

163. Uncertainty and changes in government policy, particularly changes to taxation provisions, have also had consequences above and beyond intended impacts. Changes to the income tax provisions between 1973 and 1981 which may have affected primary producers are detailed in Appendix 8. Since 1981 there have been several further changes including the removal of concessions for land clearing and alterations to the provisions relating to soil and water conservation.

164. The instability of Australia's tax policy require primary producers to take the short term view of management and similar consequences flow from the uncertainty which surrounds drought relief and interest rate policies. The outcome of this short term view is that land owners are less likely to devote resources to long term problems such as soil conservation where the benefits may not be derived for many years.[12] The New South Wales Soil Conservation Service commented that past inconsistency in taxation matters has not provided a positive framework for attaining soil conservation goals.[13] The Income Equalisation Deposit Scheme could have been used to offset the financial impacts of drought but it has also been changed so that it is less effective and farmers may now be unwilling to use it.

Existing Fiscal Incentives

165. There are at present several provisions which relate directly to land degradation and which are specifically designed to encourage soil conservation. The existing provisions and the need for incentives related to vegetation conservation and tree planting as discussed in Chapters 3 and 4 are also relevant to land degradation. One of the measures which applies more directly to soil conservation works is section 75D of the Income Tax Assessment Act which allows 100 per cent of certain capital expenditure to be deducted in the year that the expenditure is incurred. Items covered by this provision include:

- the eradication of pests from the land;
- the destruction of plant growth detrimental to the land;
- the construction of levy banks with similar works having like uses;
- the construction of surface or sub-surface drainage works for the purpose of controlling salinity or assisting in drainage control; and
- other work to prevent or combat soil erosion.[14]

166. Plant and equipment even when used solely for soil conservation is deductible only under section 57AH of the Income Tax Assessment Act at 20 per cent a year. Different provisions apply to other types of work which although not necessarily designed specifically for soil conservation may help overcome the problem of erosion. For example capital expenditure on water storage and farm reticulation systems is fully deductible in the year of expenditure under section 75B of the Act and other

taxation provisions relating to primary production expenditure may also be relevant. These allow full deduction from gross income of maintenance and other recurring costs together with depreciation of primary production plant and machinery over a 5 year period. An investment allowance is also available for eligible new plant and equipment in the year that it is first used or installed including expenditure on water storage equipment.

167. The Commonwealth's main program targeted specifically at land degradation is the National Soil Conservation Program. This program aims to develop and implement national policies for the rehabilitation and sustainable utilisation of the nation's soil and land resources. The Department of Primary Industry defined the broad goals of the program as:

- that all lands in Australia be used within their capabilitiy;
- that land use decisions be based on whole catchment/regional land management planning concepts;
- that all land users and levels of government meet their respective responsibilities in achieving soil conservation;
- that effective co-operation and co-ordination occur between all sectors of the community, disciplines and agencies involved in the use and management of land and water resources; and
- that the whole community adopt a land conservation ethic.[15]

168. The program is directed at all sectors of the community with an interest or involvement in land management. Land holders who have the main responsibility for erosion control are the

major target but community groups, researchers, local government and various agencies of State and Federal Governments are involved. The program was designed to have three components. The first (the national component) provides funds to organisations to undertake projects which have broad application across Australia including training, education, innovation, research, program development and liaison or co-ordination activities. The second component (State component) provides funds to the State soil conservation agencies to enhance their training, demonstration, research, public awareness, advisory, data collection, design and construction activities. A third component was considered to provide incentives to individual land holders to adopt effective soil conservation practices.

169. In the 1983/84 Budget $1 million was allocated to the program of which $600 000 was provided to the State soil conservation agencies with the remainder being distributed under the national component. The third proposed component has not been funded. Expenditure in the four years that the program has been in operation is set out in Table 4.

TABLE 4

NATIONAL SOIL CONSERVATION PROGRAM EXPENDITURE
($000)

	83/84	84/85	85/86	86/87(1)
National Component	400	730	870	1 100
State Component	600	3 300	3 800	4 400

Note: (1) Estimate
Source: Budget Papers 1984/85, 85/86, 86/87

170. Funds allocated under the national soil conservation program do not seem significant compared to the magnitude of the problem. However the Department of Primary Industry considers that the program is acting at the margin as a demonstration of what can be done.[16] One of the goals of the program is to ensure that those who have responsibility for soil conservation measures accept that responsibility and that the Commonwealth program is not a substitute program for the States. In this regard it is worth noting that since the program was introduced expenditure by the States has increased considerably.

The Scope for Additional Fiscal Measures

171. The Department of Primary Industry suggested that fiscal measures may be used to:

- influence the market for a product and hence the productive enterprise itself (for example the price of wheat may affect whether marginal lands are cropped or not and hence the rate of land degradation);

- influence the cost of the land use enterprise (for example by subsidising inputs such as fertiliser);

- provide direct financial assistance and concessions that are specified for soil conservation activities and not related to the land use enterprise;

- stimulate secondary services such as education, extension and public awareness to change land holders perceptions and attitudes; and

- compensate land holders who change land use to one of lower economic value in order to reduce excessive degradation pressures.[17]

172. A number of specific fiscal measures were proposed to the Committee, most involving taxation provisions. The New South Wales Soil Conservation Service proposed that measures to encourage farmers to adopt conservation farming techniques such as minimum tillage cropping would need to be introduced for significant progress to be made in dealing with soil degradation at its source.[19] They recommended that:

- tariffs on imported conservation tillage machinery should be reduced or abolished to improve farmer access to improved technology;

- investment allowances should be targeted towards conservation tillage equipment to encourage its use by primary producers;

- low interest loans should be provided for the purchase of designated conservation tillage machinery to encourage producers to convert to a conservation tillage system; and

- there should be direct government subsidy towards the cost of designated conservation tillage machinery.

173. A direct subsidy on herbicides used as a part of conservation tillage practices was also proposed. In a more general sense the New South Wales Soil Conservation Service also suggested that consideration might be given to the provision of an interest rate subsidy for funding soil conservation control measures commensurate with the objectives of the proposed individual incentive component of the National Soil Conservation Program.

174. The Queensland Government suggested that while the present concessional taxation deductions benefit many primary producers, particularly high income farmers, tax rebates with

credits are more likely to encourage low income farmers to apply soil conservation practices.[20] In some situations however low income farmers with serious soil erosion problems will not benefit from tax incentives. Other forms of assistance such as low interest loans are required.

175. The Chairman of the Victorian Farmers Federation Farm Trees Program Council suggested that until such time as long term strategies and policies can be implemented for reversing land degradation, the Federal Government should provide a 150 per cent tax deductibility in the year of expenditure for cost related to land degradation prevention.[21] The Institute of Foresters of Australia raised the possibility of State and municipal taxes being used and suggested that some form of taxation should be levied on land owners who undertake clearing of forests in catchments which are known to be susceptible to salination.[22]

176. The Committee is sympathetic to the various proposals for measures that would encourage soil conservation but notes the caution advocated by some economists. A paper presented to the ANZAAS Congress in 1984 by two rural economists from the Bureau of Agricultural Economics suggested that an economic approach to the use of resources indicates at least in theory that there is an optimal pattern of land use through time and an optimal rate of land degradation.[23] This argument holds that soil conservation should be perceived as a possible means of achieving the underlining policy objective of maximising community welfare rather than an objective in its own right.

