



Afforestation Grant Scheme Guidelines

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Ministry of Agriculture and Forestry (MAF)



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INTRODUCTION

The Afforestation Grant Scheme (AGS) is a new initiative first flagged in the *Sustainable Land Management and Climate Change: Options for a Plan of Action* discussion document released in December 2006.

Under the AGS, foresters can receive a government grant for planting new forests on Kyoto-compliant land (that is, land that was not forested as at 31 December 1989). Grant recipients will own the new forests and earn income from the timber, while the Crown will retain the carbon credits generated under the Kyoto Protocol, and take responsibility for meeting all Kyoto harvesting and deforestation liabilities.

The AGS offers an alternative to the proposed New Zealand Emissions Trading Scheme (NZ ETS)¹ as a way to encourage greater levels of greenhouse gas absorption by increasing the area of Kyoto-compliant new forest in New Zealand.

Another objective of the AGS is to establish this new Kyoto-compliant forest in areas where it will help reduce the likely impacts of climate change and generate other environmental benefits, for example, where it will reduce erosion, nutrient leaching and flood peaks.

ABOUT THE AGS GUIDELINES

These guidelines cover:

- who can tender for an afforestation grant;
- the role of Regional Councils;
- what land is eligible for a grant;
- how to tender for a grant;
- how the scheme administrator decides which application to approve;
- what to expect if an application is approved;
- payment of grants.

AFFORESTATION AND CLIMATE CHANGE

Forests contribute to the mitigation of climate change by converting carbon dioxide from the atmosphere into carbon stored in wood. They also assist with reducing the likely impacts of climate change. For example, forests can reduce erosion, nutrient leaching and flood peaks.

From a Kyoto Protocol perspective, forests planted on Kyoto-compliant land generate Removal Units (RMUs), sometimes called carbon sink credits that can be used to offset developed countries' greenhouse gas emissions. While a programme of new forest planting will not, in itself, enable New Zealand to meet its Kyoto Protocol target for the first commitment period it is likely to place New Zealand in a stronger position for possible future commitment periods.

Under the AGS, foresters can receive a government grant for planting new forests on Kyoto-compliant land (unforested as at 31 December 1989). Grantees² will own the new forests and earn income from the timber, while the Crown will retain the Kyoto Protocol sink credits and take responsibility for meeting all harvesting and deforestation liabilities.

¹ NZ ETS as provided for in the Climate Change (Emissions Trading and Renewable Preference) Bill.

² A grantee is the recipient of a grant.

OBJECTIVES OF THE SCHEME

The goal of the Afforestation Grant Scheme is to encourage the establishment of new forest land in New Zealand in order to stabilize the greenhouse gas concentration of the atmosphere (by converting carbon dioxide from the atmosphere into carbon stored in wood).

Priority will be given to afforestation proposals that will:

- also reduce the risk of soil erosion, improve water quality and improve biodiversity;
- achieve the objective and other environmental outcomes with the least risk and cost to the Crown.

The intention is to create a scheme that meets these objectives with minimal administrative cost.

ABOUT THE AFFORESTATION GRANT SCHEME

WHO CAN TENDER FOR AN AFFORESTATION GRANT?

Provided that certain land eligibility criteria are met, persons with the right to use land for forestry can EITHER:

- tender for an AGS grant; OR
- obtain an AGS grant through their Regional Council³; OR
- apply to join the proposed NZ ETS or Permanent Forest Sink Initiative (PFSI) and take ownership of carbon credits and liabilities.

Individuals, business entities and local government may tender for AGS grants provided they own the land, or have the right to use the land for forestry.

AGS grants will be made through a competitive tendering process because this will allow the Government to establish the level of financial assistance that landholders require and to allocate funds efficiently. In the case of the Gisborne District where the East Coast Forestry Project⁴ (ECFP) operates, the application dates and notification dates have been co-ordinated. This will allow investors to co-ordinate planting projects under the AGS and ECFP.

It is possible that, after a number of initial tender rounds, there could be a move from a tender-based system to a fixed-grants system.

WHAT LAND IS ELIGIBLE FOR A GRANT?

