AUSTRALIAN FOREST PRODUCTS ASSOCIATION

Submission to Senate Economics Legislation Committee

Government amendments to the *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Bill 2023*

10 January 2024

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Senator Jess Walsh
Chair of the Economic Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

To whom it may concern

Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Bill 2023 (Bill)

The Australian Forest Products Association (AFPA) and its members believe that multinational companies should pay their fair share of tax.

AFPA welcomes the opportunity to provide feedback on the Government amendments to the *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Bill 2023* **(Government amendments)**.

Plantation forestry was never the intended target of the Bill, and has been inadvertently captured in the drafting of the Bill. As such, we are pleased to see some changes in the Government amendments to reduce the Bill's negative impact on the Australian plantation forestry sector.

However, AFPA remains concerned that the Bill (even with the Government amendments) will effectively cease plantation forestry expansion in Australia. The Bill (even with the Government amendments) is still contrary to the Albanese Government's election commitments in relation to plantation forestry,[1] is contrary to the Australian Labor Party Platform in relation to plantation forestry expansion, is contrary to the National Forestry Ministers meeting in relation to plantation forestry expansion and is contrary to international commitments made by the Australian Government.

Currently, under the balance sheet method, plantation forestry companies could claim up to 60% of their debt costs. Under the Bill (including Government amendments), companies can only claim a deduction for financing costs up to 30% of their tax EBITDA with any disallowed deductions carried forward for up to 15 years. This will result in effectively ceasing plantation forestry expansion in Australia.

AFPA represents the majority of large plantation forest growers and timber mills and paper manufacturers around Australia.

Plantation forestry expansion is not only a priority for forest growers. Is the number one priority across the entire supply chain, including harvesting contractors, timber mills and paper manufacturers. Any chilling effect on plantation expansion negatively impacts the entire supply chain including these downstream manufacturers, and severely limits Australia's future capacity to supply the building industry's timber needs for housing expansion, limits Australia's action on climate change and Australia's plan to replace fossil-fuel-based plastics.

Please find attached our submission. The impact on companies varies, but in the example set out in our submission, the company worse off in both scenarios

	Tax implication following the implementation of the Bill (with Government amendments)
Existing operation 50,000 ha	Additional $63 per hectare per year in tax, or $1890 per hectare over 30 years.
1,000 ha expansion of existing operations with new plantation forestry establishment	Over the 15 years of denied deductions, this is $154 per hectare per year worse off or $2,310 per hectare over the 30 year rotation cycle.

[1] See Attachment 3 for additional detail of Australian Government Forestry Policy.

AFPA respectfully asks that changes be made by the Australian Government to ensure that the Australian forestry sector is not negatively impacted by the Bill. Whilst AFPA and its members are agnostic as to the method through which this can occur, to assist the committee, we recommend the following:

- Treasury consult with AFPA to propose options to remove the impact of the Bill on plantation forestry expansion; or
- The Government introduce forestry policy initiatives which offset the increase in tax placed on plantation forestry sector.

The Australian Forest Products Association stands ready to provide additional information to assist the committee with its work.

Yours sincerely

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Submission

About Australian Forest Products Association

AFPA is the peak national industry body representing the growing, processing, and pulp, paper and bioproduct industries covering the forest products value chain. Relevantly AFPA represents the interests of over 90% of Australia's forestry grower entities. AFPA represents 25 forestry grower companies and government entities, 15 of which are impacted by the Bill. Over 80% of the plantation forestry grower *companies* are impacted by the Bill and its amendments.