177. It does not follow that the community would benefit if action were taken to repair past land degradation. However the Committee considers that there are also important social and political factors that need to be taken into account in addition to economic arguments. Soil is an essential input to agricultural processes and should be managed as a renewable resource. It should also be recognised that soil erosion is a continuing

process and that previous degradation often contributes to the current and expected future rate of soil loss. It is therefore necessary to attempt to repair degraded land to prevent further erosion if it is decided for political or social reasons that the current pattern of land use is to be maintained. The Committee considers that off-farm costs of erosion and the social impacts which would be associated with the drastic change in land use which would result from neglect of land degradation problems make it necessary to direct policies to the solution of land degradation.

178. The Committee does not favour the unqualified use of subsidies and rebates. There are at least two major problems which limit the effectiveness of subsidies.[24] Firstly, if only some possible solutions are subsidised (as is the case in Australia) then land owners will tend to use only the subsidised techniques and ignore other methods which may be more efficient. Secondly, subsidies may make some marginally unprofitable investments viable propositions.

179. Limitations on the application of assistance measures may be called for. The Victorian Soil Conservation Authority and authorities in some other States offer subsidised credit to land users for investment in soil conservation works and practices. The Victorian scheme gives consideration to the external benefits of investments for which loans are requested. Where the benefits are confined to the individual applicant's property often no assistance is given. On the other hand where an external benefit is identified financial assistance is offered at various levels.

180. Taxation incentives will be most effective in encouraging soil conservation in areas where the private financial returns for soil conservation are highest. According to the Bureau of Agricultural Economics this occurs in the non arid grazing and extensive cropping zones which are affected by water erosion.[18] The impact of tax measures in areas of irrigation

induced salinity and eroded arid grazing areas is likely to be less. The type of soil conservation activity most likely to be affected by taxation measures is that which requires the expenditure on works of a capital nature which generate private returns sufficient to be considered a reasonable investment. This is most likely to apply to land degradation caused by water erosion at least when capital works are accompanied by changes in land management. Other types of degradation are less likely to be controlled unless the concessions available are substantially greater than those necessary to induce water erosion control.

181. The Bureau of Agricultural Economics compared tax deductions with tax rebates as they might apply to soil conservation measures. They found that tax deductions are regressive in the distribution of benefits.[26] On the other hand tax rebates with tax credits provide a benefit commensurate with expenditure on the eligible items rather than being related to income levels and are therefore more equitable than deductions. The most technically effective system examined by the Bureau and the most costly involves a rebate/credit at 30 per cent as an option to the current concessions. The level of rebate/credit probably needs to be at least 20 per cent if more than a minor effect on soil conservation activity is required. An optional concessionary deduction would need to be retained.

182. The Bureau concludes that general taxation measures (or *any other form of non-specific subsidy to individuals) cannot* completely solve the problems caused by land degradation as long as the proportion of the costs are borne by others. The existence of external costs implies the need for public works which an individual would not have the incentive to undertake.

183. The Committee considers that without further government action land degradation will continue. No single program or policy is likely to be successful. It is apparent that the current measures and programs are unnecessarily fragmented and

that the tax measures have been retained without critical review except perhaps from a purely revenue raising point of view. For example the development and administration of the National Soil Conservation Program does not appear to have been properly integrated with any moves to review and amend the taxation provisions. The Department of Primary Industry which is responsible for soil conservation at the Commonwealth level and which administers the National Soil Conservation Program stated that in respect of the tax measures it has not been possible to determine the extent to which section 75D of the Income Tax Assessment Act has been used or its effectiveness.[27] The Department also stated that in respect of expenditure programs there is close consultation with the Department of Finance but there is only limited consultation about taxation measures.

184. It is possible that section 75D of the Income Tax Assessment Act is failing in terms of soil conservation and may be contributing to inequities within the tax system. It is also possible that other taxation provisions and measures such as tariffs are contributing either positively or negatively to the land degradation problem. However the impact of these measures is uncertain.

185. On the other hand the Committee considers that there is no doubt that the National Soil Conservation Program is under funded and that there is considerable scope for the introduction of other measures such as tax rebates. It is also possible that Commonwealth measures which may be in conflict with State measures could be modified to integrate more closely with State measures. The Committee recommends that:

> **the Minister for Primary Industry in consultation with the Treasurer and the Australian Soil Conservation Council review all aspects of Commonwealth and State soil conservation programs to develop an integrated, comprehensive and effective program, and**

- **a principal element of this review be a comprehensive revision of existing taxation provisions and the introduction of new taxation provisions particularly rebates and tax credits.**

186. Given the long term nature of soil conservation works it is important that when a new program is put in place subsequent governments should not make frequent changes to the provisions. Therefore an agreement between the Commonwealth and the States regarding all the elements of a National Soil Conservation Program, particularly taxation provisions, would be desirable and the Commonwealth should give some commitment not to make any changes to the basic elements of the program without the concurrence of the States. This agreement should continue to allow the Commonwealth scope to change funding levels and taxation rates as required by other priorities but would leave the elements of the program intact.

Endnotes

1. B.L. Campbell, G.L. Elliot and R.J. Longhran Measurement of soil erosion from fallout of 137C Search 17(5-6) 1986 p. 148.

2. J.E. Haynes and M. Sutton Taxation measures and soil conservation Bureau of Agricultural Economics Occasional Paper No. 93 1985, p. 7.

3. Evid. p. 96.

4. Campbell et al p. 6.

5. Evid. p. 96.

6. M.J. Blyth and M.G. Kirby The impact of government policy on land degradation in the rural sector paper to the 54th ANZAAS Congress Canberra May 1984, p. 3.

7. New South Wales Soil Conservation Service, supplement to the NSW Government's submission, p. 8.

8. R. Jamieson, submission, p. 2.

9. Australian Conservation Foundation, submission p. 5.

10. Evid. p. 13.

11. New South Wales Soil Conservation Service, p. 27.

12. M.D. Young, submission, p. 9.

13. New South Wales Soil Conservation Service, p. 13.

14. Evid. p. 100.

15. Evid. p. 98.

16. Evid. p. 111.

17. Evid. p. 101.

18. E. Haynes and M. Sutton, p. 10.

19. New South Wales Soil Conservation Service, p. 24.

20. Queensland Government, submission, p. 6.

21. R. Jamieson, submission, p. 2.

22. Institute of Foresters of Australia, submission, p. 3.

23. M.J. Blyth and M.G. Kirby, p. 2.

24. M.J. Blyth and M.G. Kirby, p. 11.

25. M.J. Blyth and M.G. Kirby, p. 11.

26. J.E. Haynes and M. Sutton, p. 19.

27. Evid. p. 87.

28. Evid. p. 108.

6. HERITAGE CONSERVATION

Background

187. Australia has done less than most western European and North American nations to develop legislation and other measures to protect its built heritage. The majority of countries of comparable living standards have developed extensive conservation incentive schemes including the provision of tax relief.[1] This occurred as a second stage development following a first stage which involved the introduction of direct controls and regulations. Although some Australian States and the Commonwealth have introduced comprehensive heritage legislation Australia has not completed the first stage in the introduction of heritage conservation measures.

