



GREENSTAR RESOURCES PLC

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Forestry Investment in the Developing World– a 30yr Perspective



Overview

- ◆ Industry, communities and conservation - evolution of understanding, convergence of objectives.
- ◆ Contribution and control - getting the balance right.
- ◆ Examples of partnership.
- ◆ International forest industry trends – the future.
- ◆ Investment attractions.
- ◆ Universal issues.





Three Separate Approaches

Forest Industry

Communities

Conservation





In the Beginning...

- ◆ Industry wanted to own and control forestry resources.
- ◆ Conservationists ring fenced and conserved.
- ◆ Communities sold labor and some raw materials to industry.
- ◆ Each regarded the other with suspicion.





Disadvantages of the Traditional Model

- ◆ Forest industry:-
 - expensive balance sheet resources
 - conflict with local communities and conservation groups
 - limited access to community forests
- ◆ Communities :-
 - sub-optimal use of human and forest resources
 - limited profit share
- ◆ Conservation groups:-
 - narrow perception of forest value leading to conflict with excluded stakeholders.



Convergence of Objectives

Industry and communities both wanted the benefits of forest resource goods and services.

The Key - NGOs accepted that, without value, the forest would disappear

Conservationists wanted to conserve the forest biodiversity and environment.

Work together for sustainable management.





Mechanisms for Co-Operation – the Vehicle

- ◆ Companies, communities and NGOs each have a role.
- ◆ Recognize the strengths, empower and reward.
- ◆ Ensure appropriate involvement and define roles and benefits.
 - Community enterprises.
 - Out grower schemes
 - Industry partnership
- ◆ Appropriate value chain involvement to optimize economic benefit.



The Wood Products Sector

The Forest

Industrial
Plantations

Fine Hardwood
Plantations

Natural Forest
Management

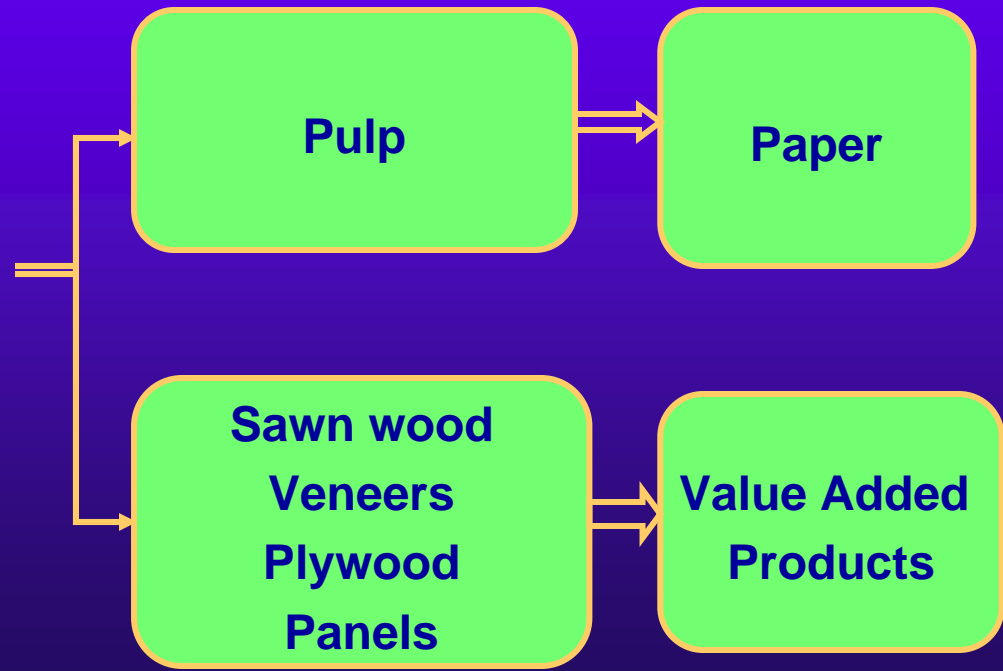
Wood Industries

Pulp

Paper

Sawn wood
Veneers
Plywood
Panels

Value Added
Products





Uneasy truce or a real partnership?

- ◆ Equitable sharing between industry, communities and the environment.
- ◆ Principles and criteria to be established by third party e.g. Forest Stewardship Council.
- ◆ Agree to operate within framework to limit areas of potential conflict.
- ◆ Establish an environment of trust and long term tenure for the future.





Security of Tenure

- ◆ Forestry is a long term business.
- ◆ Sustainable management is unlikely without security of tenure –why invest in the next cycle if you cannot benefit?





Integrated Forestry Operation in Swaziland – Traditional Model.

- ◆ Replaced low intensity commercial farming.
- ◆ 15,000ha of plantation and associated milling.
- ◆ Employs over 400 people directly with good economic multiplier effect.
- ◆ Wholly owned by international development organization.
- ◆ Expatriate top management.
- ◆ Traditional and successful with few tensions if properly managed.
- ◆ FSC Certified.





Mysore Paper Mills, India.

- ◆ Mill established 1930, natural forest supply.
- ◆ Forest reserves depleted by mill and incursions.
- ◆ Social, environmental and financial problems needed to be addressed.
- ◆ 30,000ha plantation project 1990s.
 - Alternative to unsustainable agriculture.
 - Regenerated barren land to forest cover.
 - Employment, grazing and forest litter for local communities






Project Grow KwaZulu South Africa

- ◆ Sappi provided:
 - free seedlings, technical advice
 - a market
 - crop finance
- ◆ 8,000 growers, 14,000ha and standing timber valued at US\$24m.
- ◆ Provides 100,000tpa to Sappi pulp mill.
- ◆ Multiple land use providing economic benefit to rural communities.