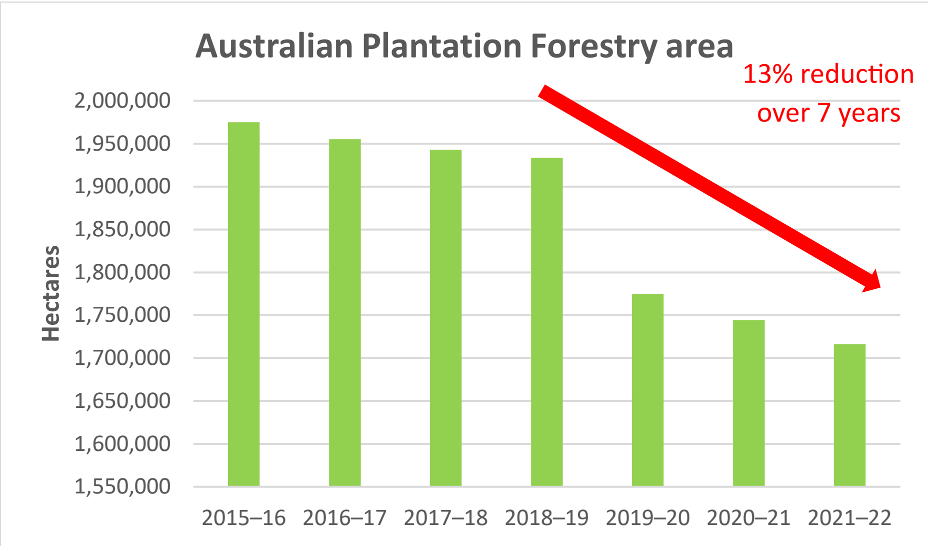
AFPA also represents the majority of large timber manufacturing companies and paper and cardboard manufacturers in Australia.

About the Australian forestry sector

Australia's forest industries directly employ approximately 80,000 people and another 100,000 indirect employees and is a major employer in many regional towns. Australian forest industries contribute $24 billion to the Australian economy each year.[2]

The Australian economy has a trade deficit of timber and forest products of over $3.7 billion every year.[3] In other words, Australia imports $3.7 billion worth of timber, paper and cardboard more than it exports. This gap is expected to grow year on year, as demand for timber grows for housing expansion, climate action and demand for paper and cardboard increases as a replacement for fossil fuel based plastics.

Over the past 7 years, due to Federal, State and Local Government policy, the Australian Plantation Forestry estate has shrunk by 13%.



This dramatic decline has reduced supply for our local, world class, softwood manufacturing sector. Currently domestic Australia produces 80% of the timber needed for the Australian building industry. The reduction in plantation estate also reduces supply for local paper and cardboard production.

Globally, demand for timber is skyrocketing for the same reasons demand is growing domestically. Globally the use of timber is expected to triple by 2050.[4]

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[2] https://www.agriculture.gov.au/abares/products/insights/snapshot-of-australias-forest-industry
[3] https://www.agriculture.gov.au/abares/research-topics/forests/forest-economics/forest-wood-products-statistics.
[4] World Bank Group, World Bank Group Forest Action Plan FY16–20, April 2016; UK Parliamentary Office of Science and Technology, Reducing the whole life carbon impact of buildings, POSTbrief 44, November 2021, https://researchbriefings.files.parliament.uk/documents/POST-PB-0044/POST-PB-0044.pdf

The Forest products sector is one of the only carbon negative supply chains in Australia. We sequester and store more carbon in our timber and paper products than we emit during the manufacturing and transport of our products.

Our industry plants around 70 million plantation trees every year and supports the Federal Government's stated ambition to plant an additional one billion plantation forestry trees by 2030, which will sequester an additional 500MT CO_2-e by 2050.

Why the foreign investment in Australian forestry?

Almost all Australian Plantation Forestry companies have at least some non-resident investors. It is worth noting a significant shareholder of one of the forestry companies is the Australian Future Fund. The majority of other plantation forestry companies' significant shareholders are American or European defined benefit pension schemes or life insurance. Investors of funds from these schemes are looking for a stable long-term investments to balance other more volatile investments. Australian Forestry has historically been seen as a secure long-term investment. There has been historically low investment from Australian superannuation schemes as these schemes tend to be focused on shorter term returns rather than stable long term returns. Foreign investors are also attracted to the Environmental, Social and Governance (ESG) attributes and biodiversity of Forests, as they meet a large number of the UN Sustainability goals. European investors have had an earlier and higher focus on climate and ESG which has driven investment in forestry assets in Australia. Australian funds are only now reaching this maturity.

