

The Floresta Atlântica Fund in Portugal

*Partnership between forestry and agriculture
for sustainable landscape finance*

by Carla WADEWITZ

The Floresta Atlântica Fund (€ 20 Million) was launched in October 2007, its main purpose being to promote sustainable forestry development through the combination of public and private initiative relying on an innovative business model. The major shareholders are government (Instituto de Financiamento da Agricultura e Pescas with 40,5%) and five private shareholders (59,5%).

Case studies such as this investment in Portugal prove that forestry and agriculture should walk hand in hand.

The timberland and forest management industry continues to grow as global demand rises and new uses for timber emerge. Timberland has shown a steady and overall high appreciation (low correlation with the economic cycles), representing the asset with the highest return since 1987. The inclusion of timberland in a portfolio greatly improves the profitability as, for a given level of risk, the return is usually always higher.

Why invest in forestry in Portugal? Why invest in a fund such as Floresta Atlântica?

An analysis of a framework of 4 main pillars for investment in agroforestry was carried out for Portugal (see fig. 1).

The major conclusions were that Portugal has suitable national conditions (such as high and easy accessibility - ports, airports, cluster of industries - pellets, pulp & paper, cork, packaging, availability of land for acquisition and leasing, and significant tax benefits for forestry).

In terms of market conditions, Portugal also offers the appropriate context: high level of diversification of species and range of forest maturity as well as geographical location of assets and diversified product segments. In addition, there is high demand (big industrial clients) for wood products and significant growth in co-combustion with biomass (e.g. cement companies, thermal power stations) and certification is

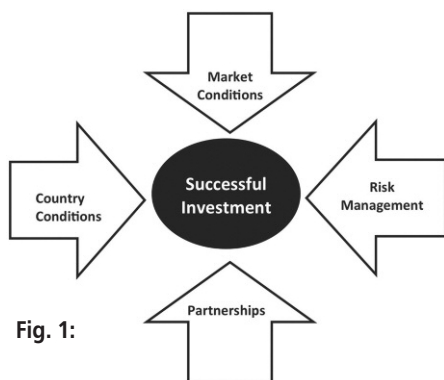


Fig. 1:

1 - EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization.

well implemented amongst the value chain. It is therefore not surprising that Portugal has one of the highest EBITDAs¹ worldwide supported by off-take agreements for the main products.

Iberian businesses are well represented in the forestry industry internationally with some of the most prominent European companies in the sector. There are six Iberian companies among the Top 100 largest companies in the world, of which 29 are European.

Finally, more than 98% of the Portuguese forest total area belongs to private owners, providing good acquisition opportunities. Portugal's forest land can be acquired at relatively low prices, when compared to other European countries.

The partnerships established with approximately 60 forestry organizations exceeded all initial expectations.

Subsequently transactions were made (purchases and leases) with 377 forest owners over 87% of whom have an overall area below the economically viable minimum size.

Long-term lease contracts were also developed with 7 governing boards of wastelands

and parish councils representing about 3,800 counterparts. These communities will have received about € 1.7 million in rent and labour by 2018. Operating expenses 2008-2018 (forest management, operational managers, firemen, technical support) are estimated to amount to about € 20.7 million, mainly locally hired.

In terms of risk management, it has been possible to implement several mitigation strategies to provide more confidence to investors:

- Communities have been integrated into forestry and contribute to its sustainability;
- Development of an effective Risk Management Model combining the management of systemic risks (price and demand pattern) and non-systemic risks (fire, pests and diseases);
- Forestry insurance - Partial transfer of forest fire risk to a third party, through the purchase of forest insurance from ForestRe. ForestRe have no hesitation in recommending the pre-purchase risk analysis procedures utilised by FA through their consultants;
- Product diversification – mix of wood products with non-wood products & services – cork, resin, fruits, honey products, mushrooms, hunting, eco-tourism - are able to pay the forest management costs and the costs of preserving conservation areas for the sustainable forest management standards certification demanded by the industry :
 - 23 tree species and 10 segments of wood products
 - 5 kinds of dry fruits (Chestnut, Walnut, Almond, Hazelnuts, Pine Nuts)
 - 6 bee products (mostly honey related)
 - 14 mushroom species
 - other products (carqueija flower, wild cherry, arbutus, blackberries)
 - Leases from Renewable energy players
 - Leases for fruit trees and aromatic herb plantations
 - Leases from pasture
 - Leases from corn plantations

To sum up, the combination of forestry and agriculture, good conditions both nationally and in the markets, as well as strong partnerships and risk management strategies in place, all contributing to reaching efficiency and profitability targets, make the Floresta Atlântica Fund a successful case study.

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Investment Policy - Diversification				
The production and exploration of the forest, based on replanting new stands and the management of existing stands, with special emphasis placed on some species	Tourism-based entertainment and activity related to Nature Tourism, Cultural Tourism in the rural setting, and open-air sports & activities	Forestry by-products useful for forestry industries and biomass combustion industries	Promoting the production and exploration of all the woodland resources growing/available in all the properties	Renting areas to others for uses which do not come in conflict with forest and forest management use (e.g. wind and solar parks)