TITLE: **Forestry Tasmania must face reality**

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PUBLICATION: **Australian Financial Review**

PUBLICATION DATE: **20/08/12**

Imagine if a company lost money selling something that it never paid for. Now imagine that company was owned by a state government.

In an environment in which state governments and oppositions are either crying poor or crying waste you might imagine that such expensive mismanagement would create a bit of political heat.

But the usual rules of politics don't seem to apply to this particular government business enterprise. It might be because we are talking about such a long history of public support. It might be because we are talking about the logging industry. But whatever the explanation, the fact remains that Forestry Tasmania, which is 100 per cent owned by the Tasmanian taxpayer, has lost nearly half a billion dollars in the past two years.

In 2010 the management of Forestry Tasmania lost $306 million. Admittedly, they managed to turn things around a bit in 2011, chopping through just $129 million of taxpayers' funds. That's nearly $1,000 for every man woman and child in the state.

It gets worse though. A closer look at Forestry Tasmania's annual reports reveals that it has a large, and steadily growing, unfunded liability for employee superannuation. In 2011, the deficit stood at $122 million, up from $99 million in 2008.

Over on the mainland a lot is said about industry assistance in general and support for the car industry in particular. In federal parliament, political and ideological battles rage over support for 'free trade' or 'old fashioned protectionism'. But not, it seems, in Tasmania.

Those looking for a more polite and subtle debate about industry assistance need only take a short flight across Bass Straight to a land where the ALP, Liberals and Greens all support big government outlays to support industries that employ small numbers of people.

Not only do they like old fashioned protection, they like to do it the old fashioned way. Rather than offer matching grants for firms that make new investments in capital or skills the Tasmanians simply underwrite the losses of their log supply business in order to prop up wood chip mills that would go broke if they had to pay the full cost of their raw materials. Of course it isn't just the Tasmanian government posting cheques to Forestry Tasmania; the Commonwealth has tipped nearly $100 million in since 2006 as well.

But free marketeers should take heart, as it seems that Jeff Kennett is keen to restore some normalcy to the Australian political spectrum. In a recent speech the former Victorian Premier declared that he was working on a revival plan for Tasmania.

Surely the great privatiser will be brave enough to take on Forestry Tasmania's record loss making management? Surely the proud fiscal conservative is aghast at the cost to taxpayers of recent losses and the long run impact of those enormous unfunded liabilities?

Just as propping up the forestry industry in Tasmania has created an unusually broad political coalition in Tasmania, ending these destructive and inefficient subsidies should attract unusually broad support for Mr Kennett if he is up to the challenge. He could simultaneously deliver for the free marketeers and the environmentalists.

Tasmania is currently on the wrong side of the two speed economy. The high exchange rate associated with the mining boom is the fell swoop that is finishing off the export woodchip market. Luckily for Tasmania's residents, the political pain of this transition will be much greater than the economic pain as while the industry accounts for the majority of political debate in the apple isle, it only employs around one per cent of the workforce.

Despite the willingness of the Tasmanian parliament to pour hundreds of millions of dollars into forestry the global market for wood chips and the global market for currency have combined to create the pressure for change that protestors have failed to achieve.

The question facing Tasmania today provides a glimpse at the questions that regional economies around Australia will soon be facing, namely, with an exchange rate above parity with the US dollar what local industries can survive and which new industries might thrive with well-designed support?

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An edited version of this OpEd was published in the Australian Financial Review *LINK:* ***http://www.afr.com/p/opinion/forestry_tasmania_must_face_reality_xQihIz0RSI3oRcoC10p8vN***