188. The need for Government intervention by way of the provision of incentives and assistance arises because many of our historic buildings are owned by individuals and private companies or by groups such as the National Trusts in each of the States. The community, through planning and heritage legislation, requires owners to forego development rights and imposes restrictions and conditions on development in order to maintain historic buildings intact. Whilst the owners may gain some benefit and in many cases voluntarily carry out restoration and renovation there are also benefits which flow to society as a whole. Without some form of assistance or compensation the level of conservation will be less than is desirable or private owners will be required to bear the cost on behalf of the community.

189. A report by the Australian Heritage Commission finds that the introduction of heritage controls now affects many thousands of privately owned buildings.[2] Whilst some owners are adversely affected by these conservation controls others are not.

The Commission suggests that while the introduction of these controls is generally welcomed by most Australians the current situation is inequitable and it is considered that the community should be prepared to assist when it stands to gain by conservation undertaken by private citizens.

190. The Victorian Government submitted that controls without the support of financial incentives have been found to be difficult to enforce.[3] The Government suggested that incentives might off-set the pressure which would otherwise result in a reduction in heritage values and that incentives might even attract compatible investment in heritage properties.

191. The Adelaide City Council submitted that the provision of conservation incentives at the federal level would help greatly to relieve the objections which many owners have to the listing of their properties on State and local heritage registers.[4] The Council considers that the problem of heritage conservation is one which should involve all levels of government but that to date the Commonwealth's role has been inadequate.

192. The Australian Heritage Commission's report argues that a more equitable distribution of the restoration and renovation costs borne by owners of properties subject to heritage controls could be achieved by expanding the financial support available. The study also notes that incentives would tend to encourage voluntary conservation and would be more effective than attempts at coercion by restrictive legislation. Other major benefits would also be obtained including increased employment in the labour intensive renovation and restoration industries and increased tourism revenue.

193. The Heritage Commission also suggests that the introduction of fiscal incentives would encourage those States without heritage legislation to take positive steps towards the introduction of suitable legislation and would provide further

tangible evidence of Australia's commitment to its natural heritage and to the objectives of the Australian Heritage Commission Act 1975.

Existing Provisions

a) Taxation Provisions

194. At present the Commonwealth Government does not provide taxation incentives aimed specifically at assisting owners of heritage properties. However some provisions of the Income Tax Assessment Act 1936 can be applied to heritage conservation and the Commonwealth does allow taxation deductions for gifts of money or property to the National Trusts. If a National Trust approves and funds a restoration project it can seek tax deductible status for the project.[5] Deductibility for donations of real estate and buildings to National Trusts before 1984 was only allowed where the properties were donated within 12 months of being acquired by the owner. This provision has been changed and now applies no matter when the property was acquired.

195. Under section 53 of the Act owners can claim as a deduction the cost of repairs to premises used for producing assessable income. In some cases restoration work can be claimed but it is important to note that this provision only applies to business properties and from a heritage point of view it is limited to the extent that it emphasises work on renovation and repairs rather than restoration. Other general provisions of the Income Tax Assessment Act which can be used towards heritage conservation objectives include the exemption of sales tax for some non-profit organisations. This can be of some benefit in the purchase of materials for restoration projects.

b) National Estate Grants Program

196. The Commonwealth also provides funds to assist with heritage conservation work under the National Estate Grants Program. This program provides grants to the State governments or

through the States to a wide range of authorities and individuals including local government, academic institutions, national trusts, professional and community organisations and owners of properties on the Register of the National Estate. Up to 1985/86 over two and a half thousand projects had been funded at a cost approaching $35 million. In 1986/87 $3.2 million was provided in the Budget for the program.

197. According to the Australian Council of National Trusts there is strong support for the grants program from State and local governments and conservation organisations.[6] However the Council is concerned that the level of funding has significantly declined in real terms and there are now $20 million worth of urgent projects waiting funding under the program. The Council regard this figure as a conservative estimate because organisations seeking grants have tailored their submissions to take account of the expected low level of funding. It is suggested that project funding has been so reduced that essential conservation and restoration works are giving way to stop-gap low cost measures while buildings are deteriorating due to the lack of proper conservation works.

198. In addition to the concern about the level of funding there has also been criticism about the general administration of the program. The Australian Heritage Commission detailed its concerns about the program in its 1982/83 Annual Report. The Commission's criticisms included:

- Commonwealth/State consultation was often non-existent or token;

- the Australian Heritage Commission itself was not involved in formulating study briefs;

- the grants delivery system was susceptible to unacceptable delays so that recipients did not receive their funds until towards the end of the financial year;

- States were able to veto proposed projects;
- some projects were funded with inadequate briefs or supervision;
- some funded projects were outside the guidelines of the program;
- it was difficult to ensure balance between natural, Aboriginal and built environment components of the program in some States; and
- there was considerable concern about current program delivery amongst recipient organisations at both a government and a non-government level.

The Australian Heritage Commission appears to consider that at least in respect of some States these problems remain.[7]

199. In August 1986 the Department of Arts, Heritage and Environment released the report of a departmental review of the Commonwealth Government's role in the conservation of the National Estate. This report concentrated on the operation of the Register of the National Estate and the administration of the Australian Heritage Commission Act but it also commented on the National Estate Grants Program. The report noted that there had been some criticisms of the program but concluded that it has proved a cost effective program achieving impressive results with very limited funds and could be considered to be of inestimatable value in promoting and presenting the National Estate throughout Australia.

200. The Committee agrees that generally the program has been worthwhile, has made a significant contribution to heritage conservation and is well supported. However given that the

funding under the program is limited compared with the work that remains to be done the Committee considers that it is essential that the funds should be used in the most effective way possible and they be directed to the most important projects.

201. Apart from the inadequate level of funding the most significant concern about the program related to the lack of consistency and co-ordination over project selection. The Australian Council of National Trusts proposed that the Commonwealth should use its influence to establish representative National Estate Grants Program Advisory Committees in all States and Territories.[8] The Department of Arts, Heritage and Environment in its report noted that the Australian Heritage Commission had also argued for the establishment of State selection committees to provide advice on project feasibility, funding priorities and supervision. However the Department noted that in accordance with the Urban and Regional Development (Financial Assistance) Act 1974 under which the grants are provided, and the intergovernmental agreements made under the Act, the establishment of such committees could occur only with the agreement of the relevant State or Territory Government. This suggests to the Committee that either the Act needs amendment or that the Commonwealth should renegotiate the intergovernmental agreements. Therefore the Committee recommends that:

- **the Minister for Arts, Heritage and Environment consult with State and Territory Ministers responsible for heritage conservation to review the provisions of the Urban and Regional Development (Financial Assistance) Act 1974 and the intergovernmental arrangements made under the Act; and**

- **representative National Estate Grants Program Advisory Committees be established in each State and the Northern Territory to oversee the administration of the program.**

c) The Port Arthur Project

202. The Port Arthur project was another grants program that contributed significantly to heritage conservation. It was a special Commonwealth assistance program by which the Commonwealth provided funds to the Tasmanian Government on a $2 for $1 basis to conserve and develop the Port Arthur region. It was a seven year program which the Commonwealth ceased funding in 1985/86. Between 1979/80 and 1985/86 the Commonwealth contributed $6 million to the project.