Land eligible for a grant must be land that:

- a) was not forest land on 31 December 1989; or
- b) was forest land on 31 December 1989 but;
 - was deforested between 1 January 1990 and 31 December 2007; or
 - was deforested on or after 1 January 2008; and in respect of which any liability to surrender units arising to the Crown under the Kyoto Protocol have been satisfied.

³ Provided that their Regional Council has obtained AGS funding.

⁴ The ECFP is a government scheme that provides grants to land owners for the afforestation of severely eroding land. For more information visit www.maf.govt.nz/climatechange

“FOREST” LAND IS DEFINED AS:

“a minimum area of land of 1.0 hectare with tree crown cover (or equivalent stocking level) of more than 30 per cent in each hectare with the potential to reach a minimum height of 5 metres at maturity in situ. A forest may consist either of closed forest formations where trees of various storeys and undergrowth cover a high proportion of the ground or open forest. Young natural stands and all plantations which have yet to reach a crown density of 30 per cent or tree height of 5 metres are included under forest, as are areas normally forming part of the forest area which are temporarily unstocked as a result of human intervention such as harvesting or natural causes but which are expected to revert to forest”.

A guide for determining whether forest meets this definition is available⁵ and applies to afforestation under the AGS, the NZ ETS, and the PFSI.

The assessment of the eligibility of an applicant’s land is based upon the information provided in their tender. MAF will, as required, carry out an inspection to confirm that the land is eligible to receive a grant.

Non-compliant land within an application area must be identified in any tender, and will not be eligible for a grant.

WHAT LAND IS NOT ELIGIBLE FOR A GRANT?

Significant Natural Areas (SNAs), Sites of Special Wildlife Interest (SSWIs) and Recommended Areas for Protection (RAPs) are not eligible for an afforestation grant, except for indigenous afforestation applications that will enhance the protected area.

Applicants may need to approach their local councils and/or DOC conservancies/area offices for advice about the location of SNAs, SSWIs or RAPs.

An afforestation grant cannot be used on sites registered with the Historic Places Trust; and/or recorded on District Council Plans. If there are recorded sites in the application area, the applicant will be required to employ an approved archaeologist to survey the proposed grant area and mark out any archaeological sites present. These sites will then be excluded from the grant area. An approved tender will remain provisional until the archaeological survey is completed⁶.

The AGS will not be available on land that has entered into the NZ ETS, the PFSI or the ECFP. East Coast District landowners may apply for an AGS grant on any additional non-ECFP target land⁷ that can’t be accommodated in an ECFP application (an objective in the ECFP is that 50% of the total grant area is to be target land as assessed at a regional level).

Land owned or administered by central government agencies is ineligible.

ELIGIBLE SPECIES

The species in an application must have the potential to meet the definition of “forest land”, and must be compatible with the site where they will be planted.

Indigenous species should be “eco-sourced” i.e. endemic to the locality. Natural forest reversion projects could include the establishment of exotic trees as a nurse crop in a transition to indigenous forest.

Forest species that have been identified in Regional Council Pest Management Strategies as having weed potential will be ineligible.

⁵ Visit www.maf.govt.nz/climatechange

⁶ There is a list of consulting archaeologists on the New Zealand Archaeological Association website (www.nzarchaeology.org). Consulting archaeologists will be able to advise whether there are any registered archaeological sites, or whether there is reasonable cause to suspect that there are, at a proposed area for afforestation.

⁷ For information on the East Coast Forestry Project and defined target land under this scheme, visit www.maf.govt.nz/forestry/east-coast-forestry

ESTABLISHMENT PRACTICES

To be eligible for sink credits under the Kyoto Protocol, a grant forest must be: “direct human induced ... through planting, seeding and/or the human-induced promotion of natural seed sources”. This means some form of active management will be required in establishing the forest.

Forests may be planted, or developed through assisted natural reversion.

The AGS requires a minimum standard of forest establishment, so that the grant forests can produce benefits other than carbon sequestration. This is a more restrictive definition of forest than the Kyoto Protocol definition.

The AGS minimum standard for planted forest establishment is: “seedlings, cuttings or other plant material achieving a minimum stocking of 750 stems per hectare, and free of significant weed competition”. With planted indigenous forest, the minimum stocking may consist of other species - for example, manuka, planted with a dominant species such as kahikatea or kauri.

