

Government Investment Initiatives under the Plan of Action

AFFORESTATION GRANT SCHEME

September 2007



Pillar 2

Description

The Afforestation Grant Scheme (AGS) is a new policy initiative to encourage investment in new forests that was flagged in *Sustainable Land Management and Climate Change: Options for a Plan of Action*, released in December 2006.

Background

Under the AGS, foresters can receive a government grant for the planting of new forests on previously unforested ('Kyoto-compliant') land. Participants will own the new forests and earn income from the timber, while the Crown will retain the sink credits and take responsibility for meeting all harvesting and deforestation liabilities. A capped fund will be available for five years.

The AGS may appeal more to owners of small forests (especially those with single age-class forest stands) than owners of larger forests, because participation and transaction costs are expected to be lower than in the emission trading scheme (ETS).

The AGS will create additional carbon credits for the Government and can deliver other environmental benefits such as erosion reduction, and water quality and biodiversity improvements.

The scheme will not be available for land that has been entered into the ETS, the East Coast Forestry Project (ECFP) or the Permanent Forest Sink Initiative (PFSI).

Initiative

The Government proposes that AGS grants be available for the afforestation of Kyoto-compliant land in two categories:

Category 1 - exotic forests;

Category 2 - planted indigenous forests and assisted indigenous reversion.¹

At present there is too little information available on which to base a scale of grant payments in relation to carbon sequestration (storage). For this reason, the Government plans to make AGS grants generally² available through a competitive tendering process. This will allow the Government to establish the level of financial assistance landholders require and allocate funds efficiently. Maximum grant rates for both grant categories will reflect sequestration rates and allow for the risks of carbon ownership, which will remain with the Crown.

The Government is open to the possibility that, after a number of initial tender rounds, there could be a move from a tender-based system to a fixed grants system.

Two tender rounds, closing on 30 June and 31 December each year, are proposed for each

¹ Assisted indigenous reversion could include the establishment of exotic trees as a nurse crop in a transition to indigenous forest.

² The Gisborne district may be an exception to support the complementary operation of the AGS and ECFP.

category. Acceptance of tenders will be notified within three months after the closing dates.

It is intended that higher priority will be given to applications that would help land managers adapt to the expected effects of climate change, for instance, by providing other environmental benefits such as reduced soil erosion and flooding. Available funds would be allocated beginning with the lowest tender, but would be weighted to reflect these other factors.

Successful applicants will enter into a contract with the Crown for a term of 10 years. Under the terms of the contract:

- the grant plus interest will be repayable if the grant land is deforested during the term, or if encouraged natural reversion is unsuccessful for reasons beyond the control of the grantee (grant recipient);
- the grantee will be obliged to transfer the contract to the transferee if the grantee transfers the grant forest, whether by sale or other means;

- the administering agency will have the right to access the land for measurement purposes.

Depending on approvals and the quantity of planting stock in nurseries in 2007, the scheme could begin with a tender round closing in December 2007 for planting in winter 2008.

It is proposed that the scheme will run for five years, with a review at the start of year four.

Links to other government initiatives

The AGS has linkages to forestry in the ETS, PFSI initiatives and the Sustainable Land Management (Hill Country Erosion) Programme.

Next steps and implementation

The AGS will be implemented in 2007–08. Targeted discussions will be held with sectors, Māori and local government on the AGS operation.

Government investment

Initiative	2007/08 \$M	2008/09 \$M	2009/10 \$M	2010/11 \$M	2011/12 \$M	2012/13 \$M	2013/14 \$M	Total to 2013 \$M
Afforestation Grant Scheme	1.068	6.341	11.497	11.497	11.547	11.547	6.547	60.044

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