By itself, plantation forestry can be less attractive to investors than other higher-return agricultural/or other investments. However, if the return is paired with regular debt repayments, the investment becomes more viable, and other considerations like ESG can come into play to make the investment more attractive for investors.

Positive changes included in the Government amendments to the Bill

AFPA acknowledges the inclusion of amendment 24 in the Government amendments to the Bill, which will insert a new paragraph 820-52(1)(c) into the Bill. This amendment introduces amendments to the tax EBITDA definition to reduce the impact of the definition on the plantation forestry sector. This change will have a positive benefit for the plantation forestry sector over the unamended Bill **(original Bill).** The paragraph has been amended to include two new deductions to companies' tax EBITDA calculation:

- general deductions under section 8-1 that relate to forestry establishment and preparation costs.
- deductions under section 70-120 (capital costs of acquiring trees).

Under the original Bill, AFPA estimated the impact on current plantation forestry companies as a whole would be $20 million per year over 4 years. AFPA welcomes this amendment and sought this amendment as Recommendation 2 in AFPA's submission to the Senate Economics Legislation Committee in its inquiry into the Bill.[5]

The Government amendments to the Bill will reduce the Australian Plantation Forestry sector annual increase in tax burden caused by the Bill to approximately $5 million per year. This is a significant reduction, and the Australian Forestry Products Association is thankful for the consideration by the Australian Government for this amendment.

Concerns about the Government amendments to the Bill

AFPA is appreciative of the changes to the 'tax EBITDA' definition in the Government amendments to the Bill. However, the Bill (including these amendments) will still:

[5] https://ausfpa.com.au/publications/submission-to-economics-senate-standingcommittee/

- increase tax on existing plantation forestry companies managing their current plantation estate and may lead to the conversion of forestry to other agricultural land uses (contrary to the Australian Government's commitment to the Deforestation pledge.[6])

- disadvantages existing plantation forestry companies from expanding the Australian plantation forestry estate, or new companies from participating in greenfield plantation forestry.

- particularly disadvantages any plantation forestry company seeking to establish long rotation hardwoods (capable of replacing some of the current timber sourced from native forestry, such as spotted gum or blackbutt with 30-50 years to harvest).

What impact will the Bill have on tax for Plantation Forestry?

Currently, under the balance sheet method, plantation forestry companies could claim up to 60% of their debt costs. Under the Bill (including Government amendments), companies can only claim a deduction for financing costs up to 30% of their tax EBITDA with any disallowed deductions carried forward for up to 15 years. This will result in effectively ceasing plantation forestry expansion in Australia.

We set out in **Attachment 5** the example of an existing plantation forestry operation and an existing operation with an 1000ha plantation expansion. In both cases the company pays an increase in tax under the Bill (even with Government amendments).

	Tax implication following the implementation of the Bill (with Government amendments)
Existing operation 50,000 ha	Additional $63 per hectare per year in tax, or $1890 per hectare over 30 years.
1,000 ha expansion of existing operations with new plantation forestry establishment	Over the 15 years of denied deductions, this is $154 per hectare per year worse off or $2,310 per hectare over the 30 year rotation cycle.

Contrary to multi-party and multi-jurisdictional support

There is strong multi-party support for the expansion of the plantation estate (Australian Labor Party, Australian Greens Party, the Coalition and the Jacquie Lambie Network). This is due to the multiple benefits plantation expansion has for the Australian economy including, climate action, sovereign supply of timber for construction and environmental benefits.

There is multi-party support for the Federal Government's ambition to plant an additional 1 billion plantation forestry trees in Australia by 2030, which have the potential to sequester an additional 500MT CO2-e by 2050. The investment in plantation forestry is vital to meet Australia's growing demand for wood and paper products as we seek to decarbonize our economy. The billion trees ambition was recommitted to by both the Australian Labor Party and the Coalition at the last federal election.

At the last election, there were also bi-partisan election commitments of over $300 million to support the forestry industry.[1] One of these policies was a four-year $73.8 million plantation establishment grant program. It was hoped that the upfront financial incentive would overcome investment return barriers for farmers and plantation forestry companies and result in an expanded estate. The program provides landholders with a $2,000 grant per hectare to encourage plantation expansion.