With indigenous reversion blocks, an applicant must provide a brief management plan detailing the measures that will be taken to ensure that succession to indigenous forest will occur with reasonable certainty – for example, fencing, exclusion of livestock, control of wild animal herbivores or supplementary planting.

The forest may be established for wood production purposes, other environmental purposes or a combination of both.

No standards are specified for any other silvicultural operations.

MINIMUM APPLICATION SIZE

The minimum application size is 5 hectares. This area may consist of multiple areas of at least 1 hectare.

Shelterbelts or riparian strips less than 30 metres wide (canopy-edge to canopy-edge) are not eligible. However, afforestation on both sides of a waterway can be assessed as one riparian strip with the width of the waterway excluded from the width measurement.

HOW WILL FUNDS BE ALLOCATED?

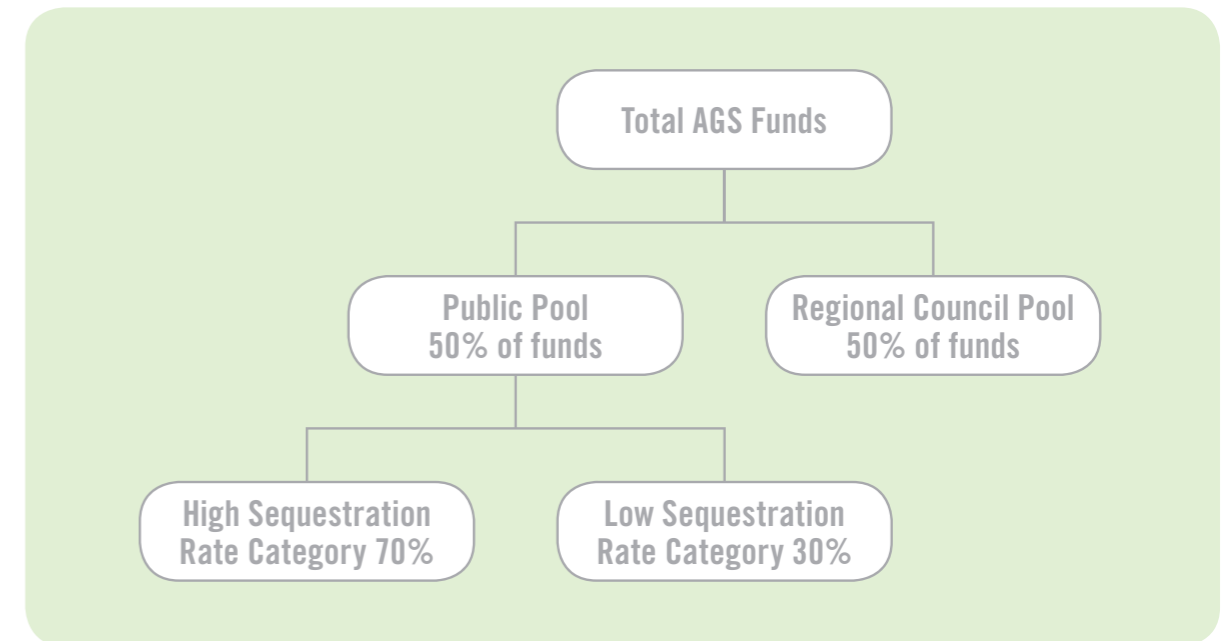
Annual funding will be divided into two pools – a Regional Council pool and a public pool. 50% of funds will be allocated to each pool.

Regional Councils will implement afforestation programmes directly (see page 11).

In the public pool, tenders will be accepted for high and low sequestration rate categories, with the maximum expenditure in each category capped at 70% and 30% respectively of the public pool funds.

If the public pool is under-subscribed, any surplus funds may be transferred to the Regional Council pool.

Funding allocation is illustrated in the following diagram:



Forests with a “high sequestration rate” are defined as those capable of achieving over any time-span, a total stem volume mean annual increment⁸ of at least 15 m³/ha/yr under conventional silviculture. Indicative Mean Annual Increments for a range of species are shown in Appendix 1. Forests with a low sequestration rate are forests that are not capable of achieving the above figure.

MAXIMUM GRANT RATES

Maximum grant rates will be set for each sequestration category that will reflect the rate of carbon sequestration, and the risks to the Crown of retaining carbon ownership. These will not be disclosed publicly.

