



Submission

- to -

Afforestation Schemes Review
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FORESTRY SCHEMES REVIEW 2011

Covering:

- Permanent Forest Sink Initiative (PFSI)
- Afforestation Grant Scheme (AGS)
- East Coast Forestry Project (ECFP)
- Sustainable Land Management (Hill Country Erosion) Programme (HCEP)

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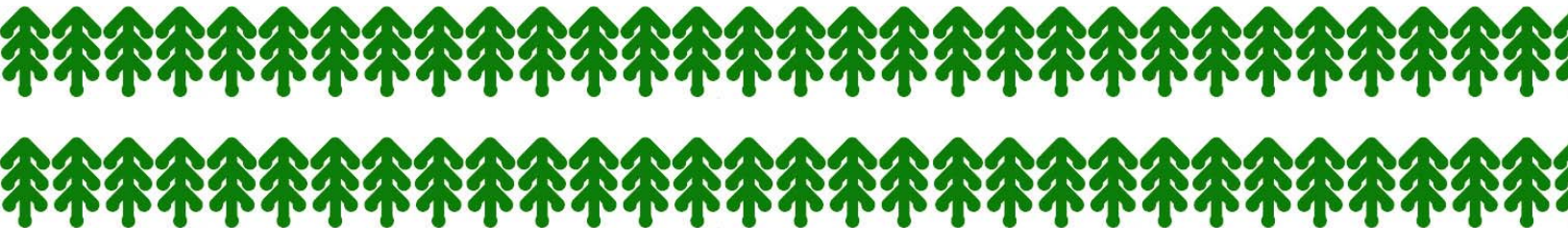


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1. Introduction

The New Zealand Forest Owners Association (FOA) has reviewed the discussion document covering the Forestry Schemes Review and has analysed the make-up, cost and performance of the four schemes under review.

The FOA is an NGO that represents the majority of plantation forest owners in New Zealand. Its members' forests comprise more than 75 per cent of the country's 1.8 million hectares of plantation forestry. The Association adds value to the businesses of its members by undertaking activities which could not be handled easily or efficiently by individual growers working alone. Its credibility also relies on the fact it has the support of the majority of New Zealand's production forest owners.

By definition, these Afforestation schemes must be restricted to providing a planting incentive for land which of itself is not economic to plant in trees, but which will provide a worthwhile social benefit if it was.

Interesting FOA members in the Afforestation schemes is a key requirement to achieve the target levels of planting stated for the schemes. They are the only organisations with the infrastructure, planning and management ability to consistently plant and manage large areas of forest, year after year. In the past large areas were planted by the government directly for purposes other than direct economic return (Ruatoria, Tokomaru, Aupouri, Woodhill, Pouto, Te Wera, etc). These planting were justified by returns other than those provided by direct wood products. To achieve the same levels of planting, economic value needs to be attached to non-wood products such as water quality, prevention of soil erosion, etc, to make it viable for the private sector to deliver the required planting levels.

Ultimately one afforestation scheme, putting a value on the different outputs, with as few rules and regulations as possible to reduce uncertainty and confusion, should be the target to replace the current group of schemes. The level of funding should be linked to the expected public benefit provided by the individual planting project. All projects should have the option of sharing of carbon credits as per the Afforestation Grant Scheme – first 10 years government, balance to the forest owner.

To attract existing forest managers and owners the scheme funding must be sufficient to allow individual projects to be fiscally viable. Funding must, however, be supplied so that it does not simply flow through to land value. Artificially high land value for non-performing land (financially) is the major impediment to increased afforestation in NZ.

FOA supports afforestation schemes that are directed at rectifying a market failure to provide a public good that is otherwise inappropriately undervalued. The cash incentive should be tailored to just offset that impediment, and no more. They should not be a straight subsidy but must be tied to the provision of a service and future obligations to provide that service.

If agriculture was facing the true costs of their environmental impact then the subsidy required to achieve the desired forestry outcome would be less, or non-existent. Moving agriculture into the ETS would help with the land value issue and provide a boost in confidence for the scheme itself.

