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## Monoculture tree plantations in the financial market

Today, speculative financial markets have gained increasing power over the economy and life, in a response to the capitalist crisis that began in the 1970s.

According to data by the financial information group PEI Media Ltd. in the report “Investing in Timberland”, August 2010, among the investment instruments related to nature, timberland investment comprises a diverse range of different asset types: tree plantations established mainly for wood production, forests managed for wood, non-wood products, carbon sequestration, and biodiversity conservation. Assets typically consist of both land and the standing growing stock of trees, but investments can also be made in just one or the other.

As an institutional investment class – that is, with investor organizations which pool large sums of money – timberland investment began less than 30 year ago, with early investment managers acquiring non-strategic land from the forest-products industry on behalf of cautious institutional clients. As a long-duration asset, with low volatility and inflation-hedging aspects, timberland attracts those with patient capital: institutional investors, such as public and private pension funds, endowments, foundations and insurance companies, which have become the major players in the global timberland investment markets.

PEI identifies that in the US, timberland assets can now comprise perhaps 1–2 percent of some of the major pension fund portfolios. Funds of funds that include timberland components, along with other types of real assets, also are becoming more common. At present, investor capital placed in timberland is around \$70-\$80 billion.

Watching the process of timberland investment, PEI describes that a type of private equity vehicle called timber investment management organisations (TIMOs) have become major owners in US timberland. In the 1990s, the number of TIMOs and their assets under management in the US increased from around USD 1 billion to USD 10-12 billion. Towards the end of the decade, TIMOs also started to expand into some capital-scarce emerging markets. High growth rates, low wood production costs, proximity of markets and demand as well as increasing land prices contributed to an increase in returns in this period. In the late 20th century, Latin America (mainly Brazil and Chile) and Oceania (Australia and New Zealand) emerged as attractive timberland investment regions.

Research by PEI describes that by 1996, soaring stumpage (standing timber “on the stump” prior to harvest) prices, which had been good for timberland investors, had by now caused Western mills to close, with capacity and demand moving to the South. Plantation development and technology had advanced, increasing per-acre productivity to the point where it seemed a wall of wood was coming from every direction, including Australia, New Zealand and South America. This convergence caused stumpage prices across all regions to fall roughly 33% between 1998 and 2001. From 1996 to 2000, a net \$ 5 billion of value, representing approximately 7.9 million acres, transferred ownership to institutional investors, primarily through TIMOs in the US. The period 2001-2004 – when the tech bubble burst, the stock market declined, and still more institutional capital began looking for a home – saw an unprecedented transfer of assets to institutional investors. It was, once again, a sellers'

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market. From 2005 to 2009 the forest-products industry exited from timberland ownership and TIMOs were by far the major buyers in the US. Weyerhaeuser is now the only public integrated forest-products company left with significant holdings of timberland.

According to PIE, the current timberland market tends to have two types of investors: those who already have exposure in traditional markets and who are increasingly pursuing opportunities in emerging regions that offer more aggressive risk and return characteristics, and newer investors that are more interested in core timberland opportunities in proven markets. Overall, institutional investors continue to be the major players in the global timberland investment markets: three-quarters of the private forest investment managed by TIMOs are owned by institutional investors. While much of the capital flowing into the asset class originates from seasoned investors based in North America, European investors are becoming increasingly active. Capital of investors based in Latin America and Oceania is being placed primarily in their own regions.

The financial information group PEI describes how as more capital enters the timberland investment space, investors have more choices for structuring their participation not only making and managing timberland investments strictly in a private equity context but also using publicly traded investment vehicles, particularly attractive to investors who favour high levels of liquidity. These vehicles are typically structured as real estate investment trusts (REITs), unit investment trusts or exchange-traded funds (ETFs). At present, these include Plum Creek Timber Company (PCL), Rayonier Inc. (RYN) and Potlatch Corporation (PCH), three prominent timber REITs based in the US. They also include the Phaunos Timber Fund (which is managed by hedge fund manager Four Winds Capital Management) (see article on Uruguay) and Combium Global Timberland Ltd. (which is managed by Cogent Partners), both of which are ETFs.

What WRM, as well as many other social and environmental groups and movements have been saying is that climate change has regrettably become a new source of profit opportunities for financial investors. Data collected by PIE confirms so regarding timberland investors. The research says that in the 1990s, partnerships created between industrial companies and big conservation NGOs to promote tree plantations found their way in the markets for carbon credits which were drivers of the new timberland investments created through the Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC). Carbon emissions traded in the carbon market represent new business opportunities for timberland investors who also welcome the promotion of energy from wood biomass for its significant potential to increase wood demand.

Based on data and research of the financial information group PEI, we confirm that tree plantations – which many communities resist for their notorious impacts on ecosystems, biodiversity, water sources, and livelihoods – are a profitable business for increasing pools of capital investment. The difference with this kind of new owners is that they become intangible for the affected local communities that are defending their means of survival on the ground.

The difficulty to identify the owners of tree plantations in order to confront them is a challenge that we have to overcome working together.