PUBLIC POOL - TENDERING FOR A GRANT

The tender process will be:

- applicants submit tenders;
- administrator acknowledges receipt of tenders;
- desktop review of tenders for completeness and, if necessary, a request for further information from applicants;
- confirmation that species are suitable for the sites;
- possible negotiation regarding species to be planted and an establishment plan; and
- possible onsite inspection and audit of information submitted.

⁸ Mean Annual Increment (MAI) is the quantity of wood at a given age divided by the age.

Applicants in the public pool must complete an application form (Appendix 1) with the following details:

- name and contact details;
- evidence that the land is eligible;
- the funding sought per hectare;
- an interim site plan (map, plan or aerial photo with a map reference to assist location – easting/northing or latitude/longitude);
- existing vegetation;
- evidence of the right to use the land for forestry (computer freehold register, lease, forestry right or covenant);
- access details – how access can be gained, and who to contact to notify that access is being sought;
- a brief management plan outlining the species to be planted, the planting, stocking and spacing, establishment techniques or natural reversion plan, and area to be planted each year; and
- any areas of non-compliant land within the application area.
- consent to the land being included in the GIS database held by MAF.

Tenders may be made subject to the purchase of land, completion of a forestry right, completion of a land-use change agreement or protection covenant or the granting of a resource consent. Any forestry right, agreement or covenant must have a term greater than the Grant Agreement term (see page 11).

The administrator may at his or her sole discretion decline any tender.

Timing of the annual tender programme will be as follows⁹:

Closing date for tenders	30th April
Provisional or final approval	Before 30 June

(Closing date for 2008 may be extended)

Tenders can be submitted for planting in the current or following calendar year. Approvals will only be valid for the year(s) proposed for planting.

Where the application is conditional, the administrator will provide provisional approval, with final approval made when any outstanding conditions are met, for example:

- Proof of unconditional rights to the land is provided by the applicant (this may be done by producing a land title, lease, forestry right or covenant);
- Necessary resource consents and/or archaeological site certifications have been obtained.

Successful applicants will have 12 months from the tender closing date to provide the required information.

Unsuccessful tenders from earlier rounds may be re-submitted as a new tender for the same areas, or investors may choose to enter the NZ ETS or the PFSI as an alternative.

Grant approvals may be extended due to unforeseen circumstances, for example, seedling unavailability, delays in negotiating forestry rights etc. Requests for extensions will be considered on a case-by-case basis.

Further information may be requested on receipt of an application. If this information is not supplied within a three-month period, the tender will lapse and the applicant must reapply.

⁹ The tender closing and approval dates are the same as for large area applications in the East Coast Forestry Project.

RANKING OF TENDERS

Each tender will be scored according to the three following co-benefit criteria. If a tender meets a criterion it will be given a score of 1, otherwise 0. The scores for each criterion will be summed, with a maximum score of 3.

Assessment Criteria
<p>1. Soil Conservation and Flood Risk Management</p> <p>Defined as land with more than 50 percent of Land Use Capability units rated VIII or worse; or potentially erodible land with more than 50 percent of land that has been identified by Regional Councils as requiring an effective forest cover</p>
<p>2. Improved Water Quality</p> <p>Defined as land where Regional Councils have identified that afforestation is desirable to improve water quality of lakes and/or rivers; or land that is in a riparian strip.</p>
<p>3. Improved Biodiversity</p> <p>Defined as land where the proposed afforestation will greatly increase the number of indigenous plant species present, improve habitat for indigenous wildlife, increase the ecological complexity of the land use and add linkages/corridors between existing protected natural areas.</p>

Tenders will then be given a weighting factor according to their co-benefit score as follows:

Total Co-benefit score	Weighting factor
0	1.0
1	0.9
2	0.8
3	0.7

The tendered rate will then be multiplied by the weighting factor to give an adjusted tender to be used for ranking purposes only. Successful applicants will still receive their full tendered rate.

A high co-benefit score will give a low weighting factor which means that an adjusted tender will have a favourable advantage when ranked against other adjusted tenders.

APPROVAL PROCESS

The steps in the approval process are:

- tenders will be allocated into either the high or low sequestration category;
- tenders greater than the maximum grant rates are excluded;
- tenders are scored against the three criteria, and adjusted for ranking purposes only;
- adjusted tenders are then ranked in descending order;
- tenders are then provisionally awarded up to the available funds for that tender round.

