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Challenges and Opportunities in Hardwood Forest Certification

ISCHP^{3}2011

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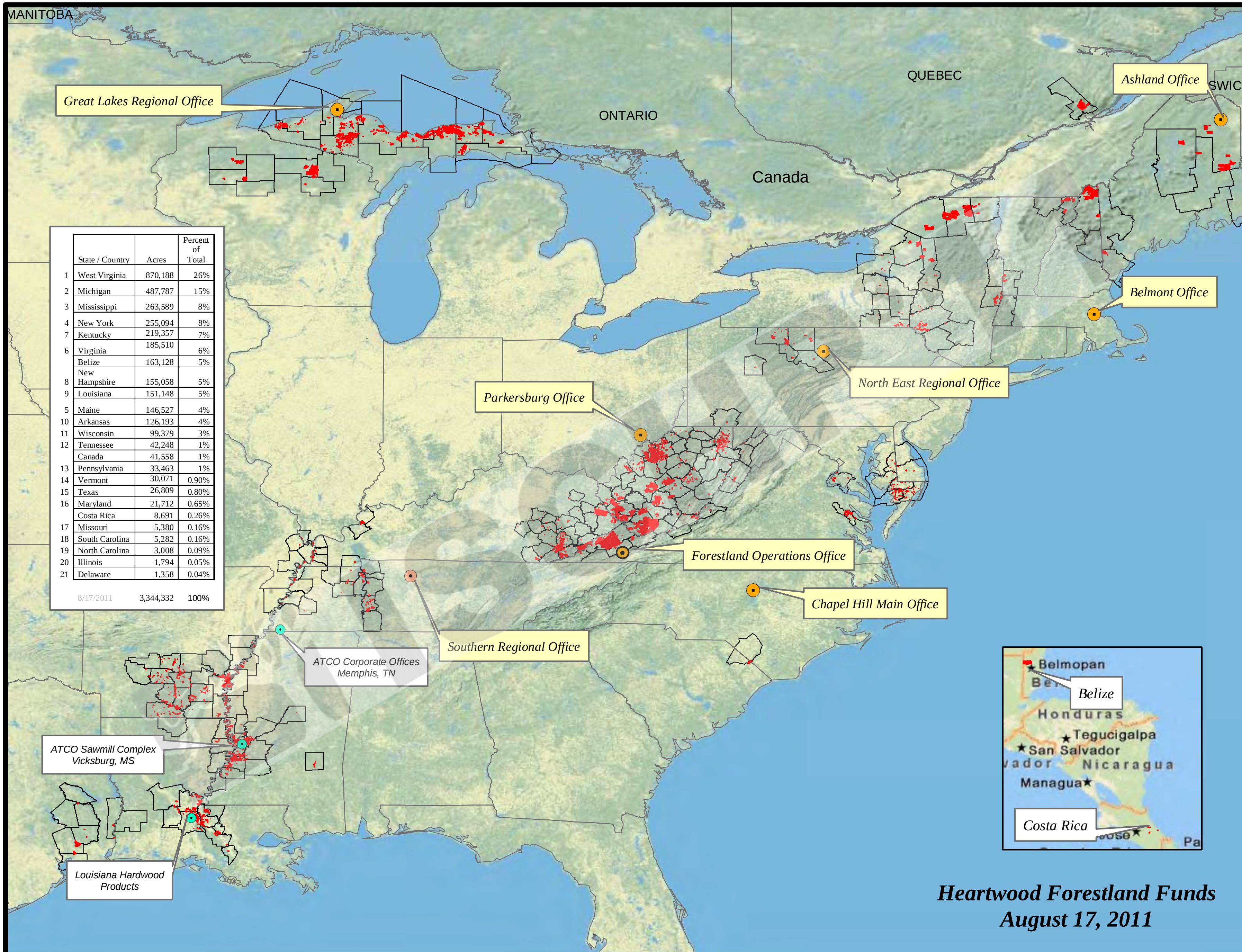
Challenges and Opportunities in Hardwood Forest Certification

- TIMOs
- Certification in hardwood forests
- Challenges in hardwood forest certification
- Opportunities

