

The value and size of the global investable forestland

How much forestland is available for investment worldwide, and what is it worth? This question can be answered by examining forestland areas, values and ownership patterns in countries in which exists potential for investment through purchase of private forestland or through long-term leasing of non-private forestland.

The total area and value of investable forestland globally can be broken down into two categories:

- Private investable forestland
- Publicly owned forestland available through leasing agreements with national governments

Private investable forestland is readily available in most of Europe, Oceania, and North, South and Central America (see figure 1), while forestland that may be leased now or in the future is available in most of Asia and Africa, as well as several countries in the Commonwealth of Independent States (CIS), and Canada (see figure 2).

Based on analyses, the total area of private investable forestland worldwide is estimated to be approximately 120 million hectares or about 3% of the world's forest cover. North America boasts the largest private investable land base, followed by Europe, South America, Oceania and Central America. In total this represents an investable value of approximately 300 billion USD.

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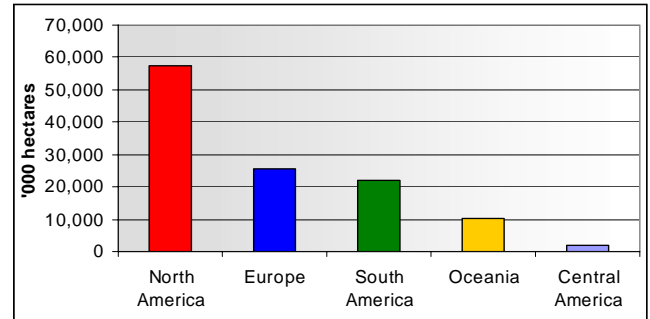


Figure 1: Private investable forestland in different regions

An extensive estate of non-private forestland exists in numerous emerging market countries, as well as in some developed countries. Many such countries are in the process of establishing firm forest governance policies and gathering reliable forest ownership data. The global total potential leasable area is estimated at 750 million hectares, or about 19% of the world's total forest cover, with a leasing value of approximately 180 billion USD.

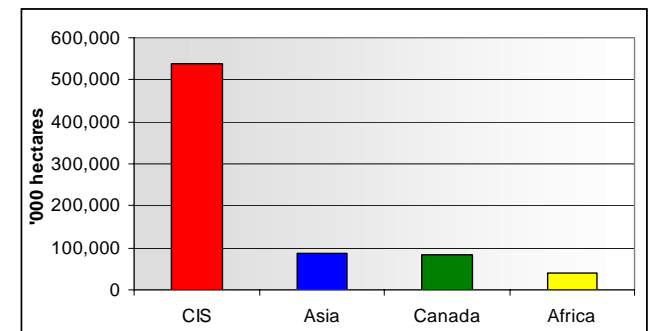


Figure 2: Leasable forestland in different regions

The total area of the global investable forestland estate can thus be estimated at 870 million hectares, with a total value of nearly 480 billion USD. A portion of this, will most likely not be investable due to low returns, or practical constraints.

Today, total institutional investments in forestland is estimated at approximately 25 billion USD, equal to 8% of total private investable and 5% of total investable forestland.

The article is based on a recent IWC study. A presentation of the main findings can be downloaded from www.iwc.dk and the full 12-page report of the study is available by submitting a request to kmd@iwc.dk.

Summary of IWC news

North American markets were affected by hurricane Katrina, which damaged 19 billion board feet of timber. Shipments from the 10 largest European suppliers to the US market rose more than 80%. The Finnish paper mill lockout was settled and large timberland acquisitions were made by US TIMOs. If you wish to subscribe to the e-mail news service, please send an e-mail to mbn@iwc.dk.

North America

Approximately 19 billion board feet of timber was damaged by Hurricane Katrina in Mississippi, Alabama, and Louisiana. The damage is spread across 5 million acres (about 2 million hectares). It is not yet clear how much of the timber is salvageable. According to the American Red Cross, nearly 275,000 homes were completely destroyed, and about 220,000 units suffered significant damages. The storm will thus have impacts on the supply as well as demand of materials.

