

**TITLE: How not to make policy: Tasmanian forest deal**

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The newly-inked Tasmanian Forest Agreement has been hailed by many as a historic breakthrough that provides Tasmania with an opportunity to end the divisive "forest wars" and remake the state's ailing economy. In truth, it is a case study in how not to make policy.

By handing over the responsibility for resolving the dispute to two groups that sit at either end of the debate -- the forest lobby and green groups -- the Tasmanian government has overlooked the interests of those in the middle; the Tasmanian public. As a result, insufficient attention has been paid to how the forests can be best used to advance the interests of the community.

Throughout the process, the forest lobby pushed their case for additional subsidies to prop it up during the current industry downturn. This is to be expected. For their part, the conservation groups stuck to the tactics that have defined the forest conservation movement since the late 1960s: argue for more reserves and try to get lines on maps so as to protect native forests from logging.

The outcome reflects an awkward and unsatisfying compromise between these interests. For the third time in 15 years, the forest industry will receive a bucket of money to "restructure" and help it become "sustainable" (demonstrating once again that the word is possibly the most abused in the English language), while the conservation groups walk away with 504,012 hectares of new forest reserves, around 50% of which were never going to be harvested.

The impact of the agreement will be to perpetuate a native forest logging industry that is facing an existential crisis. It has always been a marginal economic activity that barely scrapes a profit. Recent events have made it decidedly uneconomic. In the past five years, the cumulative reported comprehensive loss made by Forestry Tasmania was \$509 million. Its cumulative trading loss (i.e. loss before tax and other items) was \$55.7 million, or around \$11 million per annum.

The industry likes to lay the blame for the state of the industry at the feet of the conservation movement, claiming conservationists have tarnished the international image of its products. While green group lobbying may have had some impact, the real reasons are market-related. The native forest sector has faced increasing competition from plantations, stagnant

or declining real product prices, rising input prices, a high dollar and a shift in consumer preferences away from native forest products.

Another government bailout of the industry is not going to alter the market circumstances that are the root cause of the problem. The subsidies and attempted restructure will provide a temporary reprieve but, as history has shown, in a few years the industry will return for further assistance.

In a similar vein, the promised new reserves under the TFA will not quell the calls from conservationists for more protection. The green groups involved in the deal -- The Wilderness Society, Australian Conservation Foundation and Environment Tasmania -- are but three voices in a diverse and complex movement. The idea that they speak for the broader movement is fanciful.

The most that can be said for the TFA is that it provides a band-aid. Similar to the European Union's approach to fiscal reform for most of the 2000s, the parties to the TFA have "kicked the can down the road", leaving others to search for more lasting solutions.

An alternative to what the TFA offers is to use Tasmania's native forests, or a large part of them, to generate carbon credits. The revenue from the sale of the credits could then be used to assist in the restructure of the state's economy.

To many, this sounds like black magic. However, irrespective of what the Tasmanian government does, the reduction in native forest harvesting that has come with the downturn in the industry, and that is partially guaranteed by the TFA, will result in carbon credits. The only issue is that they will be taken by the Australian government.

This is a product of new greenhouse accounting rules that will take effect when Australia signs up to the second commitment period of the Kyoto Protocol. Under these new rules, any reduction in native forest harvesting below the levels seen in the 2000s will result in Australia receiving offset credits. By offsetting emissions in other sectors, these credits enable the Australian government to increase the number of carbon units it sells under the new emissions trading scheme, thereby increasing its carbon revenues.

Our analysis suggests that, by guaranteeing that harvesting in Tasmania's native forests remains below the levels in the 2000s, the TFA should lead to the Australian government receiving an average of 7.4-8.2 million credits per year over the period 2012-2032. These credits are likely to be worth billions.

These carbon benefits do not have to accrue to the Australian government. The revenues could be wholly or partially allocated to Tasmania. Alternatively, the Australian government's credits could effectively be transferred to the state government through the Carbon Farming Initiative.

These options were brought to the Tasmanian government's attention in March this year. For months, they were largely ignored. Then, just prior to the signing of the TFA, Premier Lara Giddings announced that the government had engaged consultants, CO2 Australia, to undertake a feasibility study on how it could turn the outcomes from the TFA into carbon credits.

Some may say better late than never. However, by allowing the industry and green groups to dictate the structure and content of the TFA, the Tasmanian government may have jeopardised its chances of getting any of the available carbon credit benefits.

Most notably, the Australian government has indicated that, if Tasmania takes Commonwealth money to restructure the industry and establish the reserves, it won't be able to "double dip" by also claiming carbon credits. Prime Minister Gillard told the Premier this in July 2011 and the state government received the same message in October 2012, this time by the Parliamentary Secretary for Climate Change, Mark Dreyfus.

Under the current terms of the TFA, Tasmania stands to receive in the order of \$300 million, possibly a little more. In return, the Australian government gets a guarantee of \$6-\$7 billion in offset credits. The state Parliament needs to ask itself, is it doing the right thing by the Tasmanian community in signing up to a deal that is unlikely to provide a lasting solution to the woes of the forestry industry and that is so heavily weighted towards the interests of the Commonwealth?

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