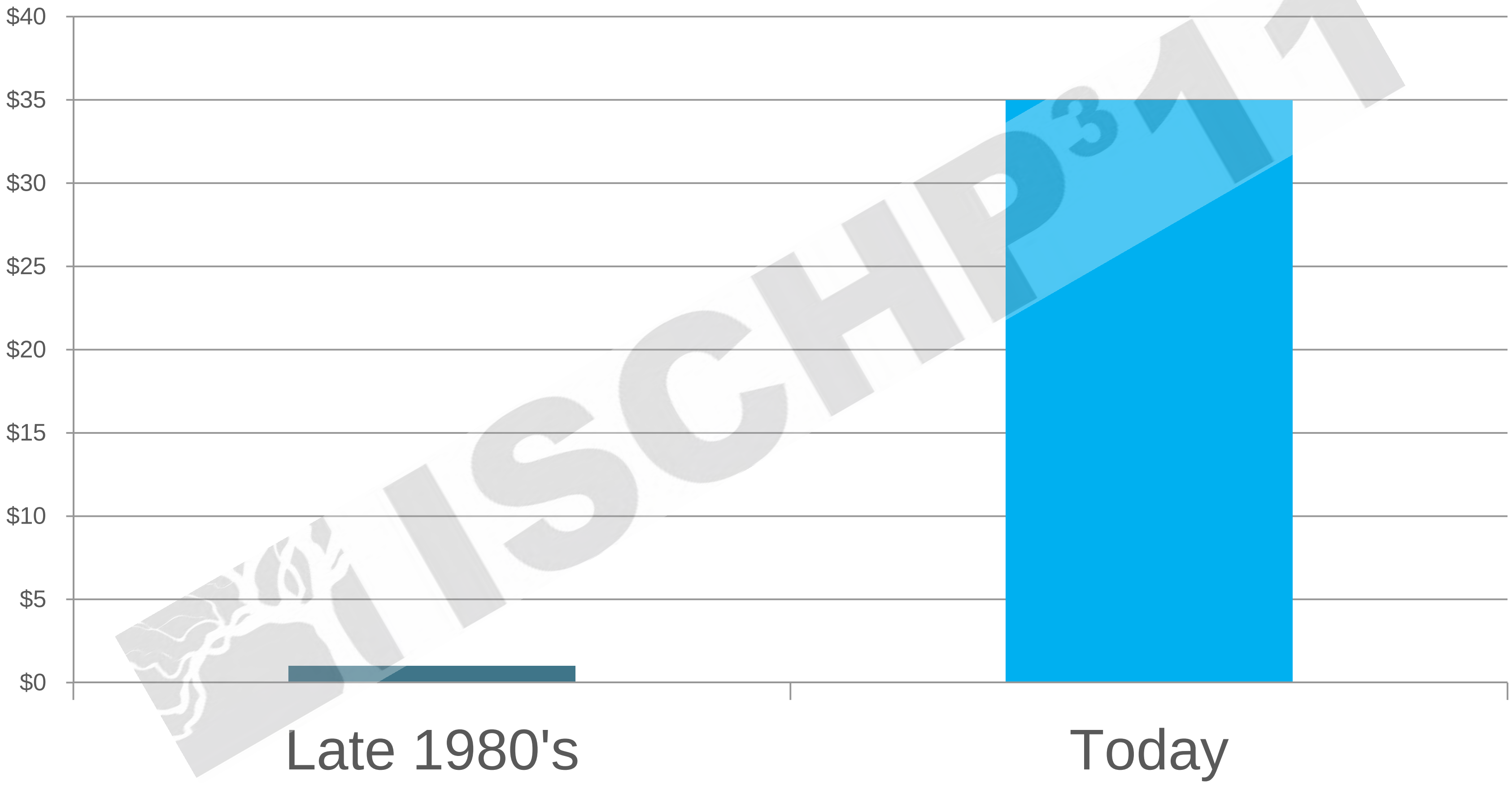
The Forestland Group, LLC
Who are we?

- A Timberland Investment Management Organization (TIMO) formed in 1995.
- Emphasis on naturally regenerating hardwood forests in the eastern United States
- TFG has seven funds with approximately 3.4 million acres in 20 U.S. States, Canada, Belize, and Costa Rica.
- FSC-Certified Resource (Group) Manager.

