

Taking root

David Brand has parlayed pioneering environmental market trades into a billion-dollar forest asset management company – but the real environmental upside is yet to come, he tells [Mark Nicholls](#)

Many veterans of the carbon markets – especially those bearing the scars of endless battles over the UN's Clean Development Mechanism – are wary of some of the grander forecasts for an international market in carbon credits for reducing emissions from deforestation and forest degradation (REDD).

Progress towards a global REDD mechanism was made at last December's Cancún climate change talks, and pilot initiatives and voluntary projects are under way. But with detailed rules yet to be elaborated, and no compliance demand for REDD credits, little finance is as yet flowing. However, David Brand, Sydney-based managing director of environmental asset manager New Forests – which boasts no less than \$1 billion in assets under management – is cautious, but hopeful.

"I come back to the fundamentals," he says. "People say we need 5 billion–6 billion tonnes a year [of carbon dioxide reductions] by 2030 out of the forestry sector. At \$20 per tonne, that's a \$100 billion/year cash flow. If you securitise that, it would be a trillion-dollar asset.

"The total amount of capital that's been invested in forestry worldwide by institutional investors to date is \$50 billion–60 billion. It's transformative in terms of the size of opportunity."

And Brand is no naive carbon markets neophyte – his 30-year career in forestry has seen him participate in some of the earliest environmental market trades. But he acknowledges that, for the time being, the novel markets in which New Forests specialises are taking a back seat to more conventional forestry investments.

A degree in forestry at the University of Toronto led him into the forestry industry, before embarking upon a PhD and a spell as director of environment at the Canadian Forest Service in Ottawa, around the time of the first Earth Summit in 1992.

In 1995, he was sent a fax by a headhunter pitching him the job of general manager of State Forests of New South Wales in Australia. "I took it to the family dinner table. It was 28 below zero outside, and everyone said 'fantastic!'"

It was here – while attempting to mediate "persistent conflicts" between environmentalists and the logging industry – that "it occurred to me that, if these [environmental attributes] are so valuable, why aren't they priced?"

Brand had read about one of the pioneering forest carbon trades – the purchase in 1997 from Costa Rica of 'rainforest protection carbon offsets' by Environmental Financial Products, run by Chicago Climate Exchange founder Richard San-

dor. Brand's first forest carbon trade – with Australian utility Pacific Power – closed just a week after the Kyoto Protocol was signed, in December 1997.

"We started branching out, selling transpiration credits from tree planting in upper catchments for downstream irrigation water quality improvement, selling biodiversity swaps with the highways department – it was all quite exciting."

Brand was snapped up in 2000 by US forestry investment giant Hancock Natural Resources, essentially to create a new investment strategy: blending together traditional timberland assets with emerging environmental markets. However, his five years at Hancock coincided with the election of US President George Bush – who "effectively derailed Kyoto", and dramatically slowed momentum on tackling climate change, especially in the US.

In 2005, Brand bought his unit out from Hancock – which then consisted of "three people with \$50 million under management", and began building up New Forests. Six years later, the company employs 26 people, with offices in Sydney, San Francisco and Kota Kinabalu, Malaysia.

The company's first investment product was the Eco Products Fund, launched in early 2008 with Equator, a New York-based environmental asset manager. That fund, with its \$50 million in assets now fully deployed, has invested in biodiversity offset banks in the US, and terrestrial carbon credits with an eye on California's emerging carbon market. It has also underwritten a novel biodiversity bank in Malaysia, the Malua Biobank, which is building a retail platform for selling biodiversity credits.

However, New Forests's scale has come with two more conventional forestry funds, the \$500 million Australia New Zealand Forest Fund, and an Asia fund which is expected to close at \$150 million–200 million later this year. The former was a co-investor in a \$415 million deal in January to acquire the timberland assets of Australia's Great Southern Plantations, bringing New Forests's assets over the \$1 billion mark.

The strategy for these funds is to generate annual returns in the mid-teens from timber products and capital appreciation of the standing wood – but with an eye on the environmental upside.

For example, the Southern Plantations deal means that New Forests manages "the largest land bank in the country" which, should the right carbon regulations emerge in Australia, would translate into "an enormous tradable carbon position", which Brand estimates at above 30 million tonnes of carbon dioxide equivalent.

He says that New Forests's investors – which include pension funds, insurance companies, university endowments and family offices – "have a very strong orientation towards sustainability ... There's a natural understanding that things like climate change, access

to fresh water and conservation of biodiversity are major issues in the 21st century, and where there are opportunities to be exposed to that, people are interested in it – these are long-term investors."

Despite the immaturity of the environmental markets in which New Forests specialises, Brand is continuing to look for the next frontier. The company is designing a follow-up fund to the Eco Products Fund, which "may recast the net", looking at the next generation of environmental markets, although he declines to elaborate.

"It's been a tortuous ride through the environmental markets over the years but, at the core, forestry is an attractive asset class. While we're frustrated with the slow progress of large-scale, liquid environmental markets, there's huge demand for sustainable forestry with opportunities for environmental certification, with ancillary exposure to carbon, renewable energy and biodiversity markets," he adds. **EF**



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