

FOREST BANKING

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Mission Statement

The mission of the Forest Bank is 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.

Background

The Nature Conservancy

Since 1951, The Nature Conservancy has been pursuing its mission of preserving biodiversity through a range of land protection strategies: land ownership, conservation easements, and related management agreements that ensure conservation-oriented stewardship of ecologically sensitive places. In the past year, the Conservancy surpassed a major milestone—successful protection of over 10 million acres of important natural habitat for a variety of plant and animal species.

Although the Conservancy's track record in land protection is noteworthy, the organization has come to recognize that in order to meet its mission with greater effectiveness and broader impact in the decades ahead, it must become even more strategic and creative in developing tools for accomplishing its conservation goals. Recently, a science-based planning exercise enabled the Conservancy to pinpoint the highest priority sites within distinct ecoregions of the United States. Given the interdependent nature of ecosystems, leadership within the Conservancy has come to recognize that land acquisition will be a necessary but not sufficient approach to the abatement of critical threats in these priority sites. Indeed, the task of developing additional, genuinely innovative and replicable strategies for conservation that can be effectively deployed in hundreds of communities may well be the Conservancy's greatest challenge in the coming years.

The Center for Compatible Economic Development

In 1995, the Conservancy created a special operating unit called the Center for Compatible Economic Development (CCED) to be an incubator of new ideas and strategies for achieving conservation goals by developing land uses, businesses, and products that protect important ecosystems while enhancing local economies and achieving community goals. CCED began working toward this purpose by collaborating with local Conservancy staff in a handful of selected locations to plan and execute initiatives that will simultaneously accomplish conservation and development goals.

Now in its third year, CCED is expanding its reach through fellowship programs that will bring in 20 new partner sites over the next several years. CCED will select some of these Conservancy sites, as appropriate, for implementation of compatible economic development initiatives in forestry, agriculture, tourism, and related business areas. The Forest Bank idea, which is described in the pages that follow, will be piloted in several regions, beginning with the Clinch Valley in central Appalachia, and most likely followed by sites in the Great Lakes region as well as southern Indiana.

Overview

Genesis of a New Strategy for Forest Stewardship

For the past several years, CCED has been undertaking a series of assessments focused on various aspects of the forest industry in a central Appalachian region known as the Clinch Valley. As CCED and Virginia Chapter staff developed ideas for promoting sustainable forestry practices in this region, a new concept evolved. Combining The Nature Conservancy's proven land protection strategies with current forest management and marketing ideas, CCED created an innovative concept called the Forest Bank. Designed to offer landowners a new tool for managing forest land in an ecologically sound and economically productive fashion, the Forest Bank idea has been developed and refined over an eighteen month period.

An Old Problem

Forested land often provides the ecological buffer surrounding and supporting critically threatened species and habitats. As the intensity of human use of the forest increases, the conservation buffer provided by the forest decreases. Threats such as fragmentation, erosion, and unsound harvest practice can affect many aspects of a forest, from its viability for threatened species to the secondary impacts on surrounding watersheds.

Over the coming decades, demand for domestic forest supplies is expected to outstrip supply, particularly given severe cut backs in production from the Pacific Northwest. Demand for wood products is driving prices up. And this demand for wood often hits hard on the nonindustrial private landowners—those who have traditionally faced a very limited array of options for managing their valuable resources. A recent study by the United States Forest Service found that 90 percent of forest owners nationwide have holdings of 100 acres or less. Choices regarding harvest and development of such forest land are often made for reasons unconnected to ecological concerns. The need for cash to meet estate, education, or medical needs may force a landowner to liquidate his/her forest asset. Often, the landowner does not have the knowledge or time to monitor the cut to ensure it is done in a sustainable way. When this happens, the resource is usually degraded and conservation values are often compromised.

While these conditions present a potential ecological threat to regions with harvest-age timber, they also present an opportunity for implementation of new, market-based forest management strategies. Products derived from timber that is sustainably harvested can take advantage of increasing demand in a growing number of niche markets.

A New Solution

The Forest Bank is an idea developed for private, nonindustrial landowners. By making a deposit or a transfer to the Forest Bank of the right to grow, manage, and harvest trees while retaining fee simple ownership of underlying land, participating landowners would receive the following services and guarantees:

1. An ironclad promise that the deposited forest will remain forest forever and will, henceforth, be managed sustainably to contribute functionally to the ecosystem of which it is a part.
2. A modest, regular financial return, or a dividend payment, calculated on the basis of the deposited timber's appraised value.
3. The option, when facing financial need, of withdrawing the deposit by obtaining cash value of the timber without having the trees cleared off their land. The right to withdraw will be made available with certain restrictions, similar to those accompanying familiar commercial bank certificates of deposit, such as a substantial penalty for early withdrawal.

In contrast to virtually every other effort to promote sustainable forestry on private lands, the Forest Bank strategy guarantees permanent protection and permanent control of forest management decisions through the irrevocable acquisition of timber rights. Although certification does not guarantee perpetual protection, it does

present an important, complimentary strategy that, used in combination with the Forest Bank, would provide a compelling, market-based incentive structure for promoting sustainable forest practices. The two are mutually reinforcing.

