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Ecotrust sees a forest full of possibilities

Group seeks long-term timber investments

By Shelly Strom

The Business Journal of Portland
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A local environmental activist organization wants to save the trees by logging them.

Instead of working to lock up forests, as forest activists historically have done, Portland-based Ecotrust thinks it can do more good by snapping up forest lands to manage them for the long term, not merely short-term financial gain.

"We have begun conversations with entities with a significant tax burden and an interest in furthering our goals," said Bettina von Hagen, Ecotrust vice president.

Earlier this month, the U.S. Treasury Department announced that it will award the group \$50 million in New Market Tax Credits. The

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program was established by Congress in 2000 to help spur new markets.

The tax credits will allow Ecotrust -- via its recently formed Ecotrust Forests LLC -- to provide investors a better return. Investors will be eligible to claim 39 percent of the amount placed with Ecotrust Forests in federal income tax credits over a seven-year period.

"An investment that doesn't at first offer market returns suddenly becomes viable" because tax credits provide gains for investors, said Stuart Cowan, an expert hired by Ecotrust to navigate the New Markets Tax Credit application process.

Ecotrust is a 14-year-old organization that seeks environmental conservation by employing a strategy called a "triple-bottom-line-oriented system" along the temperate rain forest of the West Coast. The system weights environmental stewardship and social equity with the economic bottom line.

Through the new organization, Ecotrust plans to purchase significant forest parcels along the western edges of California, Oregon and Washington in a range of sizes between 1,000 and 20,000 acres. Ecotrust will hire firms to manage the forests in each of the communities nearest its lands.

The project is in early stages. Ecotrust is shopping for land tracts and pitching qualified investors.

"It is pretty tough to do this sort of thing for the kinds of money available through charitable grants and government funding. So we are going to capital markets," said Ecotrust President Spencer Beebe.

Von Hagen said current trends in forest ownership emphasize economics to the detriment of the long-term health of timber towns and the environment.

"The forest products industry is facing intense global competition in terms of new products from plantations in fast-growing, low-cost regions. As a result, there is a huge transition of forests from corporate ownership," she said.

Integrated forest products corporations, such as Weyerhaeuser Co., Boise Cascade LLC and Rayonier Inc., have sold off timberlands in the past decade.

Timber investment organizations, known as "Timos," are purchasing a growing number of those lands to provide investors strong, relatively short-term returns. Forest land holdings in the United States owned by Timos are valued at roughly \$15 billion. They typically work by logging and reselling property within about a decade.

"Timos certainly aren't thinking very long term," said Grant Munro, president of Port Angeles, Wash.-based Munro LLC.

Munro recently retired as vice president of international trading operations from Florida forest products giant Rayonier. He is assisting Ecotrust in its search for forest lands.

"Ecotrust is taking a very novel approach. It is much like the industry used to do. And it is a way to get investors to put money into commercial timberland, operate with a lower project return and yet get investors the same return they might have been hoping for," he said.

Ecotrust wants to whittle the amount of lands left vulnerable to investors seeking short-term returns. When forests are managed in a time-frame of at least several decades, von Hagen said, a variety of revenue streams can be established. When a forest is selectively logged and clear cuts are avoided, larger, high-value trees can be steadily harvested for years.

"By engaging in long-term management for optimum forest health productivity, we think we can allow timberlands to generate a whole suite of products and services that will provide economic and social benefits to the local communities," von Hagen said.

In addition, sources of revenue not typically cultivated by traditional forest owners also can boost returns. For instance, a growing number of corporations that emit carbon dioxide are looking to purchase carbon credits to offset pollution.

"The long-standing controversy around forest management is that it does not create the most wealth, innovation or happiness," von Hagen said. "We could be creating a prosperous and wealth-building forest products industry and regaining the market position that Pacific Northwest forests should have in the world."

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