203. Although the Port Arthur project was intended to be a 6 to 7 year program the Tasmanian Government found that by the end of 1985/86 there was still a considerable amount of work that needed to be done. This included work elsewhere on the Tasman Peninsula. A new four year program was developed and it was proposed that the project continue until 1990 to cover further works both at Port Arthur and throughout the Tasman Peninusla. The Commonwealth declined to continue funding beyond June 1986 and the Commonwealth's contributions to the project have now ceased.

204. The Committee visited Port Arthur in May 1986 and found that the work which had been done was most valuable and that the proposed work was worthwhile. The Committee considered it important that a national involvement in the area be maintained and it wrote to the Minister for Arts, Heritage and Environment suggesting that the decision to terminate Commonwealth contributions to the project be reconsidered. In reply the Minister stated that when the program commenced the Tasmanian Government indicated that no further funds would be required from the Commonwealth beyond 1986. The Commonwealth considers that it is now appropriate for Tasmania to assume financial responsibility for the area. However the Minister also noted that while the Commonwealth would not consider further expenditure as

part of an open ended program the possibility of further Commonwealth assistance for specific items has not been ruled out.

205. It seems from this reply that additional funds could be made available provided the two Governments agreed to a specific expenditure program. The Minister for Arts, Heritage and Environment advised that any such funding would be provided only within the context of the Commonwealth's overall heritage policy. The Committee considers that this is a reasonable approach and agrees that funding for Port Arthur should not been seen in isolation from funding for other heritage activities even though the Port Arthur project is of singular significance.

206. The Tasmanian Government itself may also have funds available. The Committee was told that the Tasmanian Government was prepared to provide an additional $2.6 million to continue the project if the Commonwealth contributed a further $5.2 million under the $2 for $1 funding arrangement.[9] The Minister for Arts, Heritage and Environment also pointed out that the State had not committed any funds to the Port Arthur project from bicentenary grants or from the south-west Tasmanian assistance package.

207. The program involved expenditure on a wide range of activities including presentation, research, education and tourist developments as well as restoration and renovation. If additional but limited funds are provided the Committee considers that emphasis should be placed on specific restoration and protection works of historic significance either at Port Arthur or elsewhere on the Tasman Peninsula. The Committee therefore recommends that:

> **the Commonwealth Government and the Tasmanian Government consult on a specific expenditure program for further restoration and heritage protection works on the Tasman Peninsula.**

d) *Other Programs*

208. Some funds made available under other Commonwealth programs have been used for heritage conservation purposes. The Fremantle City Council is receiving Commonwealth funds to assist with the preparations for the America's Cup defence and is using some of this funding to acquire, restore and renovate historic buildings and streetscapes in Fremantle. Limited funding for heritage conservation has also been provided to various bodies under the Australian Bicentenary Grants Program.

209. The Australian Council of National Trusts advised that the State National Trusts have made use of the Community Employment Program and funds distributed under the wage pause program. However the distribution of funds from these sources across the States has been highly variable (see table 5). There is now concern that the criteria for the Community Employment Program grants have changed and that funds will not be available for heritage conservation works by the National Trusts.[10]

TABLE 5

COMMUNITY EMPLOYMENT PROGRAM FUNDED HERITAGE PROJECTS

State	Number of Projects	Value
NSW	1	200 000
Vic	17	918 402
Qld	3	120 813
SA [1]	-	-
WA	1	4 838
Tas	7	175 096
NT	3	37 790

Note: 1. SA figures not available

Source: Australian Council of National Trusts, 1986.

210. A problem with using funds from sources such as the Community Employment Program or ad hoc grants programs is that there is no assurance of continuity of funding or co-ordination across projects to ensure that money is directed to areas where most value can be obtained. Even though there have been fluctuations in funding levels and administrative problems with the National Estate Grants Program the Committee considers that a co-ordinated single program which clearly identifies heritage objectives is more preferable than funding from a wide range of disconnected sources.

211. The Committee also recognises that the States and Local Government Associations have a number of heritage conservation programs in place and considers that any assistance the Commonwealth provides whether it be in the form of grants or taxation concessions, should be complementary to State and local government programs. The Adelaide City Council for example, has allocated significant funds from its own Budget for the implementation of a conservation incentives scheme. This includes grants, loan subsidies, rate concessions, waiving of statutory fees and various forms of non-financial assistance.[11] The Council acknowledges support from the South Australian Government but proposes an increased complementary role by the Commonwealth Government to support the progress being made at the State and local level. This would involve the use of Commonwealth taxation incentives.

Proposals for New Measures

212. One of the main proposals put to the Committee was that grants funding should be significantly increased. The Committee generally supports these calls but recognises the difficult budgetary circumstances and a need to restrain direct expenditure. Therefore the Committee is reluctant at this stage to recommend that such expenditure be increased or that the

National Estate area should receive significantly higher priority in the Budget even though there is a need for increased support.

213. There is an urgent need to examine other measures that could be adopted, particularly taxation measures, to complement the existing but inadequate incentives. New measures will involve a cost in the form of revenue forgone but even modest measures are likely to be more cost-effective than the grants program and could be more easily accommodated in the Budget compared to direct grants. For example, a study prepared for the South Australian Government in 1985 considered alternative potential approaches. The study found that a package of measures involving a 2 per cent loan subsidy, local government rate rebates of 10 cents in the dollar up to 10 per cent of rate liability, land tax rebates of the same magnitude and income tax rebates would cost the three levels of government $9.25 million but would generate a minimum of $70.7 million of privately funded conservation expenditure.[12] This scenario was based on an analysis of the Register of the National Estate which showed that approximately 6 000 privately owned heritage properties in South Australia are registered. The cost to the Government of $9.25 million would be made up of a $7 million tax rebate bill, $0.5 million land tax rebate, $0.75 million local government rate rebates and a $1 million loan subsidy.

214. The specific proposals for new Commonwealth taxation incentives which were referred to the Committee were:

- that 30 per cent of expenditure of a capital nature for approved protection of a place of heritage significance be treated in effect as an expense deductible from income tax purposes by way of tax credits;

- income tax rebates of 10 cents in the dollar for approved expenditure for private and commercial property with an accelerated write-off (depreciation) rate of 8 per cent for commercial properties;

- that the whole of the cost of conservation work on places on the Register of the National Estate or on a register of any of the State heritage authorities should be available as a deduction from assessable income during the year in which the expenditure is incurred and any unused part of that deduction should be available to be carried forward for a maximum of seven years but so that no more than 100 per cent of the costs of the work may be deducted in total; and

- tax rebates of 50 per cent for restoration and 15 per cent for renovation be available up to a rebateable expenditure limit of $200 000 for approved work on buildings listed on the Register of the National Estate.

215. The Committee also heard proposals that section 78 of the Income Tax Assessment Act be amended to allow deductions for collections given to the National Trust and retained in a house which is still occupied, that the Act be amended to allow deductions for donations of gifts to State government heritage authorities, that sales tax exemption be extended to all National Trusts and that National Trusts be exempted from customs duty.

216. The Australian Heritage Commission proposed that there should be an investigation of a Commonwealth loan scheme to provide preferential assistance for the maintenance of National Estate properties and that additional funding could be provided through a joint Commonwealth/State revolving fund. The revolving fund would be for the acquisition, restoration and resale or rental of National Estate properties. The Commission suggests that similar schemes have been used in the States where an initial seeding grant from the Commonwealth has been used to restore properties which are then used to produce income.[13] The income is returned to the fund which is then used again for work on another property.

