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IWC NEWS



Copenhagen, Climate Change, and Carbon

The recent Copenhagen Climate Conference has highlighted the twin issues of climate change and greenhouse gas emissions. In this connection, IWC is increasingly seeing projects with integration of climate/carbon solutions in the business models.

Climate Change

Even though forest investment is a long term proposition, the expected impacts of climate change are for the most part longer term, so it is unlikely that there will be a direct impact of climate change on current investments given the typical timberland investment fund term of ten to fifteen years. IWC has come to this conclusion from, among other sources, an IWC-sponsored conference of experts held in August 2007. In several cases, however, IWC does take into account the increased potential for extreme weather events or increased drought in our due diligence process and has done project-specific analyses on the probability of extreme weather events impacting a given area.

More important to the forest investor is the potential of forests to mitigate the impacts of climate change by carbon sequestration and for forest owners to be compensated for this contribution. Under the Kyoto Protocol there has been little opportunity to get credit for forest carbon. Now, there is an increasing recognition that forests can be significant contributors to carbon sequestration and means of financial compensation for this environmental service are being explored. This is happening both in a formal set of agreements that will eventually replace the Kyoto protocols and through the voluntary market, i.e. an agreement between willing buyers and sellers that is not part of an international carbon reduction agreement.

Carbon Credits

IWC has analyzed carbon credits on the voluntary market in connection with several projects. For example, in an investment in Uganda, IWC's clients has invested in a plantation project that is in the process of reforesting a 12,000 hectare forest reserve. A significant part of the project's financing is through selling carbon credits through the CarbonFix voluntary standard. The project has already sequestered more than 250,000 tons of CO² that is marketed by an independent carbon broker. IWC feels that marketing reforestation carbon credits in projects like this will command a price premium over generic credits.

IWC is also following developments in credits for reducing emissions from deforestation and forest degradation (REDD). Although the Copenhagen Climate Conference failed to reach a binding agreement, progress was made towards a system of recognition of projects that reduce the emissions from standing forests through such techniques as reduced impact logging and forest conservation set-asides. Given the increasing number of investment opportunities in natural forest projects, these credits may become a value-added component to IWC's clients' investments. More likely is that these REDD credits will be slow to evolve and may be available for later natural forest management investments.

Carbon Offsets

There is a movement among forward-thinking businesses that, after significant efforts are made to reduce a company's carbon footprint through reducing, reusing and recycling

READ MORE

... about the IWC-sponsored conference of experts in IWC News 27. Find it on www.iwc.dk

READ MORE

... about selling carbon credits through the CarbonFix voluntary standard on www.carbonfix.info

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Tropical Natural Forests in a Timberland Portfolio

Management of tropical natural hardwood forests offers greater challenges than monoculture plantations or boreal forests. But a strong case can be made that these forests are potentially a good addition to an institutional investor's timberland portfolio.

The major tropical forest regions of the world are the Amazon basin in South America, the Congo Basin in Africa, and in scattered countries in mainland and island Asia. The wood from tropical hardwood species have a well-deserved reputation for beauty and durability in world markets and can command premium prices for high value wood products. They also provide a diversity of markets from the temperate softwood species that are highly dependent on construction uses.

INFO

This article is a condensed version of a paper presented by IWC at the World Forestry Congress in Buenos Aires, Argentina in October, 2009.

Tropical natural hardwood forests can be incredibly diverse with some areas having up to 300 tree species per hectare. On the other hand, the world market for tropical hardwoods recognizes a much smaller number of commercial species. So marketing products from these forests is a formidable undertaking.

World attention has been drawn to the dwindling area of tropical forests. The prime culprits in this process are illegal logging, slash and burn agriculture, commercial conversion of forests to crop land, and government development policies that favour land clearing. Traditional exploitive tropical timber harvesting has been

closely linked to deforestation and degradation of tropical forests especially in regard to being the vector for entry into otherwise inaccessible areas for shifting agriculture or other destructive practices. A new sustainable model for managing tropical forests is evolving in contrast to the patterns of the past.

