

Australia Plantations Timber and prospectus based forest investment funds¹

Pedro Moura Costa
EcoSecurities Ltd
Raleigh Park Road, Oxford, OX2 9AZ, UK
e-mail: uk@ecosecurities.com

Australian Plantations Timber (APT) is a forestry company specialised in commercial plantations of eucalyptus trees in Western Australia, South Australia and Victoria. Every year, since 1992, APT raises capital from investors for the establishment of new forest plantations, based on investment prospectus offering a pre-tax rate of return of about 7-8 %, derived from the sale of the eucalyptus trees harvested at the end of an 11-year rotation.

In 1999, with the assistance of EcoSecurities (an environmental finance company specialised on the GHG mitigation sector), APT included provisions in its prospectus to enable the sale of the carbon sequestration credits which may arise from its forestry operations, becoming the first private company world-wide to do so. In practice, the prospectus alerted investors that the rates of return of this fund could potentially be increased through the sale of this new commodity (carbon credits). EcoSecurities estimated that the internal rates of return could raise by 1-3 % depending on the value accrued through carbon sales.

The prospect of higher returns led to an increased amount of investment into APT: the 1999 prospectus was oversubscribed and the company had to limit its capital uptake to Aus\$ 136 million, because of constraints related to land availability and operational capacity. APT plans to plant 25,000 ha of new forests in 2000, as opposed to the previous rates of 2-3,000 ha.

In April 2000 APT floated in the Australian Stock Exchange, with initial market capitalisation of Aus\$ 340 million and shares valued at Aus\$ 3.20 each on the first day of trading. Stock analysts from Macquarie Equities in Australia have valued the company at A\$4.50 per share and have attributed Aus\$ 0.50 of the share price to the value of carbon credits to be produced by APT's plantations. APT is now working with EcoSecurities on the development of financial structures to commercialise the carbon credits created.

APT is currently working towards selling the carbon credits generated, and is likely to benefit from the various financial mechanisms that have been developed to facilitate the trade of carbon credits, creating liquidity for this new type of securities. Amongst them, the Sydney Futures Exchange have plans to launch futures contracts on carbon credits and their derivatives, and a series of brokers are already offering derivatives such as options based on carbon.

This case study provides an example of how carbon credits are beginning to be used for promoting the funding of forestry activities. Increasingly, carbon is being incorporated into project finance structures, in addition to other debt and equity sources of finance, leveraging the amount of capital that is currently available for forest finance.

With regards to the environment, this type of project is fully aligned with Australia's objectives of increasing forest cover, in order to reduce salinisation problems currently affecting large tracks of agricultural lands. In relation to the Kyoto Protocol, this example illustrates the *additionality* effect that extra financial returns can generate. In global terms, this demonstrates how market approaches could facilitate reaching global environmental objectives at optimal financial costs.

¹ Joint Implementation Quarterly, 2000.