

Thursday Jun 29 2006
All times are London time

SEARCH

Go

QUOTES

Go



[FT Home](#) > [Reports](#) > [FTfm](#)

[Subscription page](#)

Planting forests of opportunity

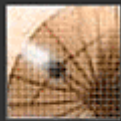
Published: June 26 2006 03:00 | Last updated: June 26 2006 03:00

The forestry sector arouses a great deal of passion, considering the prosaic nature of its outputs - timber and paper. This is not just because forests are an important natural resource - the lungs of the planet, according to wildlife charity WWF, as well as a storehouse of biodiversity, medicines, oxygen, and a regulator of climate change. It is also because they are under threat.

One-tenth of forests has disappeared in the last 25 years, victim of the spread of urban development, illegal logging, land conversion for agriculture or plantations, road building, mining, forest fires and climate change.

As a result, "the bottom line in forestry is sustainability", says Jim Lynch, chief executive of Forest Research, a unit of the Forestry Commission.

The industry has high environmental impacts, according to



News tracking services

FTfm

- [Summer school - part four](#)
- [Summer school - part three](#)
- [Summer school - part two](#)
- [Summer school - part one](#)
- [Quarterly industry review](#)
- [Emerging markets](#)

FTFM SPECIAL REPORTS



[April 3 2006](#)
[Private equity](#)

Make the markets work around you with **iShares**

[click here](#)

ADVERT

armful chemicals such as chrome in their production

Growing awareness of the sector's impact and the introduction of the Equator Principles, which cover investment in project finance, have led to pressure on mill build plants. ING, the Dutch bank, recently withdrew its support from a Finnish company looking to construct a mill in a town. BBVA, the pressure to withdraw its support from plans by Ence, a company that wants to build another mill in the same town, Fray

non-governmental organisations and consumers has led to pressure on retailers and governments for certified products from sustainable sources, says Susanna Jacobson, research analyst at Innovest. This has led to many certification regimes, such as the international Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification in Europe, the Canadian Standards

Mastering Financial

Association (CSA) and the Sustainable Forestry Initiative (SFI) in the US. European standards are more stringent than elsewhere, Ms Jacobson says.

The certification schemes have led to increasingly sophisticated methods of tracking timber to ensure it has not been illegally logged. These include satellite tracking, barcode technology, supply chain management and responsible procurement policies. Environmental pressures have also led to opportunities for companies - Canada's Domtar has introduced a range of FSC-certified paper called EarthChoice, which is endorsed by the Rainforest Alliance, WWF Canada and Forest Ethics. Many plants are also making use of their own crop as a biofuel.

"The reputation problem the industry faces is that customers, governments, investors and the media find it difficult to differentiate sustainable from non-sustainable," says James Griffiths, forestry project director of the World Business Council for Sustainable Development (WBCSD). "But timber and paper are a renewable resource; they absorb carbon as the trees grow, store carbon while in use, can be used as a biofuel and are highly recyclable - it can go through three or four cycles and then still act as an excellent source of carbon neutral energy."

Forests' unique properties give rise to interesting opportunities. Mark Campanale, head of SRI business development at Henderson Global Investors, says that the nature of forestry assets makes them an ideal long-term investment. "Forests play like a property asset, have commodity-like behaviour and a long-term history that allows you to predict returns - it looks like a 40-50 year gilt." There are no listed forestry pure plays, says Mr Campanale, but investors can put their money in Clerical Medical Forestry, which has a large portfolio of hardwood assets, and Aim-listed Fountains Forestry, which manages forestry assets for investors.

"Forests harbour and deliver 'public' goods and services," says WBCSD's Mr Griffiths. "These include biodiversity, improvement of water quality, shade, habitat for wildlife, creation of watershed, recovery of degraded land and cultural value. None of these is fungible at the moment." But that is changing as a result of the Kyoto Protocol and creation of a carbon trading market.

Planting trees creates a "carbon sink" that absorbs carbon dioxide, offsetting the effects of global warming, and companies can gain carbon credits for creating new plantations. The carbon economy is leading to new plantations, particularly in countries such as China, where they can play an important role in combating desertification, says Innovest's Ms Jacobson.

Critics say the scheme is flawed because it provides no incentive to maintain existing forests in tropical countries, which are environmentally more valuable but are being lost to agriculture and urbanisation. Nonetheless, says Mr Griffiths: "Kyoto is starting to reflect the value of carbon sequestration, while forests' role in water creation is also being recognised - in Costa Rica, forest managers are being paid to manage forests for water creation."

Japanese companies such as Oji Paper and Nippon Paper are prominent in plantation development in Asia because Japan suffers from a shortage of harvestable forest, says Ms Jacobson.

One UK company to profit from the forestry sector is Carbon Neutral, to which BSkyB turned to help it become carbon neutral. Forestry projects are among its tools to offset emissions.

Environmental investment funds such as Quadris invest in projects to regenerate forests that have been destroyed by logging or farming in the developing world. Smaller companies such as Bournemouth-based group Oxigen Investments are taking advantage of the demand for sustainable investment opportunities. It uses investors' money to create hardwood plantations in Costa Rica - when the wood is harvested, it reduces pressure on natural rainforests and protects thousands of acres more of previously threatened rainforest. Meanwhile, the scarcity of certified sources of hardwood drives the price up, increasing the benefit to investors.

Economic development and population growth will lead to a huge increase in demand for forestry products and forestry ecosystem services, says WBCSD's Mr Griffiths, but at the same time sustainable management will be a huge challenge. However, according to Ms Jacobson of Innovest, "on balance, climate change will be an opportunity rather than a risk".

Mike.A.Scott@ft.com

Copyright The Financial Times Limited 2006

[Print article](#) [Email article](#)

TRACK THIS STORY

News alerts

Email - create a keyword alert on the subject of this topic

[Go](#)

Desktop - download our application to receive instant alerts on this topic

[Go](#)

Email summaries

Email - start your day with daily email briefing on this topic

[Go](#)

RSS feeds

RSS - Track this news topic using our feeds

[Go](#)

 = requires [subscription](#) to FT.com

* Minimum delay 15 minutes

[FT Home](#)

[Site map](#)

[Advertise with the FT](#) [Press enquiries](#) [Student offers](#) [FT Conferences](#) [FT Research Centre](#) [Corporate subscriptions](#) [FT Group](#)

Partner sites: [Chinese FT.com](#) [Les Echos](#) [FT Deutschland](#) [Expansion](#)

© Copyright The Financial Times Ltd 2006. "FT" and "Financial Times" are trademarks of The Financial Times Ltd. [Privacy policy](#) [Terms](#)