MAKING THE LINK

Sustainable Forest Management and Forestry Finance

Phil Cottle
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Source: FSC
Introduction to PartnerRe (PRe)

- Fifth largest international reinsurance group by capacity
- Largest specialist forestry risk team
- Major global capacity for forestry & agricultural risks
- Specialists in Catastrophe Insurance relevant for climate change
- Forms long term ethical relationships essential for environmental projects
PRe - Global Forestry Risk Assessments

PRe: Long Term Global Forestry Risk Management Expertise

Source: Global Forest Watch
Issues in Environmental Projects

Forestry environmental projects ...

- operate in immature, opaque & fragmented markets
- investor funds operating in unfamiliar sectors (forestry)
- perceived risk profile is very high - financiers are risk-averse
- sustainability requirements conflict with traditional financial hurdle rates/expectations.
- thus absence of J.V. money in forestry as require high hurdle rates
Reinsurers (R/I) Provide an Investment Catalyst

✦ How?
✧ secure investors’ / banks’ funds in the projects
✧ reduce risk of failure
✧ increases viability of lower IRR projects
✧ raises project market profile and quality
✧ raises security of environmental products & services
✧ **hence raises liquidity**

✧ And how’s that?
✧ assess & model risk profile for probability of achieving targets
✧ comprehensive project overview linked to enhanced management capacity
✧ a multi-line, multi-year approach
✧ forms a proactive strategic **Partner**ship
Risk factors that PRe Assess

**POLITICAL**
- sovereign risk on international trades / concession rights etc.
- forestry policy

**CLIMATIC**
- natural hazard risk profile, frequency, severity and catastrophe planning…
- natural variability, attritional loss and interaction with projected climate trends

**SOcio-ECONOMIC**
- property rights to land, and crops etc.
- local equitable stakeholding established
- understanding, royalties, employment, guardianship, sustainability / SFM certification?

**TYPE & MANAGEMENT**
- eligibility for insurance?
- pre-feasibility - secure data and analysis? (robustness relies on technical analysis of productive capacity)
- projected product output calculations
- implementation & management skills
- Certificate of Project Design?

**PROJECT ENVIRONMENT RISKS**

- Risk Frequency Quantum & Profile
- Basis of Valuation

**FINANCIAL**
- does the project make economic sense - otherwise moral hazard?
- how strong is the operator’s credit profile i.r.o. long term provision?
- Legal ownership of non-timber products / credits
SFM, certification and insurance can together deliver significant economic benefits given the current nature of the forestry sector, & can be a catalyst for long term sustainable rural development as under CDM goals.
Conclusions

SFM certification unlocks insurance participation

Insurers have a particular interest in forestry and other environmental projects:

- Forestry projects can balance their own investment risk profile.
- Forestry is a hedge against financial exposure in usual property underwriting portfolios.
- Forestry has a role in mitigation of long term climate change and consequent effects on insurers catastrophe exposure.
Contacts

Partner Reinsurance Company Limited
Phil Cottle @ partnerre.co.uk

PartnerRe works with all brokers but in particular:

Aon Carbon
justin.mundy@aon.co.uk
charles.eyre@aon.co.uk