There is strong multi-jurisdictional support for plantation expansion across Australia. A number of state governments currently have plantation expansion policies to encourage forestry plantation expansion of the estate.[7] Also, the National Forestry Ministers Meeting, which is the collective group of all of Australia's State and Territory Forestry Ministers, and also includes the Federal Forestry Minister,

[6] See Attachment 4 for details about international commitments.
[7] See Attachment 1 for additional detail about State Government Forestry Policy.

have set a multi-jurisdictional review of progress in encouraging plantation expansion as a priority of their work plan in 2024.[8]

Unfortunately, the Bill (even with Government amendments) still stands in contrast to these ambitions. In direct contradiction to Federal bipartisan support for plantation expansion, the Bill still sends a clear policy signal to the majority of existing companies not to invest in expanding the plantation forestry estate in Australia. If the Bill passes (even with Government amendments), the National Forestry Ministers Meeting will inevitably rate the Bill as a new Federal impediment to plantation forestry expansion.

Both the South Australian and Victorian Treasurers have written to the Federal Treasurer to express their concern about the impact of the original Bill on plantation forestry sectors in their respective jurisdictions.

Contrary to the Government's Party Platform

At the recent Australian Labor Party National Conference, amendments were made to the Labor Party Platform re-stating the party's support for plantation forestry. It now states:

> *"Labor supports the sustainable future of Australia's forests and forest products industry and recognises the value and role of our forests in storing carbon and protecting biodiversity. Labor will work with states and territories to update the 1992 National Forest Policy Statement to ensure it is contemporary and fit for purpose. We will:*
>
> - *Expand Australia's plantation estate to meet domestic and international demand for high-value, sustainably sourced wood products, and will develop an industry plan that facilitates regional job growth and vibrant sustainable communities." (underlining added).*

The Australian Labor Party Platform clearly sets out the party's ambition to grow the plantation estate in Australia. This is to meet current and the expected increased demand of timber internationally and nationally, and the need to increase sovereign supply. Unfortunately, the Bill (even with Government amendments) introduces a new barrier for companies to expand the plantation forestry estate in Australia.

Contrary to International Commitments

As set out above, there are numerous domestic reasons for the strong multi-party support for plantation expansion in Australia. There are also international reasons for the Australian Government to support plantation expansion in Australia. The Australian Government has made a series of international commitments since 2021 in relation to ceasing and reversing deforestation by 2030.

This culminated at COP28 in December 2023 with the Australian Government showing international climate leadership by committing, with 16 other countries to increase the amount of timber in the built environment by 2030 to reduce the carbon footprint of that sector.[9]

AFPA and its members applaud the Australian Government's commitment to increase the use of wood in the built environment to reduce the carbon emissions of the building sector. The commitment aligns with the longstanding position of the Intergovernmental Panel on Climate Change, that the use of timber in the built environment has many climate benefits.

However, as stated above, Australia does not meet its own current needs for timber for the built environment. Other countries that have also committed to this increase in timber include Canada, the United Kingdom and the United States of America. Australia currently imports 20% of its timber for the building sector. Prior to the Government's commitment to increase the amount of timber in the built

[8] See Attachment 2 for additional detail about the National Forestry Ministers meeting and its priorities and forward work plan.
[9] See Attachment 4– International Commitments for full timeline of commitments.

environment, it was estimated that import demand will double to 41% by 2050.[10] We all saw during COVID-19 the price pressure which was exerted when the United States and other wealthy countries were hungry for timber, Australian builders could not compete and could not access enough timber on the international market.

Prior to the introduction of the Bill, the Australian Government *was* well placed to start to halt the reduction in plantation estate and start moving towards increasing the timber supply needed to transition to the bioeconomy including:

- Commitment to 1 billion new plantation forestry trees by 2030.
- Plantation establishment grants,
- Investment in wood production innovation.
- Other election commitments.[11]

However, the Bill (even with Government amendments) is sending a clear and contradictory policy signal to this international commitment. At a time when Australia needs to expand its plantation forestry estate to supply this increase of timber, the Bill (even with Government amendments), is introducing a new increased tax regime on plantation forestry sector.

