FOREST BANKING

A presentation by

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Land Ownership in New York

- NIPF, 85%
- Forest Industry, 8%
- Public, 7%
Potential Forest Uses

• Clear Cutting
• Government Land Management
• Private Land Management
• Forest Banking
Forest Banking Defined:

A for-profit endeavor that permanently moves timber rights from forest owner to 3rd party
- 3rd (TNC) party contracts to sustainably manage land
- Land owner contracts logging rights
- 3rd party harvests forests
  - Annual dividends for land owner
  - Managed forest for the environment
  - As if the landowner buys stock
Process

- Site selection
- Contact with owners
- Timber valuation
- Contract agreement
- Revenue and dividend
- Permanent working forest easement
Mission

“to promote, in partnership with private landowners, the economic productivity of working forests while protecting the biological diversity of the landscapes in which they occur”
Goal 1: Environment

• Eco-friendly harvesting practices
• Maintain overall ecological health
  – Water quality
  – Soils
  – “Natural” processes
  – Other species: trees, plants and animals
Goal 2: Economic

• Create greatest economic value
  – Enhance timber growth
  – Pursue premium market
• Reforestation plans
A Short History

1995 TNC acknowledged need to spice up operations

Center for Compatible Economic Development (CCED)

The Forest Bank
TNC’s Mission

“To preserve the plants, animals and natural communities that represent the diversity of life on Earth…”

So where does Forest Banking fit in?
Forest Banking and TNC

Forest Banking = TNC’s proven land protection strategies + forest management + marketing ideas

“offer landowners a new tool for managing forest land in an ecologically sound and economically productive fashion.” TNC 1999
Your house could be here or in there
Site Selection

Surveys and pilot/feasibility studies

Identify and Prioritize sites

GUIDEBOOK
Site Selection

1st Tier
most potential
for pilot implementation
Kakogan-Bad River WI, Clinch Valley, VA

2nd Tier
identifiable obstacle to success future potential
Tug Hill, NY
Potential Landowner Enrollment

- 235.8 million acres of forestland in the US is nonindustrial & privately owned
- 60% of owners indicate an intent to harvest within 10 yrs
- Another 23% willing to consider harvesting
Feasibility Survey Results

70% of landowners in Clinch Valley (Virginia)
&
35% in Blue River (Indiana)

Expressed interest in Forest Banking
Management

How does the Forest Bank manage the land?

- Guidebook
- Suitable Timber Species
- Waiting period
- Specification of type and volume of cut
Benefits to Landowner

• Knowledge that the Forest will be Managed in a Way That Promotes Wildlife and Nature Conservation
• TNC is Responsible for Managing the Forest
• Landowner Maintains Rights to the Land & may:
  – hunt
  – harvest firewood (with permission)
  – hike
  – any activity that is consistent with forest conservation
• Owner Receives an Annual Dividend
• Owner May Withdraw from Forest Bank
• Dividends are Cumulative
• TNC Assumes Risk
• Value of Timber Rights May Increase When Reappraised
• TNC Will Involve Owner in Management Plan
• Owner May Transfer Member Units or Sell the Land
Disadvantages to Landowner

- Owner is Giving Up Timber Rights Forever
- Reduces Value of the Land
- Penalty for Withdrawal
- No guarantee the company can fund withdrawal requests
- No Tax Abatement for Participation, but Taxed on distribution, withdrawal, and revenue from harvesting
Disadvantages to Landowner

Table 2. Landowner reasons for not enrolling in The Forest Bank™.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>I don’t want to give up control of my land</td>
<td>56%</td>
</tr>
<tr>
<td>I want my children to be able to decide on their own what to do with the land</td>
<td>42%</td>
</tr>
<tr>
<td>It will reduce the resale value of my property</td>
<td>28%</td>
</tr>
<tr>
<td>The program is still new; I’d like to see how it works before I make up my mind</td>
<td>20%</td>
</tr>
<tr>
<td>Private landowners do a good enough job of protecting the environment</td>
<td>17%</td>
</tr>
<tr>
<td>The program sounds too confusing</td>
<td>17%</td>
</tr>
<tr>
<td>My trees are not valuable enough to cut</td>
<td>17%</td>
</tr>
<tr>
<td>It will prevent me from subdividing my land</td>
<td>17%</td>
</tr>
<tr>
<td>My trees are too small</td>
<td>13%</td>
</tr>
<tr>
<td>I might not make as much money from my trees under this program</td>
<td>8%</td>
</tr>
</tbody>
</table>

*Note: Respondents could choose more than one reason.*
Keys to Success

- Well-selected site
- Willing landowners
- Start-up capital
- Anchor tenants
- Small landowners
Difficulties of Forest Banking

• High risk for the Forest Bank
  – Bank assumes all risk
  – Never implemented before
  – Competition for timber rights
  – Potential losses, liquidation
  – Volatile timber prices
  – Fires, disease, storms, etc
Difficulties of Forest Banking

- Requires high start-up capital $$$
  - $3.5 million to start TNC Forest Bank
  - 4 pilot sites requires $12 million in capital
  - Clinch Valley site: potential $30 million liability
  - Not feasible for smaller organizations
Difficulties of Forest Banking

• Can we practice *sustainable* forestry?
  – Forest ecosystems are complex & dynamic
  – Extensive knowledge & experience
  – Requires patience and long-term thinking…
Eco-driven or Profit-driven?
Forest Banking & Eco-certification

• TNC considering FSC certification
• Advantages
  – Possible access to new markets
  – Marketing tool
• Disadvantages
  – Added costs
  – TNC brand/logo may have equal value
Other Possible Options

- Tax-exempt bonds
- “Green” venture capital
- Carbon sequestration credits
- Conservation Reserve Program
- Wetlands Reserve Program
Future of Forest Banking

• An innovative approach to working forest land conservation with a promising future
• Long-term Goal: make forest banking a national program to protect hundreds of thousands of acres of working forest and build it upon connection and credibility with local people
• Relies upon success of pilots & profit
Thank You!