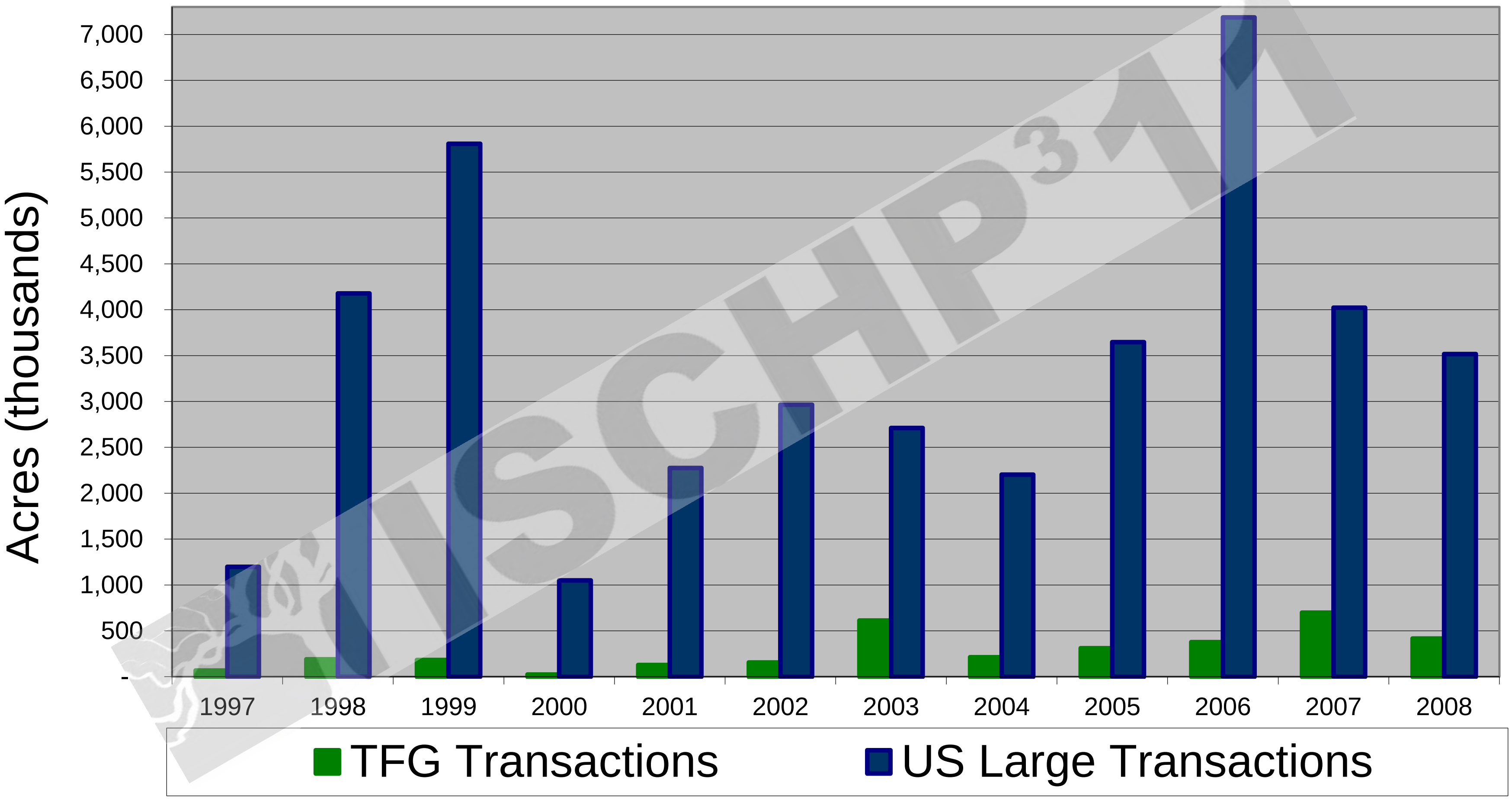


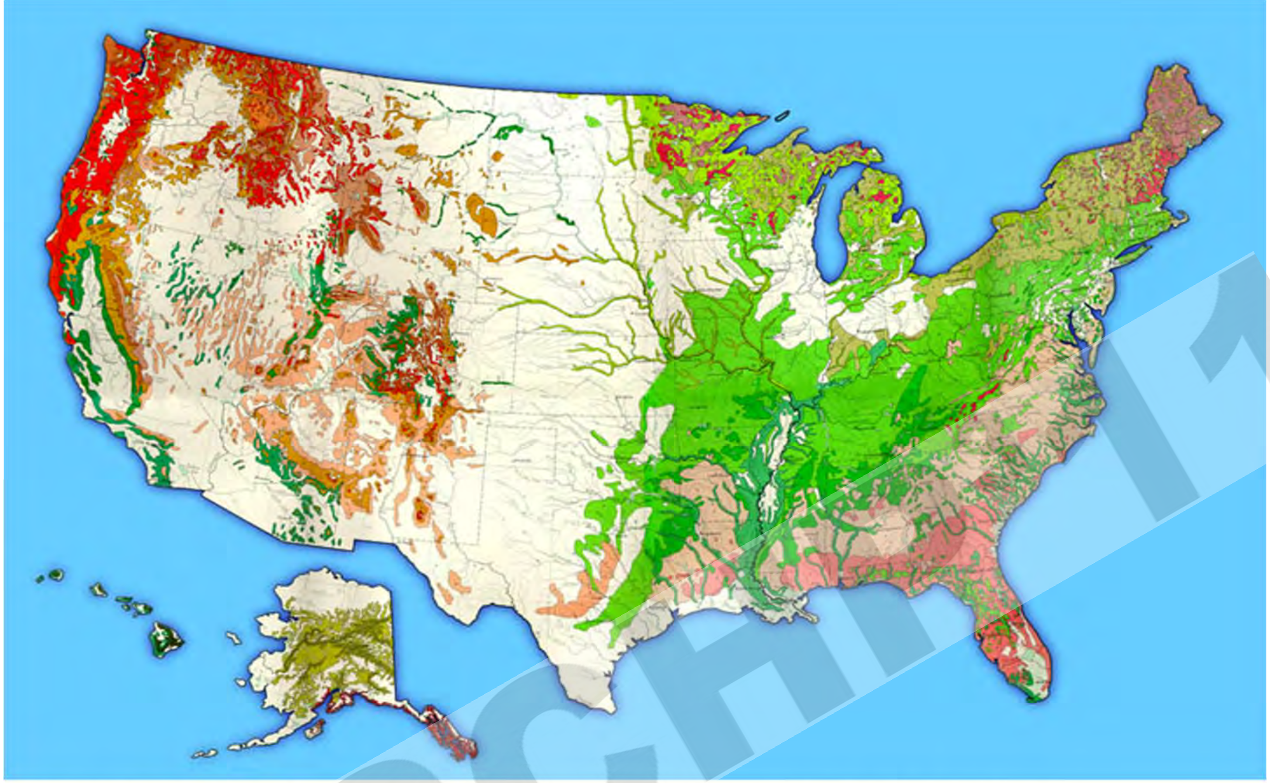
	State / Country	Acres	Percent of Total
1	West Virginia	870,188	26%
2	Michigan	487,787	15%
3	Mississippi	263,589	8%
4	New York	255,094	8%
7	Kentucky	219,357	7%
6	Virginia	185,510	6%
	Belize	163,128	5%
8	New Hampshire	155,058	5%
9	Louisiana	151,148	5%
5	Maine	146,527	4%
10	Arkansas	126,193	4%
11	Wisconsin	99,379	3%
12	Tennessee	42,248	1%
	Canada	41,558	1%
13	Pennsylvania	33,463	1%
14	Vermont	30,071	0.90%
15	Texas	26,809	0.80%
16	Maryland	21,712	0.65%
	Costa Rica	8,691	0.26%
17	Missouri	5,380	0.16%
18	South Carolina	5,282	0.16%
19	North Carolina	3,008	0.09%
20	Illinois	1,794	0.05%
21	Delaware	1,358	0.04%
	8/17/2011	3,344,332	100%

TIMOs Have Grown Rapidly
($ Billions)



US Large Tract Acres Traded:1997 – 2008





EASTERN FORESTS

- White-red-jack pine
- Spruce-fir
- Longleaf-slash pine
- Loblolly-shortleaf pine
- Oak-pine
- OAK-hickory
- Oak-gum-cypress
- Elm-ash-cottonwood
- Maple-beech-birch
- Aspen-birch

WESTERN FORESTS AND HAWAII

- Douglas-fir
- Hemlock-Sitka spruce
- Redwood
- Ponderosa pine
- White pine
- Lodgepole pine
- Larch
- Fir-spruce
- Hardwoods
- Ohia
- Chaparral
- Pinyon-juniper

ALASKA FORESTS

COASTAL FORESTS

- Hemlock-Sitka spruce

INTERIOR FORESTS

- Spruce-hardwoods Well stocked: commercial
- Spruce-hardwoods Medium to poor: noncommercial