Recommendations

AFPA and its members are appreciative of the Government amendments to the Bill, which will reduce the impact of the change in Thin Capitalisation rules for the plantation forestry sector. However, these amendments will only dampen the blow of the Bill on Australian plantation forestry companies. The overall impact of the Bill still increases tax on plantation forestry companies and disadvantages companies participating in plantation expansion.

AFPA respectfully asks that changes be made by the Australian Government to ensure that the Australian forestry sector is not negatively impacted by the Bill. Whilst AFPA and its members are agnostic as to the method through which this can occur, to assist the committee, we recommend the following:

- Treasury consult with AFPA to propose options to remove the impact of the Bill on plantation forestry expansion; or
- The Government introduce forestry policy initiatives which offset the increase in tax placed on plantation forestry sector.

For additional information, please contact Sara Bray, Senior Policy Manager at the Australian Forest Products Association on sara.bray@ausfpa.com.au or 0402 465 349.

[10] Forest and Wood Products Australia, Future Market Dynamics and Potential Impacts on Australian Timber Imports, August 2022. https://fwpa.com.au/wp-content/uploads/2022/08/SAE179-2021_Future_market_dynamics__potential_impacts_on_Australian_timber_imports.pdf.
[11] For a full list of Federal Government forestry policy including election commitments please see Attachment 3.

Attachment 1 - Relevant State Government Forestry Policy

Find below a number of state initiatives. New initiatives where announced *after* the Bill came into effect, and requiring investment after this time, may be at risk.

Queensland

The Queensland Land Restoration Fund works in conjunction with the Federal ACCU Scheme to support carbon farming projects which also deliver demonstrated environmental, socio-economic and/or First nations co-benefits.

For more information see: About the Land Restoration Fund | Environment, land and water | Queensland Government (www.qld.gov.au)

Victoria

Plantation expansion initiatives in Victoria include:

1. **VicForests Farm Forestry Program**. For more information see - VicForests farm forestry Farm forestry (vicforests.com.au).

2. **Victorian Carbon Farming Program**. $15.3 million for private landholders to reduce emissions and build resilience to a changing climate.

3. **Gippsland $120 million Plantation Investment Program**.

4. **Latrobe Valley crown land plantations** – for more information see https://www.deeca.vic.gov.au/forestry/forestry-in-victoria/plantations

Western Australia - $350 million for plantation expansion

In Western Australia, the main plantation forestry owner is a government agency. Whilst not directly impacted by the Bill, we note that the Western Australian Government has committed $350 million to its agency to expand the plantation estate in that State.

This investment is expected to provide at least an additional 33,000 hectares of softwood timber plantation, with up to 50 million pine trees planted, sequestering between 7.9 and 9.5 million tonnes of carbon dioxide equivalent.

Other State Government plantation expansion.

AFPA is aware of other State Governments actively considering investing in plantation establishment grants, to complement the Federal Supporting Plantation Establishment Grant program to encourage plantation establishment in their jurisdictions.

Attachment 2 – Federal Forestry Ministers Meeting: agreed priorities of the Federal, state and territory forestry Ministers.

July 2023 meeting

On 11 July 2023, the Federal, state and territory forestry Ministers and senior officials responsible for forestry met at the National 'Forestry Ministers' Meeting. At that meeting, Ministers agreed to a future workplan which will focus on 'the agreed priorities of:

- increasing resource security and domestic supply volumes
- expanding the production of timber and wood products
- expanding forestry's contribution to climate change mitigation
- expanding timber industry workforce opportunities and capacity
- continued sustainable management of forests.'[12]

The workplan was drafted by Federal Department of Agriculture, Fisheries and Forestry officials to achieve these priorities.