217. Other developed countries have introduced a mix of measures and have some success with taxation incentives. For example, during seven years of the operation of a federal tax incentive scheme in the United States of America $4.8 billion was spent by individuals and corporations on rehabilitating over 75 thousand properties.[14]

218. The major tax relief incentive scheme operating in the USA is an investment tax credit system which is applied, sometimes in conjunction with an accelerated cost recovery system, to encourage rehabilitation of historically valuable buildings. The accelerated cost recovery system allows all buildings, old and new, to be depreciated over a 15 year period. The investment tax credit system offers direct deductions from tax liability and results in a dollar for dollar saving, regardless of the applicant's tax bracket. Investment tax credits of 15 per cent and 20 per cent are available for nonresidential income-producing properties, while the 25 per cent credit can be claimed by owners or lessees of both residential and non-residential buildings certified historic. This scheme and provisions which apply in other countries are described in the report by the Australian Heritage Commission on financial incentives for conserving the built environment.

Evaluation of Proposals

219. There is evidence of widespread support for the introduction of fiscal incentives for heritage protection including an extension of taxation provisions such as rebates for expenditure on renovation and restoration. The Victorian Government noted that from the early 1970's the National Trust of Australia sought this type of taxation relief and that in 1974 the Committee of Inquiry into the National Estate suggested possibilities for income tax relief.[15] Since 1980 the Victorian Government has requested introduction of taxation deductions for

works of a capital and pre-acquisition nature. These approaches to the Commonwealth were endorsed by the Commonwealth Minister, most other State governments, diverse community interests such as the National Trusts, building owners and managers associations, the Victorian Chamber of Industry, commerce and industry and the Australian Heritage Commission. This support was reflected in the range of submissions received by the Committee which referred to the need for tax rebates or tax deductibility for conservation expenditure.

220. The Department of Arts, Heritage and Environment's review of the Commonwealth's role in the conservation of the National Estate did not evaluate the various tax proposals which have been put forward in recent years but it did derive six important principles relevant to the consideration of these proposals. These were:

- tax concessions are more applicable to maintenance rather than restoration work given that the majority of private owners live in or use their heritage properties;

- in the interest of tax equity and to ensure that incentives are available to property owners, not just developers, tax incentives should be in the form of tax rebates;

- tax concessions should only be allowed for registered properties;

- conservation work should be certified by the Australian Heritage Commission (or its designated agent, such as a State heritage authority) before it is allowed as a tax claim to ensure that work is carried out according to recognised conservation principles;

- tax relief measures should be complementary to State and local measures; and

- the introduction of incentives should be enhanced by the removal of disincentives such as concessions for development projects which could damage or destroy National Estate properties.

221. The Committee agrees with these principles but would add that there should be upper and lower limits on tax rebates to avoid trivial claims or the development of major schemes purely for tax avoidance purposes. The Committee also agrees that tax rebates might have greater attraction when available for renovation work rather than for restoration but considers that there is scope for rebates for restoration work. The Committee also supports the Australian Heritage Commission's proposal for a higher rate for restoration work compared with renovation.

222. Tax incentives, particularly rebates, would generally be more preferable than measures such as loans and grants because they are more cost-effective and are capable of stimulating considerable private investment in the building and restoration industries. Grants and loans generally have to be made available before any work is carried out and as such they are much less effective in stimulating activity. There is also the problem that the availability of grants and loans is more vulnerable to short term budgetary constraints. However if a scheme of taxation incentives were introduced it would still be necessary to provide assistance to non-proft and non-income earning groups such as churches and charities which may be substantial owners of heritage property.

223. The Australian Council of National Trusts submitted that efforts over a decade to obtain tax deductions for private owners restoring and maintaining heritage properties have been

unsuccessful.[16] In January 1984 the Adelaide City Council approached the Commonwealth Government on this subject. They were subsequently advised by the Treasurer that given the difficult budgetary situation facing the Government and the competing demands on the budget that there was little scope for further taxation measures. The Treasurer also suggested that it might be seen as inequitable to favour owners of heritage properties over other property owners and that it might be difficult to define criteria which might be used to identify which buildings are eligible for taxation concessions.

224. This response is disappointing given that a worthwhile tax rebate program is likely to stimulate private investment and employment. The actual cost of a scheme is difficult to estimate but the Committee agrees with the Australian Council of National Trusts that the cost is not likely to be significant in terms of tax foregone.[17] A number of provisions in the taxation legislation and many other government programs which are designed to encourage or stimulate certain activities favour certain groups. The Government's commitment to the Australian Film Industry by way of taxation measures is a good example of this. The Government has already shown a willingness to support heritage conservation through grants programs and tax deductions for some activities. Extension of the taxation concessions for heritage conservation would therefore seem both reasonable and worthwhile and not as unwarranted preferential treatment. The problem of defining eligible properties could easily be overcome by reference to the Register of the National Estate and a requirement that conservation works be certified by the Heritage Commission.

225. The Committee considers that the only serious objection to the provision of tax incentives is the cost to revenue at a time of budgetary constraint. The Government could largely overcome this difficulty by setting a low rebate level until such

time as the budgetary situation improves. The Committee recommends that:

> **the Commonwealth Government develop a tax rebate provision for expenditure on certified conservation works on properties listed on the Register of the National Estate.**

226. The Committee also considers that the establishment of a revolving fund would be worthwhile but notes that initial funding would be limited. However funds might be available through the bicentenary program and by diverting some funds from the National Estate Grants Program. This would occur on a once only basis to establish the fund. The States could also be asked to contribute. The Committee recommends that:

> **the Commonwealth Government in consultation with the States seek to establish a jointly funded revolving fund to provide loans to State National Trusts to acquire and renovate historic properties.**

Commonwealth Owned Heritage Properties

227. In 1979 the Committee in the 31st Parliament reviewed the operation of the Australian Heritage Commission Act. It noted that Commonwealth departments and authorities owned approximately 300 properties which had been listed on the Register of the National Estate. The Committee recommended that:

- the Department of Finance, the then Department of Administrative Services and the Australian Heritage Commission examine the desirability of introducing a separate item into departmental appropriations or any other means to allow the independent grouping of all maintenance and restoration costs associated with Commonwealth properties listed on the Register of the National Estate; and

- a fund be established under the control of the then Department of Administrative Services for the maintenance of redundant Commonwealth properties listed on the Register of the National Estate.

228. The Department of Housing and Construction submitted to the present Committee that the costly nature of restoration work and the lack of any return in the form of increased revenue have been overlooked in determining the funds to be allocated to Commonwealth authorities.[18] For example Australia Post was committed to repairing the facade of the Sydney General Post Office, at an estimated cost of $15.4 million. This investment would not result in any increase in revenue, and was competing for funds with other works. The Department suggested that these extraordinary expenses should be given special consideration in determining budgetary provisions.

229. Such provisions might cover the restoration of heritage buildings, increased repairs and maintenance costs arising from heritage status and the preservation of important buildings and objects no longer essential to present day functions.

230. The Australian Heritage Commission confirmed that Commonwealth authorities and departments do not have sufficient funds to maintain heritage properties to the desired standard.[19] However the Commission favours recognition that National Estate works should be regarded as an essential part of any normal works programming and should not be regarded as something to be paid from a special fund.[20]

231. In view of the continuing problem that Government departments and authorities are having the Committee reiterates

the findings of the previous Committee and recommends that:

> separate items be introduced into departmental appropriations to show maintenance and restoration costs associated with Commonwealth owned properties listed on the Register of the National Estate.

