

# Point of view ►

## The plantation investment

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**F**OREST plantations are the result of a process, which usually includes establishment, growth and harvest. In order to be successful, this process, which implies investment, management and know-how, must be able to compete against exploitation of the natural forests. If they do, their contribution to the total production of fibre will increase, with the consequence that they will compensate demand for fibre from natural forests.

### Forest plantations today

According to provisional data from FAO, there are about 180 million hectares of forest plantations worldwide, of which more than 80% have been planted for wood and fibre production. More than half of these industrial plantations are currently less than 15 years old. While forest plantations represent less than 4% of the world's forest area, they are estimated to be supplying approximately 22% of total industrial roundwood production.

An important lesson that can be derived from these figures is that forest plantations do happen, they grow and they are harvested competitively, making a measurable contribution to the world's demand for wood and fibre. The tens of millions of hectares of plantation forests in the world today reflect the fact that various economic agents—enterprising individuals, private-sector companies, communities, rural households, governments (both national and local), international funding organisations and non-governmental organisations—have invested in forest plantations expecting future benefits. Some of these investments have failed, but it is fair to say that most have been successful, as evidenced by the continued expansion of forest plantation activities, which exceeded 4 million hectares per year worldwide in the mid 1990s.

The present area of forest plantations has resulted, to a large extent, from the inclusion of plantation programs in the forest policies of many countries in recent years, especially since the mid-sixties. While the focus has been on industrial plantations, such programs have also included plantations for protection purposes, as well as for agroforestry and social forestry.

### Forest plantations compete for land

Forest plantations constitute an investment—that is, the application of resources in an effort to attain a greater benefit in the future—for all economic agents, but different agents will invest their resources with different purposes in mind. For example, a private enterprise will emphasise commercial benefits, a rural household will be more interested



in satisfying needs for fuelwood and fodder, and national or local governments may focus on controlling erosion, restoring watersheds, and other types of public-interest investments. One way or another, forest plantations constitute a land-use which competes with other possible land-uses for land and which involves the application of other resources, such as capital, labour and know-how, that also face other investment opportunities. In other words, regardless of the purpose of the investor, forest plantations constitute long-term commitments of scarce resources, and the decision-making agents must be motivated to undertake them.

Plantation forestry is not a simple business. On the contrary, it incurs important costs, requires significant amounts of specific know-how, and involves several factors of risk. Additionally, since the benefits are not obtained for several years, most economic agents will require certain conditions before embarking in this type of investment.

### Conditions that motivate plantation investments

While there is a current emphasis on agroforestry and other forms of social forestry schemes, as well as plantations for watershed protection and other resource conservation purposes, most forest plantations have been driven in the past by production or commercial motives. Various countries have designed systems of incentives (mostly fiscal and financial) to promote forest plantations, but the expectation of commercial gain has remained the major motivating force behind most man-made forest efforts. This implies that a fundamental consideration in launching or strengthening a forest plantation program is access to a market where the proceeds of a plantation can be sold at a competitive price. Rights to use the land for establishing plantations and to sell or harvest the trees planted are another essential consideration.

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Economic agents, as they attempt to maximise their well-being, will show interest in investing in forest plantations under conditions that will make them expect an economic advantage with reasonable certainty. However, even with accessible markets and well-defined property rights, not all land previously covered with natural forests will satisfy these conditions. Some will be dedicated to sustainable forms of land-use with higher economic advantage than forestry (such as permanent agriculture or urban development); some other areas will support forest plantations; and finally the least productive areas will probably remain as open-access land where no long-term investment can be expected.

The policy environment can have a major effect on the size of the area devoted to forest plantations. Public policies can be of several kinds, from macroeconomic measures and broad-based institutional reforms, to very specific instruments and prescriptions focusing on particular sectors. The economic agent, especially when facing opportunities for long-term investments, will react favourably to a stable and coherent policy environment, and therefore policy options must be analysed with explicit consideration of how they interact with each other.

Investments in forest plantations take place in countries at different stages of development and with different socio-political systems. Despite the differences, three fundamental elements seem to constitute the basis for forest plantation development. The forest plantation experience, over time and throughout the world, has shown that, other things being equal, the more open the markets, the better defined the property rights and the more stable the policy context, the better the opportunities for forest plantation investments.