Imports to the US from South America continued to rise. Chile overtook Brazil as the largest South American supplier of softwood lumber to the US. Shipments from the 10 largest European supplying nations rose from a low level 83% by volume compared to the first six months of 2004. Since the January wind storm in Europe, mills in southern Sweden have focused on producing framing lumber for the US market, which tolerates blue stain much more readily than other key markets. Imports from Lithuania more than doubled. US import tariffs between 6.65% and 198% have sharply reduced shipments of Chinese wooden bedroom furniture which fell 15% to USD 978 million between July 2004 and March 2005. One effect of the tariffs has been a shift of production from China to Vietnam.

Europe

The windstorm of January 2005 has created timber price declines in most affected areas. Transport capacity created a bottleneck in getting windblown wood out of the forests in Southern Sweden. Södra,

a co-operative of over 35,000 private forest owners in southern Sweden, was at one point converting 1.7 million m³ of wood per month. By the end of the year, Södra estimates that about 23 million m³ will have been converted. The total windblow damage is estimated to be 40 million m³ in Södra member forests. A total of 28 million m³ is expected to enter the market, which means that around one fourth of the windblown wood will remain in the forest.

Following several strikes and labor disruptions by employees, the Finnish Forest Industries Federation, representing the employers, imposed a lockout from May 18 to the end of June. Approximately six weeks of production were lost before an agreement was finally approved on July 1. The Finnish dispute has been felt throughout the European paper market. Also sawmills felt affects of the lockout through reduced markets for sawdust and woodchips.

Oceania

Shipments to the US from New Zealand gained 25% despite generally unfavorable exchange rates and stagnant markets. Chinese log imports grew another 13% in volume year on year, Russian imports being the most significant.

Timberland trades and trends

With the acquisition of Prudential Timber Investments, Hancock Timber Resource Group (HTRG) assumes management responsibility for 340,000 acres (140,000 ha) of timberland, worth some USD 540 million. This includes timberland in the US, in New Zealand and in Brazil. Additionally HTRG signed an agreement to acquire the ownership interests of entities owning or controlling more than 930,000 acres of timberland or timber rights managed by the Harvard Management Company. Harvard Management Company is the investment manager for Harvard University. The timberlands and timber rights are located in Texas, Pennsylvania, Washington, and New Zealand. ■

The International Woodland Company A/S

The International Woodland Company A/S (IWC) specialises in providing advisory services to institutional and private investors in relation to investments in forest and forest investment management as well as in relation to forest in a larger portfolio. Furthermore, IWC provides independent project consultancy in relation to international forest management and forest products markets.

The services are provided by high-level professionals within forestry and investment management with due consideration to both commercial, environmental and social aspects. IWC's services are based on more than 15 years of experience of international forest investments on behalf of institutional investors. The company maintains a systematic knowledge about international investment opportunities and investment conditions.

Managing director of the company is Mr. Otto Reventlow, MSc. in forestry

The Indian forest sector – production and trade

India's import of forest products especially tropical timber is increasing. India is the country with the second largest area of forest plantations in Asia, about 40% is industrial. 60% of all plantations are publicly owned. The available forestland per capita is one of the smallest in the world; hence raw material availability is low and India's forests under severe pressure.

India's forest cover is estimated to be about 64 million hectares, or 19.5% of the country's area. However, only 38 million ha of forests are well stocked (crown density above 40%). In addition, the per capita availability of forest land in India of 0.08 ha is one of the lowest in the world. India has 16% of the world's population, but only 1% of the world's forests. This places massive pressure on raw material.

India is the country with the second largest area of forest plantations in Asia. Today plantations account for almost 32.5 million ha or 51% of the total forest cover. More than 20 million ha or 63% of the forest plantation area in India is classified as non-industrial and much of this area has been planted for the production of wood fuel.

Productivity from forest plantations are reported to be quite low in general. Mean annual increment of selected plantation species are shown in table 1.

Species	Rotation age (years)	Mean annual increment m ³ /ha/year
Teak	55 to 60	2.5
Eucalyptus	10 to 20	8 to 12
Acacia	20 to 25	3 to 4
Populus spp.	8 to 10	20 to 25

Table 1 Mean annual increment of main plantation species for industrial wood production (Source: Forest Survey of India, FSI)

Teak is the most important industrial plantation species in India, covering a total area of around 2.5 million hectares, all of which is publicly owned. Eucalyptus and acacia are also important species covering about 3.5 million ha of industrial plantations together. Figure 1 shows the distribution of species across non-industrial and industrial forestland.