Unsuccessful applicants will be informed in writing.

REGIONAL COUNCIL POOL

Regional Councils may submit proposals individually or jointly, for afforestation within their regions that meets the scheme eligibility criteria, and is consistent with their sustainable land use objectives. The Councils would work directly with landowners to arrange, administer and fund planting projects. The following core information is required in a proposal:

- The total funds required by year;
- The minimum area to be established;
- The sites that will be targeted and the associated co-benefits;
- How the Council will manage applications and performance.

The terms of any agreement between the Crown and a Regional Council, or group of Councils will be recorded in a formal agreement that will be reviewed annually.

Councils will be required to provide information on achievements under the scheme, and will be subject to MAF compliance audit.

WHAT ARE THE TERMS OF A GRANT?

A successful tender (the landholder) will be offered a grant agreement. This agreement will contain the following terms:

- the term of the agreement will be 10 years;
- the grantee can make a claim for payment when the grant forest is deemed to be successfully established;
- if the grant land is deforested within the term of the agreement, the grant plus interest is repayable;
- if the grantee transfers the grant-aided forest, the grantee is obliged to transfer the contract to the transferee via a Deed of Novation;
- the scheme administrator will have the right to access the land for carbon measurement purposes.

The agreements between the Councils and landowners will reflect these terms. The grant agreement and the Deed of Novation are available at www.maf.govt.nz/climatechange.

PAYMENT OF GRANTS

A grantee may lodge a claim for payment when the forest is successfully established including a statutory declaration to that effect, and when a geospatial map of the planted area is supplied. Normally, this will be at least six weeks after the tree releasing operation in the spring following planting.

With assisted indigenous reversion, a claim may be lodged when the operations specified in the application such as fencing, animal control etc have been completed.

The administrator will audit a proportion of claims to confirm compliance with the establishment standard, and will generally make payments within 30 working days of receiving claims. Adjustments may be made to claims if part of the application area is deemed to have not met the standard.

OTHER ISSUES

TAX TREATMENT

Grant payments are treated as grants to businesses under section DF1 of the Income Tax Act 2004. The grant is made by the Government under a contract at an approved value and is not a reimbursement of costs.

The administrator will advise the IRD of all grant payments.

GOODS AND SERVICES TAX (GST)

All grant tenders are made on a GST-exclusive basis. GST is added to the grant payment and must be accounted for in the usual way.

WHO WILL OWN THE CARBON CREDITS?

The Crown will retain ownership of the Kyoto carbon credits and liabilities associated with the grant forest.

RISK

The Crown will accept the risk of carbon loss from fire, wind, other natural disasters, with the cost being included in the setting of the maximum grant amounts.

Except as provided in an AGS agreement, the Crown is not liable to any person for compensation or damages in respect of any matter arising from an AGS agreement.

LEGAL AUTHORITY

Under section 15 of the Forests Act 1949, the Minister of Forestry has the power to make financial grants or loans to persons in the forestry sector.

The operating details of the Scheme may be altered with the approval of the Minister of Forestry.

FOR FURTHER INFORMATION AND APPLICATION FORM, PLEASE CONTACT:

Afforestation Grant Scheme
 Ministry of Agriculture and Forestry
 PO Box 2526
 Wellington

0800 CLIMATE (254 628)

Email: climatechange@maf.govt.nz
www.maf.govt.nz/climatechange

APPENDIX 1

Indicative Mean Annual Increments (MAI) of Various Species

Species	MAI of Total Stem Volume (m ³ /ha/an)
E. nitens (chiplog regime)	35
E globoidea	25
E saligna	25
E botryoides	25
E pilularis	25
E delegatensis	30
E regnans	30
E muelleriana	25
E obliqua	25
E fastigata	25
Douglas-fir	30
Larch	25
Radiata pine	28
Redwood (Californian)	20
Mexican cypress	25
Aus blackwood	15
Redwood (giant sequoia)	25
Ponderosa pine	20
Monterey cypress	20
Red beech	15
Leyland cypress	18
Lawson cypress	18
Kauri	15
Rewarewa	12
Hard beech	10
Silver beech	12
Willow	15
Poplar	15
Western red cedar	15
Totara	12
Kanuka	8
Kohekohe	8
Mountain beech	8
Puriri	8
Tawa	6
Southern rata	3
Kahikatea	8
Miro	5
Rimu	5
Matai	4