December 2023 meeting

On 8 December 2023, the Federal, state and territory forestry Ministers and senior officials responsible for forestry met at the National 'Forestry Ministers' Meeting.[13]

At that meeting Minister Watt Minister Watt shared the news that Australia has joined the Forest and Climate Leaders' Partnership on Greening Construction with Sustainable Wood, which was announced at the UN Climate Change Conference in Dubai (COP28). Australia committed to increase the amount of timber in the built environment by 2030. The launch statement highlights the significant role that sustainable forest products can play in reducing emissions in the construction sector, which account for almost 40% of global energy emissions.

It was agreed that the terms of reference for the ministers' future meetings would be around five strategic priorities:

- increasing resource security and domestic supply volumes
- expanding the production of timber and wood products
- expanding forestry's contribution to climate change mitigation
- expanding timber industry workforce opportunities and capacity
- continued sustainable management of forests.

Ministers finalised a their workplan that will guide activities through to the end of 2024. This included a focus on:

> 'review progress in encouraging national research and development capability and innovation, plantation and farm forestry expansion, and increasing workforce capability and participation.'[14]

[12] https://www.agriculture.gov.au/about/news/stay-informed/communiques/forestry-ministers-july-23.
[13] https://www.agriculture.gov.au/about/news/stay-informed/communiques/forestry-ministers-december-23.
[14] https://www.agriculture.gov.au/about/news/stay-informed/communiques/forestry-ministers-december-23.

Attachment 3 - Australian Government Forestry Policy

Key

B = Bipartisan support
= 2022 Election commitment

Policy	Detail
1 billion new plantation trees by 2030 B	Bipartisan election commitment to support the planting of an additional 1 billion new plantation forestry trees by 2030.
$106.6 million - National Institute for Forest Products Innovation B	$106.6 million to establish a National Institute for Forest Products Innovation, with a central hub in Launceston Current status: the Federal Government has signed an agreement with the University of Tasmania to deliver the National Institute, now called *Australian Forest and Wood Innovation*.
$112.9 million – Accelerate Adoption of Wood Processing Innovation Program B	$108.7 million in grants to accelerate adoption of new wood processing technologies Current status: The Federal Government announced the 34 successful applicants for the grants. The Grant program resulted in an additional $361 million investment in modern timber manufacturing in Australia.
$86.2 million - Plantation Establishment Grants B	Applications are now open for the $73.8 million worth of plantation grants program. A key focus of the program will be to encourage farmers to adopt farm forestry, planting plantation forestry over existing marginal farmland, increasing forest cover, increasing sovereign capability of timber supply for the Australian market and in some cases, offsetting greenhouse gas emissions for a farming enterprise. The forestry companies caught by the changes in the proposed rules are vital for the successful roll out of this program. Their experience in the sector means they have, or are developing, products to manage farmer wood lots and assist farmers navigate the carbon market. The nine successful applicants from the first round, first batch have been announced. All of which are farmers (and not plantation forestry companies) due to the timing of the initial batch and its interaction to the Clean Energy Regulator assessment of applications under the Australian Carbon Credit Units Scheme.
Removal of the 'water rule' B	Removal of the exclusion of some plantation forestry regions from accruing Australian Carbon Credit Units (ACCUs) Current status: the 'water rule' has been removed from all plantation forestry hub regions and will be removed from the entire country on 1 June 2024.

$4.4 million - Fight Illegal logging	$4.4 million to strengthen Australia's fight against illegal logging and stop illegal timber imports from undercutting Australian producers
$8.6 million for ongoing funding of Forestry hubs	$8.6 million for the 11 Regional Forestry Hubs (forestry growing regions) to enable strategic planning, technical assessment and analysis to support growth.
$10 million - Forestry Worker Training Program	The then Albanese opposition committed to fund $10 million for a Forestry Worker Training Program. Current status: ForestWorks was engaged to undertake a scoping study of what training and development needs the sector has. A final report was provided in October 2023 for consideration by the Australian Government.
Strategic Forest and Renewable Materials Partnership	The then Albanese opposition committed to develop the Partnership. The Partnership seeks to provide a forum for industry, unions, First Nations to provide advice to the Australian Government and to develop a long term Timber Fibre Strategy. Current status: the Partnership has already met twice. The Partnership also presented to the July 2023 National Forestry Ministers Meeting about the development of the National Timber Fibre Strategy.
$300 million - Clean Energy Finance Corporation – Mass timber	Under the Coalition Government, the Clean Energy Finance Corporation launched a $300 million program to encourage the use of mass timber construction across the property sector. The program was developed due to identified capacity for timber to absorb carbon and substantially cut construction-related greenhouse gas emissions. This program has continued under the Albanese Government. One of the successful loan applicants was a 15 storey hybrid timber office building in Collingwood, Victoria.[15] CEFC contributed $70 million to the project and construction of this site is underway currently.