Socially Responsible Investing (SRI) encompasses the environmental, social and governance issues relating to investments. The reasons for integrating SRI (including forest management certification) into forest investments can be summarized as:

- Reduced project risk,
- Improved market share and/or higher prices for products and properties,
- Better communication with all stakeholders, and
- It is the right thing to do.

One way to signal responsible forest management is through the certification process. Forest Stewardship Council (FSC) certification is necessary but not sufficient for tropical forest management. Because FSC leaves out a number of social and community impact issues that should concern any investor, a broader SRI policy should be developed. These issues include socio-economic and socio-political changes, employment opportunities and related work and safety issues, access to land, local inflation impacts and expected company services. Another important component of sustainable forest management in the tropics is through concessions of a reasonable time period to provide incentives for responsible long term



management. A long-term forest lease gives the leaseholder/owner a strong incentive to keep the forest intact and to limit trespass. A study by the Rainforest Alliance found that in a Central American reserve the rate of deforestation for core protected areas was twenty times higher than for FSC-certified concessions. That is, declaring an area protected without providing adequate oversight is much less likely to effectively protect the forest from trespass and degradation than by economically-incentivized, long-term management.

The other crucial element of sustainable management in tropical forests is the use of state of the art harvesting involving reduced impact logging techniques. Reduced impact logging techniques have shown in many cases to result in better financial performance when compared to conventional logging.

The argument for managed forests rests on the assumption that they are just components, albeit important ones, of the varied tropical forest landscape. Clearly there is an important role for pure conservation areas, areas for agriculture, grazing and the gathering of non-timber forest products, community forests and other multiple use areas across the landscape to provide the balance of subsistence and cash-generating opportunities for the inhabitants while still providing the environmental services on which we all depend.

Institutional investors, with their relatively long investment horizon and their commitment to sustainable ecosystems, are well matched with investments in forestry. As institutional investors look beyond their traditional comfort zone in temperate forest regions, they may decide that tropical natural forests can be important components of a diverse timberland portfolio. ♡


60-70 percent of deforestation in the Amazon results from cattle ranches and soyabeans cultivation while the rest mostly results from small-scale subsistence agriculture.



IWC internal news

IWC welcomes Anders Pagh

Anders joined the Investment Development and Analysis Team in January 2010 in a position as Forest & Industry Analyst. Anders has experience in timber industry management, wood sourcing and wood trading on the world

market. Prior to joining IWC, Anders worked five years as a Deputy Managing Director for a fast expanding Danish-Brazilian wood processing company in southern Brazil. Anders holds a Master of Forestry from the Royal Veterinary and Agricultural University in Copenhagen. 



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(i.e. making their company practices as 'green' as possible), the remaining carbon emissions from the company's business activities could be offset through sequestering carbon in, among other alternatives, woody biomass. IWC has already done a desktop analysis of its own carbon footprint and has an estimate of the carbon equivalent that could be offset by growing woody biomass in perpetuity. It is exploring projects to implement this. IWC is uniquely positioned to develop projects that offset carbon emissions since we are actively developing plantation projects that could include components that would meet carbon offset guidelines. Informal carbon credits, such as these, could be sold to businesses that want to offset their carbon emissions.

Certified Wood and Renewable Energy

There is a nexus between certification of well managed forests and activities to promote alternative energy. European governments have mandated that 20% of the energy consumption should come from renewable energy sources like biofuels by 2020. IWC is exploring plantation projects that can meet globally recognized sustainable forest management standards and

supply European energy companies with certified wood chips or pellets.

The Path Forward

IWC is actively cultivating contacts with partners with expertise in carbon projects – certifiers, developers, and buyers – to integrate carbon into our ongoing business. So far, IWC has identified several companies in South America, Asia, and Europe. 

Forests are great contributors to carbon sequestration and selling carbon credits can be a significant part of a project's financing.

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