OTHER SUSTAINABLE FORESTRY LEGISLATION AND POLICIES

New Zealand Emission Trading Scheme (NZ ETS)

Under the legislation as currently proposed, owners of forests established before 1990 – pre-1990 forests – would enter the scheme compulsorily unless they met criteria for exemption. Owners of forests first established after 1989 (post-1989 forest land) would have the choice of entering the NZ ETS and receiving all of the credits and associated liabilities associated with this forest land.

NZ ETS Pre-1990 Forest (does not currently include indigenous forests)

- Obligation to surrender NZUs if deforesting more than 2ha of non-exempt pre-1990 forest over the period 2008-2012.
- No obligations to surrender NZUs if harvesting and replanting or allowing forest to regenerate.
- Opportunity to apply for one-off free allocation of NZUs.
- No NZUs earned for carbon sequestration/tree growth.
- Opportunity to apply for exemption from NZ ETS if less than 50ha total pre-1990 forest holdings on 1 September 2007.
- Exemption runs with land.
- Opportunity to apply for exemption from NZ ETS obligations if deforesting weed trees.

Owners of post-1989 forests who chose to enter the NZ ETS would take responsibility for the ongoing net changes in the carbon stocks of their forests. They would receive carbon credits called New Zealand Emission Units (NZUs) if those stocks increased as a result of tree growth and will be required to surrender NZUs if those stocks decreased as a result of activities or events such as harvesting or fire.

The Government would retain responsibility for changes in the carbon stocks of post-1989 forests that had not entered the NZ ETS, keeping any credits earned and remaining responsible for any future liabilities.

A post-1989 forest participating in the NZ ETS would not be eligible for an allocation under the AGS.

NZ ETS Post-1989 Forest (exotic and indigenous forests)

- NZUs earned for forest growth from 2008.
- No NZUs for forest growth from 1990 - 2008.
- Can exit NZ ETS at any time if NZUs are repaid.
- Eligible for ECFP at reduced grant rate.
- If not in NZ ETS - no liability for harvesting or deforestation.
- Participation will transfer with the sale of the land or forestry right.

Permanent Forest Sink Initiative (PFSI)

The PFSI provides an opportunity for landowners to establish permanent forest sinks and obtain tradable Kyoto Protocol compliant emission units in proportion to the carbon sequestered in their forests. To be eligible for this initiative, the land must not have been covered in forest as at 31 December 1989 and some form of active management must have been required in establishing the forest. Limited harvesting of the forests established under this initiative is allowed on a continuous canopy cover basis, so clear-fell plantation forests are not included in this Initiative.

PFSI (Permanent Forest Sink Initiative)

- Can earn Kyoto Protocol assigned amount units (AAUs).
- Covenant registered against land title.
- Limited harvesting allowed.
- Liabilities for deforestation.
- Option to exit after 50 years provided units repaid.
- Eligible for ECFP (grant rate not reduced)
- Can transfer to NZ ETS as post-1989 forest within 18 months of NZ ETS legislation becoming law.

Forests planted under the AGS are not eligible for the PFSI.

East Coast Forestry Project (ECFP)

The ECFP is an afforestation encouragement and erosion control scheme specifically targeted at the land on the East Coast of the North Island.

The AGS cannot be used on land that receives funding under the ECFP.

For more information about all of these sustainable forestry schemes, please visit: www.maf.govt.nz/climatechange