PETER MILTON
Chairman

November 1986

Endnotes

1. Australian Heritage Commission Financial incentives for conserving the built environment March 1985, p. 2.
2. Australian Heritage Commission, p. 1.
3. Victorian Government, submission p. 18.
4. City of Adelaide, submission p. 2.
5. Australian Heritage Commission, p. 13.
6. Evid. p. 487.
7. Evid. p. 560.
8. Evid. p. 488.
9. Evid. p. 651.
10. Evid. p. 508.
11. Evid. p. 217
12. P.C.R. Edwards and N.J. Thompson Financial incentives for heritage conservation 1985 p. 61.
13. Evid. p. 551.
14. Australian Heritage Commission, p. 37.

15. Victorian Government, submission p. 17.

16. Evid. p. 479.

17. Evid. p. 508.

18. Evid. p. 138.

19. Evid. p. 549.

20. Evid. p. 551.

APPENDIX 1

Conduct of the Inquiry

In August 1983 the then Minister for Home Affairs and Environment wrote to the Committee proposing that it conduct an inquiry into Fiscal Measures and the Achievement of Environmental Objectives. The Committee agreed to this proposal in September 1983.

Submissions were sought from a wide range of individuals and groups as well as all State Governments and some Commonwealth Government Departments. Prior to the dissolution of the 33rd Parliament little progress was made as the Committee concentrated its efforts on other inquiries.

The Committee appointed in the 34th Parliament decided to continue the inquiry but proposed changes to the Minister's terms of reference. These were agreed to by the Minister and the inquiry was recommenced.

Advertisements were placed in the national press and further submissions were received. The Committee received 51 submissions and took 676 pages of evidence. It held three public hearings in Canberra, one in Adelaide and one in Launceston. In addition the Committee conducted inspections in Tasmania and Adelaide.

The Committee acknowledges the co-operation and assistance of those who made submissions, assisted with inspections and gave evidence to the Committee. In particular the Committee wishes to make special mention of Mr Don Watts, Associate Commissioner of the Tasmanian Forestry Commission and other Commission staff and members of the Tasmanian Private Forestry Council who participated in various aspects of the Committee's inspections in Tasmania.

APPENDIX 2

List of Witnesses

ALLAN, Mr P.B.	Assistant Secretary, Production Branch, Development and Co-ordination Division, Department of Primary Industry
BEAMES, Mr R.G.	Heritage Architect, Department of Housing and Construction
BRUCE, Dr R.St.L.	Officer-in-Charge, Register of the National Estate, Australian Heritage Commission
BRYANT, Mr G.R.	Assistant Secretary, Forestry Branch, Department of Primary Industry
BURDON, Mr A.R.	Principal Executive Officer, Department of Resources and Energy
CALDER, Mr R.A.	Assistant Secretary, Department of Resources and Energy
CHALK, Mr I.R.	Member, Private Forestry Council of Tasmania
CHALLEN, Mr M.G.	Principal Planner, Projects, Adelaide City Council
CORE, Mr P.T.	First Assistant Secretary, Development and Co-ordination Division, Department of Primary Industry
CRABB, Mr D.F.	Policy Economist, South Australian Department of Agriculture
DAVIDSON, Mr R.D.	Chairman, Australian Council of National Trusts
DAVIES, Mr R.J.	Special Projects Officer, Tasmanian Forestry Commission
DAVIS, Dr B.W.	Chairman, Australian Heritage Commission
DAWSON, Mr B.	Principal Executive Officer, Department of Resources and Energy

DELOFSKI, Mr E.F.	Assistant Secretary, Development Branch, Department of the Treasury
DICKENSON, Mr I.M.	Member, Private Forestry Council of Tasmania
DONALDSON, Mr R.T.	Urban Planner, Adelaide City Council
ETHERINGTON, Dr N.	Councillor, Adelaide City Council
FURNELL, Mr G.J.	Senior Executive Officer, Petroleum Division, Department of Resources and Energy
GORRIE, Mr G.C.	First Assistant Secretary, Co-ordination and Management Division, Department of Resources and Energy
GRAHAM, Mr B.J.T.	Senior Agricultural Adviser, South Australian Department of Agriculture
GRIFFITHS, Mr D.C.	Director, Australian Heritage Commission
HALL, Mr M.J.	National President, Australian Forest Development Institute
HANDKE, Mr W.A.	Principal Executive Officer, Water and Development Division, Department of Resources and Energy
HARRIS, Mr C.R.	Director, Conservation Programs, South Australian Department of Environment and Planning
HIGGINS, Mr I.	General Secretary, Australian Council of National Trusts
HITCHEN, Miss P.L.	Assistant Project Officer, South Australian Department of the Premier and Cabinet
HOHNEN, Mr M.A.	Assistant Director, Australian Mining Industry Council
HYDEN, Mr N.F.	First Assistant Secretary, Incomes, Industries and Development Division, Department of the Treasury
JARVIS, Mr J.B.	Lord Mayor, Adelaide City Council
JENNINGS, Mr N.S.	Acting Assistant Secretary, Uranium Industry Branch, Department of Resources and Energy

KEMP, Mr A.G.	Member, Private Forestry Council of Tasmania
KING, Mr D.P.	Member, Private Forestry Council of Tasmania
LAWRENCE, Mr M.N.	Assistant Secretary, Industry Operations Branch, Petroleum Division, Department of Resources and Energy
LLEWELLYN-SMITH, Mr M.J.	Chief Executive Officer, Adelaide City Council
LOTHIAN, Mr J.A.	Manager, Conservation Projects Branch, South Australian Department of Environment and Planning
LYALL, Dr K.D.	Assistant Secretary, Coal and Synthetic Fuels Branch, Department of Resources and Energy
LYNCH, Mr B.J.	Deputy Secretary, Tasmanian Department of the Premier and Cabinet
MAYO, Mr W.	Acting Assistant Secretary, Business Taxation Policy Branch, Department of the Treasury
MIDDLETON, Mr G.J.	Chief Resources Officer, Tasmanian National Parks and Wildlife Service
MORISON, Mr I.W.	Assistant Secretary, Radioactive Waste Management Branch, Department of Resources and Energy
MUIR, Mr E.W.	Assistant Director, Australian Mining Industry Council
MURRELL, Mr P.	Director, Tasmanian National Parks and Wildlife Service
NOTHROP, Mr L.J.	Executive Officer, National Soil Conservation Program, Department of Primary Industry
OVERLAND, Mr M.J.	Secretary, Confederation of Australian Industry
PHILLIPS, Mr G.F.	Secretary, Private Forestry Council of Tasmania
RICHARDS, Dr A.D.	Acting Director of Architecture, Department of Housing and Construction
SETCHELL, Mr G.H.	Chief Architect, Heritage and Planning, Department of Housing and Construction