### Fundamental vs secondary considerations

Sector-specific policy instruments such as special fiscal treatments, subsidies, concessional financing and harvesting restrictions in natural forests may contribute to the creation and maintenance of forest plantations, but they can be considerably more effective if the three fundamentals are present.

In some cases (eg Brazil, Chile, France, New Zealand) it is apparent that forest plantations can continue to prosper after specific incentives have been significantly reduced, but not in the absence of the three fundamentals.

Perhaps the most important lesson for policymakers is that they must understand these fundamentals, how they interact with each other, and under what conditions they create opportunities that make forest plantations a competitive land-use. A corollary lesson would be that policymakers should not confuse the secondary with the essential. This is especially important, since sector-specific policy instruments such as favourable tax treatments, subsidies and concessional financing all represent costs to the economy at large.

In numerous cases, forest plantations have shown good performance as sustainable land-use investments. Forest plantations continue to expand in several countries; in some, like Chile and New Zealand, plantation wood has almost completely replaced natural forest timber as a raw material for wood-based industries.

### Plantations to grow?

FAO has worked on projections of the potential contribution of forest plantations to industrial wood and fibre supply in the coming decades. Wood from natural forests should continue to provide a major share of industrial wood and fibre raw materials for the next 50 years. However, plantations are expected to provide an increasing share of total industrial requirements and may even contribute a larger share than natural forests by the end of this period. Whether this happens or not will depend on maintaining and further developing favourable conditions for forest plantations to compete as long-term investments against other land-use options. The perspective of policymakers, particularly in the developing world, with respect to the fundamental factors of accessible markets, clear property rights, and consistent overall policy environments, will be the key to an increasing contribution of forest plantations to reducing the pressure on natural forests.

## ITTO Fellowships offered

ITTO offers fellowships through the Freezailah Fellowship Fund to promote human resource development and to strengthen professional expertise in member countries in tropical forestry and related disciplines. The goal is to promote sustainable management of tropical forests, the efficient use and processing of tropical timber, and better economic information about the international trade in tropical timber.

#### Eligible activities include:

- participation in short-term training courses, training internships, study tours, lecture/ demonstration tours and international/ regional conferences;
- technical document preparation, publication and dissemination, such as manuals and monographs; and
- post-graduate studies.

**Priority areas:** eligible activities aim to develop human resources and professional expertise in one or more of the following areas:

- improving the transparency of the tropical timber market;
- improving the marketing and distribution of tropical

timber species from sustainably managed sources;

- improving market access for tropical timber exports from sustainably managed sources;
- securing the tropical timber resource base;
- improving the tropical timber resource base, including through the application of criteria and indicators for sustainable forest management;
- enhancing technical, financial and human capacities to manage the tropical timber resource base;
- promoting increased and further processing of tropical timber from sustainably managed sources;
- improving the marketing and standardisation of tropical timber exports; and
- improving the efficiency of tropical timber processing.

*In any of the above, the following are relevant:*

- enhancing public relations, awareness and education;
- improving statistics;
- research and development; and
- sharing information, knowledge and technology.

**Selection criteria:** Fellowship applications will be assessed against the following selection criteria (in no priority order):

- consistency of the proposed activity with the Program's objective and priority areas;
- qualifications of the applicant to undertake the proposed fellowship activity;
- the potential of the skills and knowledge acquired or advanced under the fellowship activity to lead to wider applications and benefits nationally and internationally; and
- reasonableness of costs in relation to the proposed fellowship activity.

The maximum amount for a fellowship grant is US\$10 000. Only nationals of ITTO member countries are eligible to apply. The next deadline for applications is **13 March 2002** for activities that will begin no sooner than July 2002. Applications are appraised in May and November each year.

*Further details and application forms (in English, French or Spanish) are available from Dr Chisato Aoki, Fellowship Program, ITTO; Fax 81-45-223 1111; [itto@itto.or.jp](mailto:itto@itto.or.jp) (see page 2 for ITTO's postal address).*