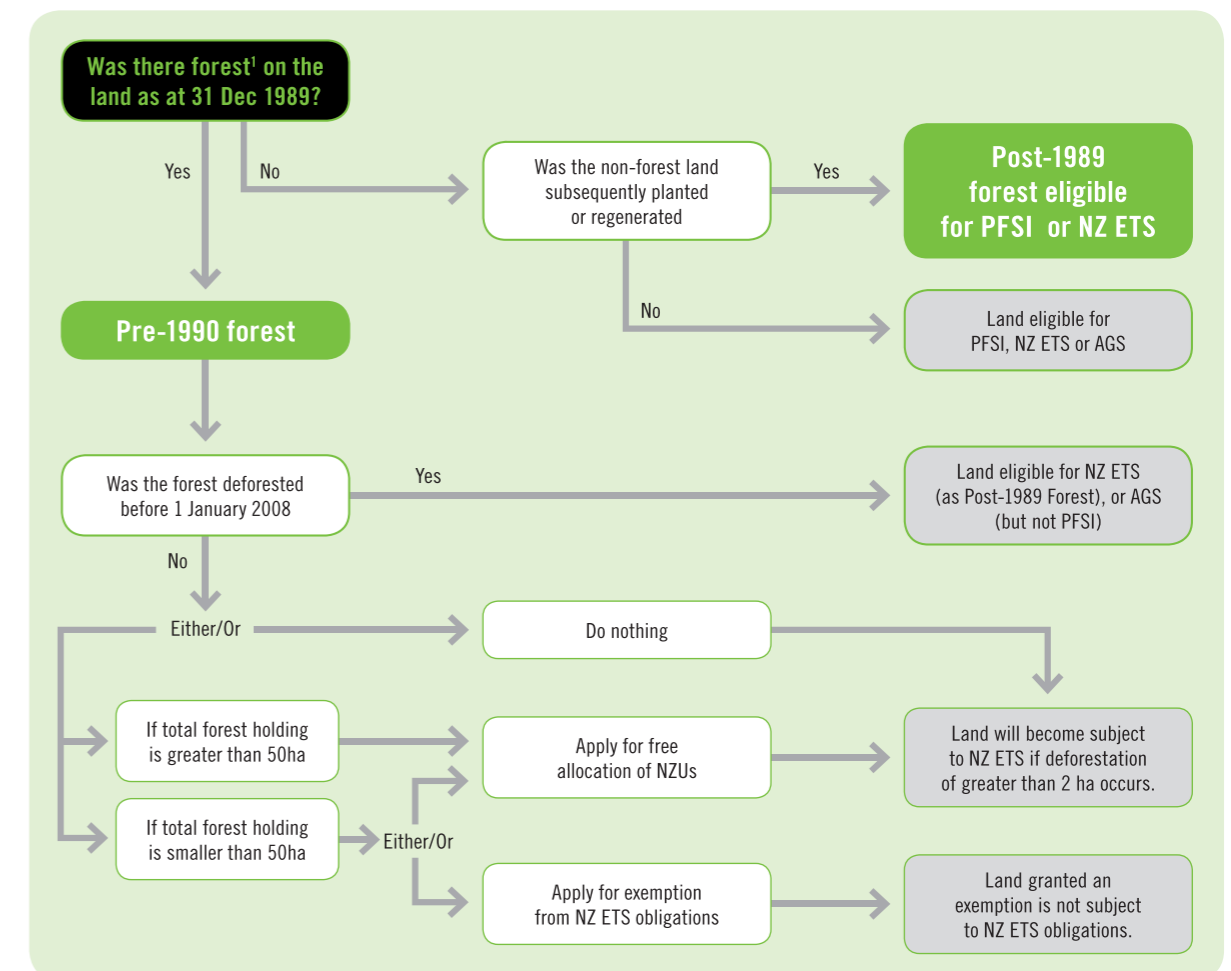
ECFP (East Coast Forestry Project)

- Government grant for soil conservation on North Island East Coast region only.
- ECFP grant recipients may participate in the PFSI with no change in their grant.
- ECFP grant recipients may participate in the NZ ETS but the grant will be adjusted.
- 50 year covenants registered against title.

FORESTRY PROGRAMMES DECISION FLOWCHART

25 February 2008

Based on the Climate Change (Emissions Trading and Renewable Preference) Bill 187-1



Note: The New Zealand Emissions Trading Scheme (NZ ETS) depends on legislation that is currently before the Finance and Expenditure *Select* Committee being passed. The other schemes outlined above – the Afforestation Grants Scheme (AGS), Permanent Forest Sink Initiative (PFSI) and the East Coast Forestry Programme (ECFP) – are all operational.

¹ Put simply, a forest is defined as greater than 1ha in area, greater than 30m wide, 30% tree canopy cover per ha and with the potential to grow 5m in height at maturity in situ.