NONFOREST

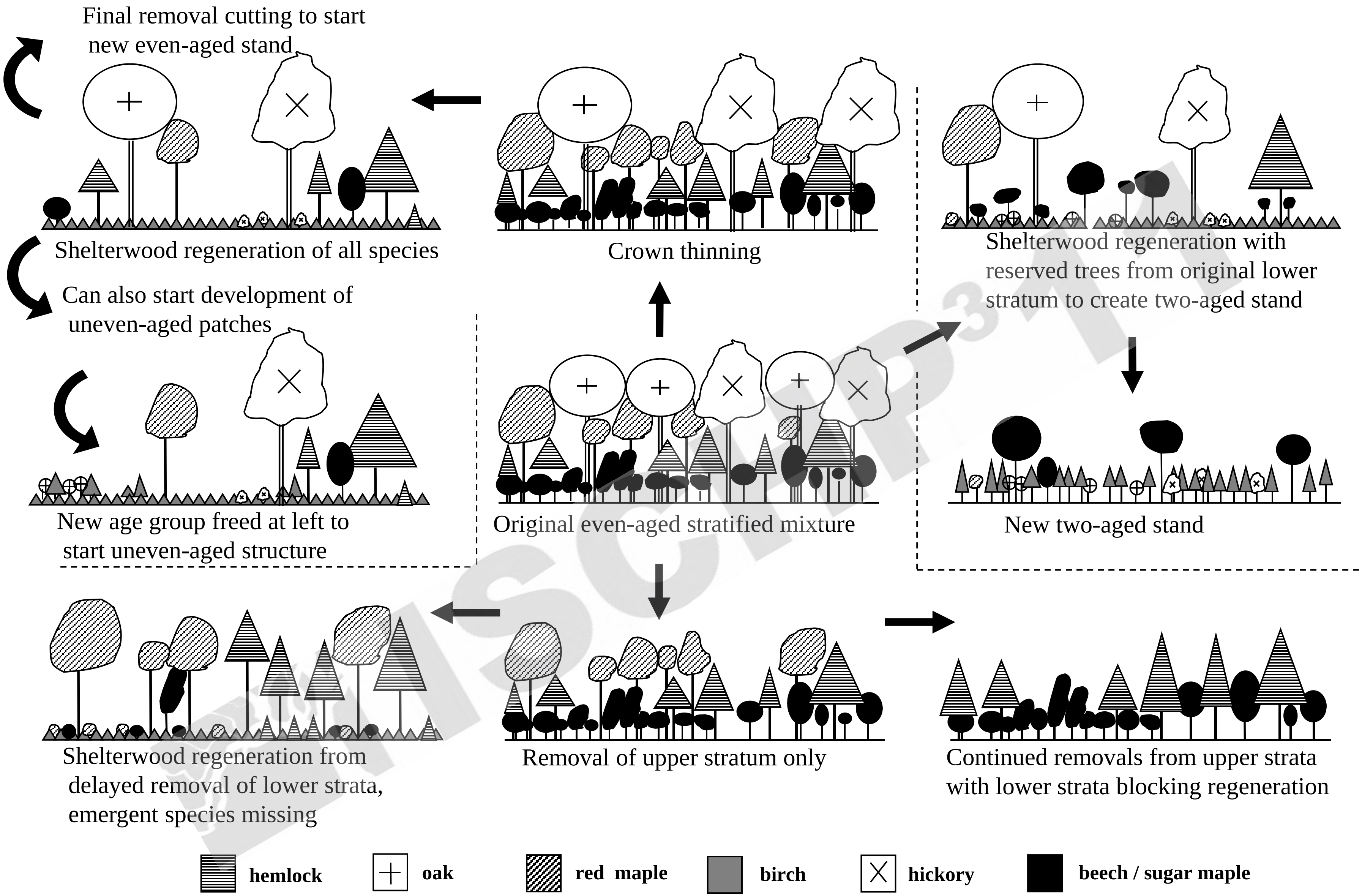
- Land that has never supported forests and land formerly forested which is now developed for other uses

Hardwoods vs. Softwoods

U.S. Timber Volume: 57% Softwoods and 43% Hardwoods

Most U.S. Hardwood Resource Is in the East: About 90%.

In the East: Hardwoods account for 67% of the timber volume.