However, in the absence of a single scheme, a brief comment on the existing schemes follows:

2. Permanent Forest Sink Initiative

The PFSI was created in 2002 to create incentives for permanent forest sinks by allowing landowners to receive returns for the carbon they sequester. It was specifically designed to be fiscally neutral for the crown, yet was expected to also provide an overall net environmental benefit in terms of enhanced biodiversity, reduced soil erosion, improved water quality and some reduced agricultural emissions.

The ETS now provides identical credit earning capability to the PFSI (other than issuance of AAU's rather than NZU's), but has more restrictive forest removal covenants.

The ETS makes the PFSI unnecessary, meeting most of the objectives of the PFSI. Discontinuation of the PFSI will simplify administration and selection of incentives.

3. Afforestation Grants Scheme

The high uptake of available funds under the high sequestration option of the AGS suggests that this scheme has been effective. It has a very wide range of objectives:

Stabilise greenhouse gas concentration of the atmosphere (primary objective)

Reduce soil erosion, improve water quality and improve biodiversity

Achieve primary objective at least risk and cost to the crown

The major drawback would appear to be the complexity of the actual grant mechanism – leading to high administration costs and possibly confusion amongst potential grant bidders.

The High / Low sequestration option and funding split should be removed. The primary objective is to stabilise greenhouse gas concentration – all projects should be considered together.

There must be funding certainty for several years at a time to allow stability in planning. A forest investment commits investors to a planting process covering a number of years to complete (planning, land acquisition, land prep, etc).

4. East Coast Forestry Project

The primary goal for this project is erosion control on high risk land classes. Therefore there is no justification for the restrictive degree of prescription on forestry regime such as stems per hectare, species type, thinning, etc. These restrictions add cost for little additional benefit. Applicants should be able to present MAF with a proposed regime and if both parties agree it will meet the environmental targets, proceed.

Adopting a less restrictive approach to suitable regimes could generate additional interest in the project plus lower costs.

The East Coast Forestry Project allows up to 50% of the area to be non 3A lower erosion susceptibility land. Uptake and planting could be enhanced by allowing entry into the ETS, rather than just the PFSI.

The rule requiring applications to be in a year before planting should be removed. If the land and the proposed planting qualifies, then the scheme should be able to proceed.

5. Sustainable Land Management Hill Country Erosion Programme

This program is largely a system to improve the sustainability of, or reduce the effects of pastoral agriculture in areas which are unsuitable. Areas of severely eroding hill country need to be afforested as a lasting solution. Amalgamating the scheme into a single national Afforestation grant scheme, assigning values to the benefits arising to determine subsidy is recommended.

6. Conclusion

One of the greatest weaknesses of any of the schemes is the propensity for the subsidy to commute directly into land value. Unrealistically high land values for hill country is the single largest impediment to planting in these high risk erodible, low farm production lands. Structuring grants to minimise the flow through impact on land values is essential.

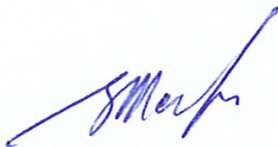
The existing schemes need a detailed economic and silvicultural analysis to enable identification of which aspects of the individual schemes encourage / discourage achievement of the scheme objectives, specifically:

- What is the understanding / knowledge by the target group of landowners;
- What complexity can be removed and still meet the schemes objectives;
- Is understanding of, or belief in the ETS hindering uptake.

This needs to be undertaken within the farming community.

Afforestation schemes should only be implemented to rectify a market failure to provide a public good that is otherwise inappropriately undervalued. The cash incentive should be tailored to just offset the impediment, and no more, and must be tied to the provision of the service, and future obligations to provide that service.

Ultimately, FOA supports a single simplified scheme available across the country, with grants being weighted according to the public good (water quality, erosion control, flood control, etc) the scheme provides. Sharing of carbon credits to make the scheme fiscally neutral for the government is seen as positive, allowing the scheme to address the maximum area of interest.



Glen Mackie
for David Rhodes
Chief Executive