[15] https://www.afr.com/property/commercial/cefc-puts-70-million-into-hines-hybrid-timber-building-20221125-p5c1e1.

Attachment 4 – International Commitments

2021 – Glasgow declaration

In 2021, at COP27 in Glasgow, the Australian Government signed up to the Glasgow Leaders Declaration of Forests and Land Use, through which Australia pledged to "halt and reverse forest loss and land degradation by 2030 while delivering sustainable development and promoting an inclusive rural transformation."[16] Australian policy makers should be conscious to avoid changes in plantation forestry policy which may result in a permanent change of land use away from plantation forestry (eg reversion back to agriculture, or change of land use to urban use), as this would result in a deforestation event, and have to be accounted for against the Glasgow Leaders Declaration of Forests and Land Use, and also in Australia's Greenhouse Gas Accounts.

The Glasgow Leaders Declaration of Forests and Land Use also calls on countries to 'reverse forest loss' by 2030. This means the establishment of new forests, which in an Australian context would also include plantation forestry expansion.

What is deforestation?

It is worth noting that no respected definition of 'deforestation' includes continual native forestry or plantation forestry in Australia. Where, following harvest, the forest is replanted, or reseeded for a new crop.

The Food and Agriculture Organization of the United Nations defines 'deforestation' as:

> *"The conversion of forest to another land use or the long-term reduction of the tree canopy cover below the minimum 10 percent threshold.*
>
> Explanatory note:
> 1. Deforestation implies the long-term or permanent loss of forest cover and implies transformation into another land use. Such a loss can only be caused and maintained by a continued human-induced or natural perturbation.
> 2. It includes areas of forest converted to agriculture, pasture, water reservoirs and urban areas.
> 3. The term specifically excludes areas where the trees have been removed as a result of harvesting or logging, and where the forest is expected to regenerate naturally or with the aid of silvicultural measures."

2022 – Establishment of the Forest and Climate Leaders Partnership

In 2022, at COP27 in Egypt, world leaders reaffirmed the Glasgow commitment, launching the Forest and Climate Leaders Partnership. Australia was one of 28 founding members of this partnership. The partnership was established to support the goals of the declaration, focusing on stepping up global efforts to halt and reverse forest loss and land degradation by 2030, and promoting sustainable production and trade.

[16] Text of the Glasgow Leaders Declaration of Forests and Land Use: https://webarchive.nationalarchives.gov.uk/ukgwa/20230418175226/https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/.

By joining the partnership, Australia reaffirmed its commitment to this ambitious cause, and to work with other countries to support global efforts to combat climate change with forest solutions.[17]

The founding members:

- Australia,
- Canada,
- Republic of Colombia,
- Republic of Congo,
- Republic of Costa Rica,
- Republic of Ecuador,
- European Union,
- Republic of Finland,
- Republic of Fiji,
- Republic of France,
- Gabon,
- Federal Republic of Germany,
- Republic of Ghana,
- Republic of Guyana,
- Japan,
- Republic of Kenya,
- Republic of Korea,
- Kingdom of Netherlands,
- Federal Republic of Nigeria,
- Kingdom of Norway,
- Islamic Republic of Pakistan,
- Republic of Singapore,
- Kingdom of Sweden,
- United Republic of Tanzania,
- United Kingdom of Great Britain and Northern Ireland,
- United States of America and
- Vietnam.