SKUJA, Mr A.G.	Chairman, Tasmanian Forestry Commission
THOMPSON, Mr K.E.	First Assistant Secretary, Environment Policy Division, Department of Arts, Heritage and Environment
THOMSON, Mr N.J.	Dean, Faculty of Economics, University of Adelaide
UPSTILL, Mr H.G.	Director, Economics Section, Department of Arts, Heritage and Environment
WALDUCK, Mr T.G.	Member, Private Foresty Council of Tasmania
WATSON, Dr A.	Alderman, Adelaide City Council
WATTS, Mr D.	Commissioner, Private Forestry Operations, Tasmanian Forestry Commission
WHITROW, Mr D.L.	Executive Officer, Environment and Services, Australian Mining Industry Council
WIGG, Mrs C.A.	Architect, State Heritage Branch, South Australian Department of Environment and Planning
WOMERSLEY, Mr J.C.	Manager, State Heritage Branch, South Australian Department of Environment and Planning
YAPP, Mr T.P.	Economics Section, Department of Arts, Heritage and Environment

APPENDIX 3

List of Submissions

Alcoa of Australia Limited
Australasian Wind Energy Association
Australian Conservation Foundation
Australian Council of National Trusts
Australian Council of Soft Drink Manufacturers
Australian Forest Development Institute
Australian Heritage Commission
Australian Mining Industry Council
Australian Nurserymen's Association Limited
Bach, Prof. J., University of Newcastle
Boardman, Mr W., Manning, WA
Catchment Education Trust
Chamber of Manufactures of NSW
Cheltenham-Beaumaris Clean Air Group
City of Adelaide
City of St. Kilda
Confederation of Australian Industry
Council of Capital City Lord Mayors
Department of Arts, Heritage and Environment
Department of Housing and Construction
Department of Primary Industry
Department of Resources and Energy
Department of the Treasury
Donovan, Mr P., Blackwood, SA
Elder Smith Goldsbrough Mort
Environment Centre NT
Gold Coast Protection League
Greening Australia (SA)
Hughes, Mr D.E., Aspley, Qld
Hundloe, Mr T., Griffith University
Institute of Foresters of Australia Inc.
Jamieson, Mr R., Woorndoo, Vic.
Land Improvement Contractors of Australia
Local Government Association of SA
Local Government Association of NSW
McDonald, Dr G.T., Griffith University
Men of the Trees (WA)
New South Wales State Government
Nature Conservation Council of NSW
Northern Territory Government
Packaging Council of Australia
Private Forestry Council of Tasmania
Queensland State Government
Robertson, Mr I., Kambah, ACT
Royal Australian Institute of Architects (Vic.)
South Australian State Government
Tasmanian State Government
Victoria Conservation Trust
Victoria State Government
Young, Mr M.D., Deniliquin, NSW
Wildlife Preservation Society of Queensland Inc.

APPENDIX 4

PROVISIONS OF THE INCOME TAX ASSESSMENT ACT WHICH MAY AFFECT THE ACHIEVEMENT OF ENVIRONMENTAL OBJECTIVES

SECTION	PROVISIONS
73A	deduction for payments to an approved scientific research institute, or capital expenditure on scientific research, where related to an income producing business. Scientific research means activities in the fields of natural or applied science for the extension of knowledge. The Government announced on 29 May 1985 details of a new 150 per cent taxation deduction scheme for eligible expenditure incurred by companies on research and development activities. The scheme has been operative since 1 July 1985, but has yet to be given legislative effect;
75B	immediate write-off for capital expenditure incurred by a primary producer on the acquisition, construction or installation of plant or a structural improvement for the purpose of conserving or conveying water. The Government has announced that for expenditure incurred under a contract entered into after 19 September 1985, write-off of such expenditure will be over 5 years. Legislation has yet to be introduced into Parliament to give effect to this announcement;
75C	outright deduction for expenditure incurred before 1 July 1986 by a primary producer on the acquisition or construction of stockyard or subdivisional fencing for the purpose of assisting in the control or eradication of certain diseases;
75D	outright deduction for capital expenditure incurred by a primary producer in: . the eradication or extermination of animal or vegetable pests; . the destruction of weed or plant growth detrimental to the land;

- preventing or combating soil erosion;
- the erection of fences to exclude livestock or vermin from areas affected by soil erosion or excessive salinity;
- the construction of levee banks or similar improvements; or
- the construction of surface or sub-surface drainage works to assist in drainage or salinity control;

78(1) (a) (iv)	deduction for gifts to a public authority engaged (or to a public institution solely engaged) in research into the causes, prevention or cure of disease in human beings, animals or plants;
78(1) (a) (x)	deduction for gifts to a scientific research institute approved for section 73A purposes (see above);
78(1) (a) (xlvii)	deduction for gifts to the World Wildlife Fund Australia;
78(1) (a) (lxxiii)	deduction for gifts to certain national parks associations and conservation trusts;
78(1) (b)	deduction allowable for one-third of calls paid by companies, certain trustees and non-resident individuals on shares in afforestation companies. The Government has announced that this provision will be terminated in respect of monies paid after 19 September 1985, other than in respect of calls made on or before that date by a person who owned or beneficially owned the relevant shares on or before that date. Legislation has yet to be introduced into Parliament to give effect to this announcement;
82AA to 82AQ	investment allowance in respect of eligible plant purchased under a contract entered into, or on which construction is commenced by the taxpayer, prior to 1 July 1985, provided that the plant is first used or installed ready for use by 30 June 1987;
122 to 122T	deductions for certain capital expenditure in respect of prescribed mining operations (other than petroleum mining);

123 to 123F	deductions for capital expenditure on certain transport facilities, and ancillary work, used primarily and principally in transporting minerals and mineral products away from the mine site;
124 to 124AR	deductions for capital expenditure in respect of prescribed petroleum operations;
124E to 124JC	deductions in respect of capital expenditure on roads to provide access to the site of timber operations, in respect of timber depletion and in respect of timber mill buildings associated with timber operations;
128U to 128X	withholding tax liability on payments in respect of mining operations on Aboriginal land;
149 to 158AA	averaging of incomes of primary producers;
160	rebate of tax in certain circumstances where the assets of a business of primary production are disposed of; and
160ACA	rebate of tax, in certain circumstances, in respect of monies paid on shares in petroleum mining companies. The Government has announced that this provision has been terminated in respect of monies paid after 19 September 1985, other than in respect of calls made on or before that date by a person who owned or beneficially owned the relevant shares on or before that date. Legislation has yet to be introduced into Parliament to give effect to this announcement.