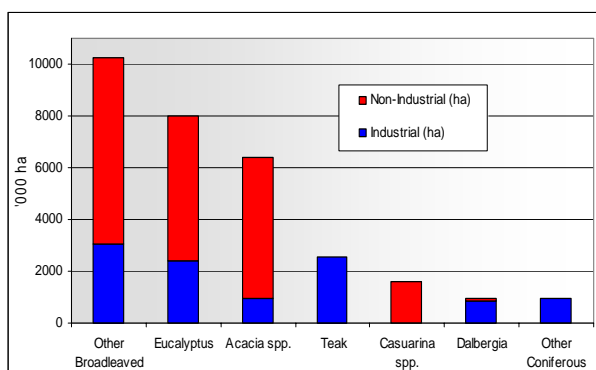


Figure 1: Main species in Indian plantations categorized into industrial and non-industrial land (source: FAO 2000)

Total industrial wood consumption by wood-based processing industries is about 30 million m³ per year. This accounts only for about 10% of total wood consumption; 90% is consumed in the form of small timber and fuelwood. The country's consumption of fuelwood is about five times higher than what can be sustainably removed from the forests but a large part of the fuelwood is collected outside the forest. Fuelwood meets about 40% of the energy needs of the country. About 70% of the fuelwood is used by households and the rest by commercial and industrial units.

India has emerged as one of the biggest consumers of tropical timber in the world, with large imports from Malaysia, Myanmar, Indonesia, and lately from Africa and Latin America.

The paper industry produces over 3 million tones of paper annually from more than 400 mills. The raw material to produce that volume comes primarily from non-wood fiber.

Following India's enrollment in WTO in the mid 1990s, import duties and tariffs have been lowered, quantitative restrictions have been removed, and almost all wood products have been placed in the freely importable category. Today, logs are subject to a duty of around 5% while the duty payable on lumber is 20% and the duty on veneer and wood-based panels is 40%. However, it is widely believed that duties on lumber and veneer will never be dropped completely and may even rest at around 15% for the long term.

If you want to learn more about forestry in India please submit a request to mbn@iwc.dk. ■

IWC presents at forestry conference in Portland, Oregon

On September 12 to 14, The World Forest Institute in Portland, Oregon held its second "International Perspectives on Forestry" conference. At the conference Mikkel B. Nielsen of IWC gave a presentation entitled "Globalization of Timber Markets". The presentation touched on the trend of log prices converging on a global basis with case studies from Europe and the Pacific Rim market. The conference brought together industry analysts, institutional investors, TIMOs, academics, and others interested in the development of the forest industry in the face of globalization. The full presentation can be downloaded at our website www.iwc.dk under 'publications', or by submitting a request to mbn@iwc.dk. ■

New employee at IWC

On September 1, 2005, IWC welcomed Céline Claudon to the team.

Céline is responsible for handling institutional timber fund investments, including the regular reporting to clients. Céline also contributes to internal and external economic/financial analyses. She holds an MBA from the University of Northern Iowa, Cedar Falls, USA (2002) and an MSc in Finance from Paris XI University (2003). Prior to joining IWC, Céline worked for Renault and for the French Embassy in Denmark.



*New employee at
IWC*

Céline Claudon

IWC investor tour to the US Pacific Northwest 2005

In mid September, IWC had arranged an investor tour to the US Pacific Northwest

First, IWC and investors attended the annual Campbell Timber Tour held in Snoqualmie, WA. During the three day tour several aspects of timberland investment was touched upon including a visit to the Kapowsin Tree-Farm. The tour ended with a mill visit at the Simpson Tacoma Mill.



On the way to Mount St. Helens

Second, a meeting was arranged with RMK Timberland Group, a TIMO, who presented their organisation and current opportunities in the forestland investment market.

Third, a day excursion to Mount St. Helens exploring the blast area.

Fourth, an inspection of the White River Forest property. The whole-day trip included day-to-day management and many on-site stops.

Altogether, a great tour with many aspects of timberland investing and hands-on experiences. ■

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