2023 – Commitment to more timber in the built environment by 2030

In 2023 at COP28 in Dubai, under the auspices of the Forests and Climate Leaders Partnership which is co-chaired by the United States Special Presidential Climate Envoy, John Kerry and the Minister of Lands and Natural Resources for Ghana, Samuel Jinapor, Australia, in a coalition of 17 countries, Australia committed to:

"Recognising that wood from sustainability managed forests provides climate solutions within the construction sector, we commit to, by 2030, advancing policies and approaches that support low carbon construction and increase the use of wood from sustainability managed forests in the built environment. Such policies and approaches will result in reduced greenhouse gas emissions and an increase in stored carbon."

Accordingly, Australia, and 16 other countries have committed to advancing policy approaches to increase the use of wood from sustainably managed forests in the built environment.

Countries committed to the pledge:

- Australia,
- Canada,
- Republic of Congo,
- Republic of Costa Rica,

[17] https://minister.agriculture.gov.au/watt/media-releases/forests-and-climate-leaders-partnership

- Republic of Fiji,
- Republic of Finland,
- Republic of France,
- Federal Republic of Germany,
- Republic of Ghana,
- Japan,
- Republic of Kenya,
- Republic of Korea,
- Kingdom of Norway,
- Islamic Republic of Pakistan,
- Kingdom of Sweden,
- United Kingdom of Great Britain and Northern Ireland,
- United States of America

Attachment 5 - an example of how the Bill (including Government amendments) penalises plantation expansion companies.

Example 1
Sylvia Ltd acquires 50,000 hectares of existing forestry assets near Oberon for $1 billion. 80% of the estate are trees that haven't been harvested yet. The average age at which a tree is harvested is 30 years. Under the 'Balance Sheet Method', Sylvia Ltd funds this 50% from equity and 50% from debt. This would have guaranteed that all arm's length debt is tax deductible. The annual interest charge = $28.5m (the average annual interest charge including Bank Bill Swap Bid Rate (BBSY) + bank margin is assumed at 5.7%. This company intends to maintain its debt and equity level at 50%, and is not in a position to raise additional equity to reduce its debt balance so that the interest cost remains constant.

Tax EBITDA = $60m per year, increasing by CPI every year. The annual deduction for the cost of acquiring the forestry asset is based on the timing of harvesting the trees over the 30-year period and most of the value would relate to trees harvested in earlier years because these are the most mature and have the most value associated with them.
Tax payable in year 2023/2024 under the Balance Sheet method: Arms length debt interest costs are 100% deductible:

Tax EBITDA – Interest x 30% = **$9.45m.**

Tax payable in year 2023/2024 under the amended Profit Based Method: Arms length debt interest costs are deductible up to 30% of Tax EBITDA

Tax EBITDA – (Lower of Interest costs and Tax EBITDA *.3)* 30% **= $12.6m.**

This company would be $3.15m worse of each year with this impact slightly reducing if earnings increase by CPI.

This is $63 per hectare per year worse off or $1890 per hectare over 30 year rotation cycle.

Example 2
Sylvia Ltd has purchased a 1,000 hectare property near Tumut for $15m. Sylvia Ltd financed the purchase using $9m debt and $6m equity. Sylvia Ltd plans to plant a pine plantation on the property. It will take 30 years until the trees are ready to harvest. Annual interest costs at 5.7% are $0.513m. Sylvia Ltd earns carbon credits that offset the cost of planting. Tax EBITDA for year 1 is zero and will be zero until year 30.

Tax payable in year 2023/2024 under the Balance Sheet method: Arms length debt interest costs are 100% deductible:

Tax EBITDA – Interest x 30% = $0.513m tax loss which can be carried forward to future years.

Tax payable in year 2023/2024 under the amended Profit Based Method: Arms length debt interest costs are deductible up to 30% of Tax EBITDA

Tax EBITDA – (Lower of Interest costs and Tax EBITDA *.3)* 30% = $0m. While $0.513m can be carried forward for 15 years to offset a future tax liability because income will not be generated until 2053 so that these deductions will be permanently lost.

This company would lose access to (15years x $0.513m) in tax deductions at 30 % = $2.3m impact.
Over the 15 years of denied deductions, this is $154 per hectare per year worse off or $2,310 per hectare over the 30 year rotation cycle.