Out-grower Schemes - from Balance Sheet to Profit and Loss

- ◆ An example – 500,000tpa pulp mill requiring 2m m³ pa.
- ◆ Assuming mai of 20m³/ha/annum plantation required = 100,000ha.
- ◆ Cost on Balance Sheet = \$2000/ha = \$200,000,000.
- ◆ Financing cost at 10% = \$20m per annum.





Strengths and Weaknesses

- ◆ For the out-grower:
 - Employment utilizing own land and labor
 - Crop diversification
 - Multiple land use
 - Risk of market failure
 - Motivation from control
- ◆ For the Industry:
 - Reduced resource investment
 - Risk of market competition
 - Price uncertainty





Finance – The Missing Link

- ◆ Natural forests and associated indigenous communities threatened by unprecedented destruction.
- ◆ Management systems have been developed and the market for certified timber has been created.
- ◆ Finance critical to ensure supply to the certified timber market.
- ◆ Without investment the forest will be undervalued and cut with catastrophic consequences to the environment and indigenous communities.





International Forestry Trends

- ◆ Period of major change.
- ◆ Forest industries are recognizing the competitive advantage of the southern hemisphere.
- ◆ Pulp and paper industry is moving from North to South and from West to East.
- ◆ Other forest industries will follow.
- ◆ Imposition of the old model will fail.





Southern Hemisphere Investment Opportunity

- ◆ Opportunities from global re-structuring.
- ◆ Broad NGO and industry consensus.
- ◆ New legislation.
- ◆ Rapidly expanding certified timber market.
- ◆ Low asset costs.
- ◆ Applications of new technology.
- ◆ Low operating costs.
- ◆ High plantation growth rates.





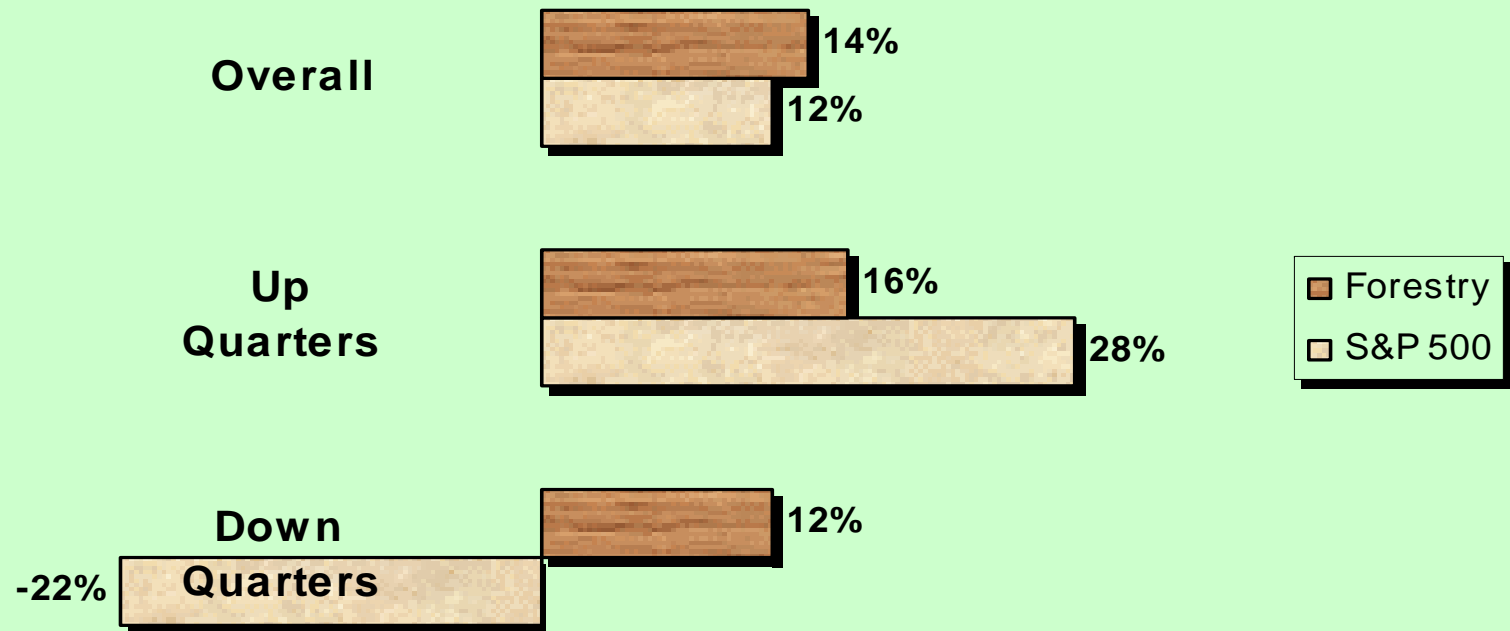
A Good Investment?

- ◆ Profitable when choosing investments with global competitive advantage.
- ◆ Counter-cyclical in an uncertain investment climate.
- ◆ Strong asset backing.
- ◆ Opportunity to make a real contribution to social and environmental issues.





Annualised Investor Returns S&P 500 and Forestry





Model for Success

- ◆ Partnership between communities, conservation and industry.
- ◆ Regulatory framework through certification.
- ◆ Catalyst - Private sector investment.



Three Essentials for Success

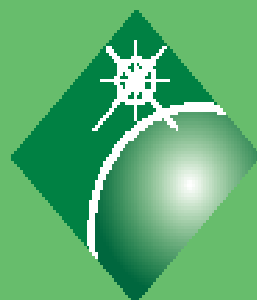


Environmental

Social

Economic





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