Source: Department of the Treasury, October 1985

APPENDIX 5

FORESTRY TAXATION PROVISIONS IN AUSTRALIA COMPARED TO SOME MAJOR FORESTRY COUNTRIES

	Australia	United States	Canada	New Zealand
1. Capital gains	(1)	Yes: in effect about 50% of income tax rate	Yes: 50% of gain included in income and taxed	Profit from using or dealing in land, and from trees on it, are assessable
2. Clearing costs	n.a. (2)	Accumulated and deducted against final timber sale proceeds	Deductible from current income	Deductible from current income
3. Planting and establishment costs	Deductible from current income	(as above)	Capitalised and deducted at final sale	Optional deduction in current year or final sale
4. Plant and equipment	Depreciable over asset life + 20% investment allowance	Depreciable over asset life	Concessional role of capital cost	25% deduction first year. Forest companies can deduct before forest income produced
5. Access roads	Cost deductible over life of asset	Depreciable over life, but initial clearing and grading of mainline roads not deductible	Deductible incurred	$500/year deductible up to year 5

	Australia	United States	Canada	New Zealand
6. Mill buildings	Deductible over life	No deduction allowable	5% or 10% deduction	1 1/2 or 2 1/2% depreciation 10% for temporary structures
7. Insurance losses	5-year spread	Deducted from depreciation	Unclear, but compensation treated as capital gain	Included in current income
8. Call deductions	(3)	No deduction allowed	No deduction allowed	No deduction allowed, but companies can pass such expenditure back to parent company
9. Loss carry forward	Carried forward indefinitely	Operating losses not deductible; capital losses deductible (up to level of gains)	Non-capital losses can be carried forward 5 years (must be deducted before capital losses deductible)	Carried forward indefinitely
10. Income equalisation deposits	Allowed	Not allowed	Not allowed	Allowed for individuals. Companies can deposit thinnings in an equalisation account

	Australia	United States	Canada	New Zealand
11. Income averaging	Up to 5 years	na	na	Not allowed except for shelter/ erosion control trees

Notes: na = not applicable

1. New capital gains provisions announced in 1985 may affect forestry

2. Deductibility over a 10 year period was allowed until 1983

3. Deductibility to be repealed for calls after September 1985.

Source: based on Douglas J., Mullen N. and Bruce I. Taxation and Private Forestry in Australia, some current issues, paper to the Conference of Forest Economists, Sydney 1983.

APPENDIX 6

STATE GOVERNMENT SCHEMES TO ASSIST PRIVATE REFORESTATION, TASMANIA

Scheme	Offer	Major Conditions
Nursery Stock Grant	50% reduction in price of plants for approved projects	- land must be within approved zones - project must involve at least 0.4 ha and be more than 40 m wide
Native Forest Restoration Grant	Grants up to 100% of the costs of seedbed preparation, burning, seed, sowing and enrichment planting in native forest areas and derelict forest land	- land must have been logged for pulpwood and/or sawlogs before 1978 - no previous assistance for regeneration should have been received
Eucalypt Plantation	Grants up to 50% of the costs of establishing plantations of certain eucalypt species. Percentage to be applied to approved costs of up to $900/ha	- land must be within approved zones - landowner must intend to plant a total of at least 5 ha - choice of species limited - Dedication Covenant to ensure that land is reserved for timber production for such time as is necessary to harvest the crop
Special Species Plantation Establishment Grant	Grants up to 40% of the costs of establishing plantations of certain species. Percentage to be applied to approved costs of up to $1300/ha	- land must be within approved zones - landowner must intend to plant at least 1 ha and not more than 20 ha - Dedication Covenant required if area planted is more than 5 ha

Pine Plantation Development Loan	Loans up to 80% of establishment and tending costs. Percentage to be applied to approved costs of up to $900/ha	- land must be within approved zones - proposed plantation must exceed 10 ha - interest rate of 6% p.a.; repayments of capital and interest deferred for 10 years - special insurance rates available through Private Forestry Division - loan secured by a caveat on the title - Dedication Covenant to ensure that land is reserved for timber production for the agreed period

Note: Most schemes require a plan of operations agreed by the Forestry Commission. Failure by the landholder to adhere to the plan may require repayment of grants or loans. In all cases, site topography and the general suitability of the project must be acceptable to the Forestry Commission for assistance to be provided. Similarly in all cases except one, applicants must be registered title holders of land.

SOURCE: Tasmanian Forestry Commission, supplement to submission by the Tasmanian State Government.

APPENDIX 7

A PROPOSAL FOR COMMONWEALTH FUNDING OF FORESTRY JOINT VENTURES

Joint Ventures are currently being promoted by the forest industry in Tasmania and Western Australia but principally for pulpwood production. There could very well be a case for Commonwealth funding of joint ventures to expound future pulpwood and especially sawlog availability. The main features of such schemes could incorporate the following:

- Commonwealth funds must be interest free to the State Government.
- Commonwealth funds to be used for afforestation of land in an undeveloped state.
- Species to be eucalypt or pine, minimum area 10ha.
- Landowner to contribute land and fencing (minimum). Commonwealth to reimburse State for establishment and management of plantation. State Government (F.C.) to act as manager.
- The above would determine each partner's share. The Commonwealth to pay the landowner a rental for the land based on an independent valuation.
- An internal real discount rate of 3% to be used to determine nominal share of future harvests. Any additional, unforeseen profit to be distributed to the parties in proportion to their agreed shares (allowance being made for the rental payments).
- Rental payments to be indexed.
- Lease document to stipulate arrangements for the transfer of land, grazing rights, termination conditions etc. A legal covenant would be required, registered on the title. Probably dedication as private timber reserve under the proposed Forest Practices Act would be necessary.
- No prior commitment to sale of wood. Sale to be arranged by State Government (F.C.).
- Insurance to be arranged.

Source: Tasmanian Forestry Commission, supplement to the Tasmanian Government submission.

APPENDIX 8

CHANGES TO PROVISIONS OF THE INCOME TAX ASSESSMENT ACT THAT ARE LIKELY TO AFFECT PRIMARY PRODUCERS AND LAND USE (1973 - 1981).

Year	Section	Change and examples of likely effects
1973	S.75	Capital expenditure allowance withdrawn. (Decrease in capital investments made to protect land).
	S.62AB	Twenty percent investment allowance withdrawn. (Less machinery bought to protect and repair land).
	S.57AA	Special depreciation allowance withdrawn.
1974	S.75A	Deduction over 10 years of certain capital expenditure. (Increased use of machinery).
	S.57AC	Accelerated depreciation on certain plant at twice the standard rate.
1975	S.57AD	Double depreciation rate extended until 30/6/76 for all but certain road vehicles. Concessional rebate system introduced, with a new scale of 8 rather than 14 steps. (Reduced benefits from averaging by creating an effective increase in average income).
1976	S.57AD	Double depreciation rates removed.
	S.82AA	Investment allowance of 40% introduced for new plant and articles.
	S.159	Drought bonds withdrawn.
	S.159GA	Income equalization deposits introduced.
1977		Change in basic tax scale - reduced from 8 - 4 steps. (Benefits of the averaging scheme reduced). $16,000 limit on the averaging scheme removed. Tax to be paid on lesser of average income and that year's income. (Reduced usefulness of I.E.D's).
	S.82B	Trading stock valuation adjustment introduced.
1978	S.82AB	Investment allowance reduced from 40% to 20%.
1979	S.82B	Trading stock valuation adjustment allowed for last time based on 1978/79 income.
	S.56	Depreciation claimed on pro rata basis.

Year	Section	Change and examples of likely effects
1980	S.75B	Cost of water conservation allowed as a full deduction in year cost incurred.
	S.36AAA	Profits arising from disposal of stock under a destocking order to come within this section and so be able to be brought in over a 5 year period.
	S.75C	The full cost of internal fences and stock-yards allowed as a deduction in the year of expenditure, up until 1984, for Brucellosis and TB properties in which herd control is difficult.
	S.57AG	Depreciation rates increased by 20%.
	S.57AH	New machinery depreciated at 20% prime cost for 5 years.
	S.75D	Soil conservation expenditure an allowable deduction. Investment allowance will not apply to this expenditure.
1981	S.57AG	Depreciation rate increase to be 18%, not 20%.
	S.82AB	Investment allowance reduced to 18%.

Source: M.D. Young, submission.