Target Participants

The Forest Bank is designed for private landowners with a desire to maintain and preserve their forests on the one hand, and a need for access to its financial value on the other hand. The following are just a few indicators underscoring the appeal that the Forest Bank is likely to have:

- \$ In an effort to understand the motivation behind forest ownership, the U.S. Forest Service recently conducted a survey of nonindustrial private landowners. It found more than a quarter of the respondents owned forest land because it is part of a residence; those listing recreation or aesthetic enjoyment as a primary objective accounted for another 20 percent. Only 9 percent own the asset as a land investment, and a mere 3 percent list timber management as the primary purpose.
- \$ In the course of completing Forest Bank feasibility analyses, one-on-one interviews were conducted with private landowners in the Clinch Valley who fit the profile of the target market. In aggregate, these landowners controlled about 4,500 acres—a mere fraction of the watershed but nonetheless a representative sample of the Clinch Valley region. About 70 % expressed a direct personal interest in the Forest Bank. Furthermore, nearly all believed the idea would appeal to other landowners in the region.

The Importance of Conserving Private Forest Land

Of all forest land in the United States, only 17 percent is under National Forest jurisdiction, with another 10 percent under other public control. The remaining 73 percent is in private hands. Furthermore, of all privately owned forest land in the United States (393 million acres), about 60 percent is held by nonindustrial interests; the remaining is split between corporate control (27 percent) and partnerships, clubs, associations, and Indian tribes (14 percent).

The nature of harvesting practices on private lands will have significant implications for the health of our nation's forests because nearly half of all timber harvested comes off private, nonindustrial land. Measured in total cubic feet of timber harvested, the breakdown is as follows: national forest 12 percent; other public forests 6 percent; private forest industry 33 percent and other private 49 percent. As more public land is taken out of production, there is increased demand on privately owned forest land. Unlike most industrial land, nonindustrial private forest land is vulnerable to significant external pressure, which typically comes from logging and timber concerns that have no long-term interest or stake in the health of the forest. Moreover, much of this land is ripe for timber harvests. Owners of over 60 percent of private forest land indicate they intend to harvest within the next one to ten years. Owners of another 23 percent will consider harvesting.

Long-term Prospects for Broad Application

The Forest Bank model is intended to be fully and broadly developed as a widespread tool for forest conservation within The Nature Conservancy and beyond. Although the initial handful of pilots will be dealing in tens of thousands of acres, the eventual impact, in terms of replication and results, is expected to be significantly greater.

The Conservancy's track record in land procurement, and the expertise it has accumulated, is leading the institution toward greater decentralization of staff, offices, and operations. The organization already operates through 50 state offices, each increasingly responsible for their own management, fundraising, and operations. In early 1998, The Nature Conservancy Board of Governors endorsed the decision to move the organization toward even greater decentralization. Current plans call for the establishment of hundreds more local Conservancy offices during the coming decade.

A major challenge during this next phase of the Conservancy's development will be to effectively staff and manage

local offices, and to help them become valuable agents for conservation in their communities by supplying them with innovative strategies and tools for conservation and compatible development. The Forest Bank is one of the most promising new concepts for meeting these objectives, and has great replication potential throughout The Nature Conservancy and beyond.

Feasibility Studies Completed in Support of Forest Bank Planning

Over the course of 18 months, a planning team, comprised of CCED as well as other Conservancy staff, worked with outside experts through a series of complex research exercises to determine the feasibility of the forest bank. These exercises focused on the Clinch Valley region, although additional feasibility work is currently being undertaken in other parts of the country. The Clinch Valley assessments that were conducted include:

1. Mater Engineering of Corvallis, Oregon conducted two consecutive studies:
 - A. The first was a major study of the forest industry in the region. It provided a wide-ranging market assessment for wood products from the Clinch Valley, with demand and supply analyses as well as interviews with landowners, primary and secondary wood product manufacturers, and wood product retailers. This study also included interviews with private landowners about initial reactions to the Forest Bank concept.
 - B. The second Mater study produced a financial feasibility analysis for the Forest Bank, using data generated through the complementary studies listed below. This exercise produced detailed financial models for determining the economic viability and the initial capitalization needs of the forest bank.
2. David Tice, President of North American Resource Management, Inc. of Charlottesville, Virginia completed comparative environmental assessments of forest harvesting regimes, and compared these with current certification standards. Tice also assessed these emerging standards in reference to the forests of central Appalachia, and used existing software for simulating various certifiably sustainable harvesting regimes on such forests.
3. Canal Forest Resources of Charlotte, North Carolina conducted a hardwood price analysis chronicling regional product prices and projecting best, worst, and most likely estimates of future prices.
4. The law firm of Winston & Strawn, headquartered in Chicago, Illinois, was commissioned to assess tax and related legal issues that need to be considered and resolved in advance of launching the pilot Forest Bank. This investigation focused not only on the proposed structure of the Forest Bank, but also on implications for transactions with depositors, with the objective of making the Forest Bank transactions simple for depositors.

Forest Bank Core Principles

- \$ Maintain and enhance the health of the entire forest.
- \$ Optimize the return to our depositors and maximize their satisfaction with our management.
- \$ Protect the soil productivity of our forest land and the water quality of our streams and rivers.
- \$ Create economic value from the forest resources by pursuing premium markets for our products.
- \$ Grow the highest quality timber possible of native species on any particular site.
- \$ Emulate the natural dynamic processes and disturbance patterns of the forest and minimize the impacts of our harvests.
- \$ Become a national model for the sustainable management of nonindustrial forests.
- \$ Continually reassess our methods and operations and look for ways to improve the Forest Bank.

¹Kent Gilges is the Director of The Forest Bank, a new business being developed by the Center for Compatible Economic Development at Nature Conservancy. Prior to this assignment, Gilges directed the Northern Lake Huron Bioreserve in Michigan's Upper Peninsula for the Nature Conservancy. He received his Bachelors degree from Cornell University and his Masters degree from Oxford University.

