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
- Sawn wood
- Veneers
- Plywood
- Panels
- Paper
- 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

Overall
Forestry: 14%
S&P 500: 12%

Up Quarters
Forestry: 16%
S&P 500: 28%

Down Quarters
Forestry: 12%
S&P 500: -22%
Model for Success

♦ Partnership between communities, conservation and industry.
♦ Regulatory framework through certification.
♦ Catalyst - Private sector investment.
Three Essentials for Success

Environmental

Social

Economic