Stand developmental model for southern New England mixed species forest stands; original even-aged stand containing five species is shown at center.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INTERNATIONAL
SCIENTIFIC CONFERENCE
ON HARDWOOD PROCESSING

CHALLENGES


SmartWood
Certified Forest
www.smartwood.org
SmartWood
Certified Forestry
This forest is certified as
well-managed by SmartWood
in accordance with the rules of the
Forest Stewardship Council, A.C.
FSC

How have operations changed?

- IN THE FIELD: Not much
  - the “*we were already doing it well*” effect
  - Increased appreciation for non-market forest values
- IN THE OFFICE: Much
  - Increased documentation
  - Increased awareness of regional context, stakeholders, adjacent land uses

Is there value in better record keeping?

OPPORTUNITIES

Benefits of Certification

- 3rd Party Oversight = reassurance to the investor base
- FSC principles and criteria can be used as default language in conservation easements
- Useful in states without Forest Practices Acts (pre-emptive)
- Increased market access
- Some price premiums for pulpwood

Certified Markets

Species	Uses
Ash	Tool handles, baseball bats
Red and White Oak	Furniture, flooring, plantation shutters
Hackberry	Thermal treated decking
Sycamore	Outdoor furniture
Pecan	Hammer handles
Elm	Thermal treated decking
Cottonwood	Caskets
Poplar	Crown moldings, plywood
Willow	Austrian shoe maker

FSC Premiums and Market Share

- ATCO targets a 15-20% price premium for FSC certified lumber sales.
- Generally, The Forestland Group does not receive a premium for stumpage.
- We do receive a 3% premium for pulpwood going to FSC paper markets (U.P.)
- Market share opportunities in the Appalachian region, Southern Region, and Northeast.

Grade and species	FSC/$mbf	Non cert/$mbf	2Q08 Premium
4/4 FAS 1F Poplar	$ 917	$ 866	5.89%
8/4 FAS 1F Poplar	$ 966	$ 781	23.69%
4/4 FAS 1F White Oak	$ 1,740	$ 1,670	4.19%
4/4 FAS 1F Ash	$ 1,258	$ 981	28.24%

KD MFG Volume Oct 2010- Sept 2011

		China/Vnm	Europe	Other	Total for Year
Ash	Non_Certified	90%	57%	76%	75%
	Certified	10%	43%	24%	25%
Basswood	Non_Certified	50%		100%	56%
	Certified	50%		0%	44%
Cottonwood	Non_Certified	98%	96%	100%	98%
	Certified	2%	4%	0%	2%
Cypress	Non_Certified			99.85%	99.85%
	Certified			0.15%	0.15%
Elm	Non_Certified	96%		94%	96%
	Certified	4%		6%	4%
Gum	Non_Certified	73%	100%	100%	87%
	Certified	27%	0%	0%	13%
Hackberry	Non_Certified	84%	100%	89%	87%
	Certified	16%	0%	11%	13%
Pecan	Non_Certified	67%	100%	93%	87%
	Certified	33%	0%	7%	13%
Poplar	Non_Certified	82%	5%	53%	48%
	Certified	18%	95%	47%	52%
Red Oak	Non_Certified	89%	100%	100%	91%
	Certified	11%	0%	0%	9%
Sycamore, Pl	Non_Certified	31%		73%	39%
	Certified	69%		27%	61%
Tupelo Gum	Non_Certified				
White Oak	Non_Certified	40%	27%	73%	42%
	Certified	60%	73%	27%	58%
Willow	Non_Certified	99%	100%	99.76%	99.75%
	Certified	1%	0%	0.24%	0.25%
	Non_Certified	**73%**	**80%**	**88%**	**80%**
	Certified	**27%**	**20%**	**12%**	**20%**
Grand Total					

General Stumpage Trends

- Increased demand from pulpwood markets.
- Maintaining pulpwood market share because of FSC certification.
- Increase in number of sawmills seeking COC certification.

Certified Producers Will Be Favored in the Future

- Credible forest certification (such as Forest Stewardship Council certification) provides evidence of both legal and sustainable sources of timber.
- As certification becomes increasingly the standard, sources where illegal harvesting and non-sustainable logging are practiced may lose global market share.
- Areas would include parts of Russia and significant portions of the world's tropical hardwood forests (such as the Amazon basin).
- Currently the only story for tropical hardwoods is FSC.

Take Home Messages:

- Certification ***does not*** mean that non-certified landowners are doing it wrong!
- Changing landownership brings different motivations from a certification standpoint.
- Temperate hardwood forests are complex. Tropical more so.
- Forest Certification continues to grow, change, and affect the connection between forestland and forest products.