



WWF 2009 Forest Carbon Investor Survey: Research Summary

This document summarizes the findings of a research study commissioned by WWF Forest Carbon Initiative and conducted by Brunswick Research, the opinion research practice of Brunswick Group. The research was designed to help WWF understand views in the investor community on funding sources for Reducing Emissions from Deforestation and Degradation (REDD) and the prospects for a forest carbon market.

The 2009 Forest Carbon Investor Survey is based on in-depth qualitative interviews with twenty-five senior investors and investment analysts specializing in areas that include: sustainability and environmental funds, clean technology, carbon markets and green investment strategy. There was a regional spread, with participants from the United States, Europe and Asia-Pacific. Together, the firms surveyed oversee more than US\$7 trillion in assets under management and include global investment firms such as Barclays Capital, Blackrock, Citigroup, Swiss Re and UBS.

Interviews were conducted by Brunswick Research between 18 August and 17 September 2009. The views reflected are those of the survey participants and are not attributable to WWF.

The investors surveyed believe:

- There is significant potential for a multi-billion dollar market in forest carbon in the future, however substantial preconditions still need to be met for REDD to succeed
- Agreement on a climate treaty at Copenhagen, with support from major economies such as China and India, and legislation in the U.S. are key pre-requisites
- Public sector funding will be vital before a market-based approach can take effect
- Problems of verification and monitoring can be addressed if there is a strong political framework in place
- National governments must put in place robust and durable legal frameworks to create certainty for investors

REDD: an essential component in the fight against climate change but still early days

- There is widespread recognition among investors of the need to reduce emissions from deforestation and of the importance of including REDD in future climate change regimes. Most feel its 20% contribution to greenhouse gas emissions makes it critical to do so.
- Although a minority of the investors we spoke with were unfamiliar with the term REDD, most are taking an active interest in forest carbon, with a few already in the process of identifying investment opportunities. Proposals around compliance markets in forest carbon, which many see as inevitable, have stimulated the investors' interest, but so have the voluntary markets already in operation. However, the current demand for investment opportunities in this area should not be overstated, it is still early days and most investors will remain wary until the conditions, in terms of risk and return, are right.



"[Discussing the broader carbon markets] Well obviously in the run up to Copenhagen it's on our radar more and more, but given the uncertainty of the outcomes it's not, the carbon markets aren't an area that we see as particularly exciting at the moment."

Analyst, Environmental Markets

- The 'wait and see' approach from investors suggests one role for WWF and for other NGOs – namely, to help raise awareness of REDD among the investment community, to communicate its benefits in addressing climate change and to highlight potential developments in this space. Some investors do though place clear limits on this role, in terms of NGOs sticking to their core competencies of forest conservation.

"[NGOs] are very good at understanding environmental issues but they have no idea about finance."

Portfolio Manger, Climate Change Funds

REDD stands apart from other sources of carbon offsets, in terms of biodiversity benefits and development concerns

- An attraction of investment in REDD vs. offsets generated from industrial sources in developing countries are the associated biodiversity benefits. There is also a degree of tangibility and visibility in protecting a forest and – as one investor described it – a "charisma" that other sources of offsets lack.

"The good thing about forests is it fulfils also a whole range of other eco-systems services, not only carbon, I mean carbon is just one of them, biodiversity, water regulation, cleaning air. There's lots of let's say benefits, environmental benefits, which are not priced in, which are external and I think in future these should be more internalized, not only carbon."

Head of Sustainability Research

"What I compare is maybe the carbon credits that you get when you upgrade the plant in India for example and you get the CDM, these carbon credits. Of course it has the same greenhouse effect in the end, but I think the social and the long-term development effect is maybe more valuable in a forest area and also ecological in a larger sense."

Analyst, Socially Responsible Investments

- Investors are concerned that action to preserve forests should not harm those living there and will rely on NGOs and governments to ensure activities include proper ethical standards. The importance investors place on the alignment of environmental and developmental objectives appears to have a moral dimension but also a practical one. They are conscious that only projects with the highest sustainability standards will have the support of environmentalists and so be approved and eligible to generate carbon credits.
- In addition, investors feel that only by incentivizing local people can we be sure of conserving the forests. The value placed on the forest carbon credits will be critical to this; the forests must not, for example, be worth more as timber and as cleared farmland.

"From an economic perspective, it may be very difficult for a given population to control its use of the forest if in so doing they end up with a negative economic impact, so their living standard goes down and people go hungry."

Head of SRI and Sustainability Research

"To ensure the execution of protecting the standing forest [one requirement is] making sure that those economics are aligned all the way down to the local people who are responsible for



carrying that out. You can have mechanisms in place but if economics aren't aligned all the way down the line, you know, that presents another challenge."

Analyst, Environmental Markets

The challenge for making REDD a reality is primarily a political one, rather than one of economics or on-the-ground implementation

- Action on REDD centers on agreement at Copenhagen, positive signals from leading countries and the passage of key national-level legislation – predominantly carbon legislation through the U.S. Senate. Investors see this as the focus, as until one or several of these are achieved there will be no significant funding for REDD.

"I don't think there's going to be a market for forests, in any meaningful form, unless there is a U.S. carbon market first. I think before anything happens there has to be a U.S. carbon market and if there's not a U.S. carbon market then I don't think there will be a forestry market period."

Broker, Environmental Markets

"I think the U.S. is, of course, one of the biggest CO2 producers world-wide and I think it's crucial, their role, and that they're going to participate."

Portfolio Manager, Sustainability Funds

- In general terms, European investors tend to focus on Copenhagen as a milestone, whereas those based in the United States stress the creation of a U.S. carbon market as the critical prerequisite for progress on tackling climate change and for REDD.
- Investors recognize there are major challenges around verification and governance (detailed later in this note) but feel these can be overcome providing the political will is there.
- Investors find it difficult to outline a timetable for action on REDD funding. Copenhagen and the U.S. Cap and Trade bill are the key reference points for thinking on timelines, and providing agreement can be reached on both, investors believe that a market in forest carbon can be implemented within a matter of years. They are more comfortable talking of milestones rather than exact dates, but when pushed provide estimates that stretch anywhere from 2012 to 2020.

"If it's decided now in December that they find a way to do it, that they will incorporate it, and people I talk to are pretty positive that it should be incorporated, then it should come in 2012 and then be really ready or somewhere on the market by 2015, I think that should be feasible."

Analyst, Green Energy and Timber Funds

A role for a market-based approach but public sector funding is vital in the short-term

- The risk and uncertainty currently surrounding forest carbon makes it a relatively unattractive investment at this time. Until greater clarity can be established investors see funding for REDD coming primarily from governments, NGOs and philanthropic sources.

"We don't know what the land mines are in investing in this and therefore, at least early on we're going to make small investments until we get our arms around it as an asset class and the kind of risk and volatility associated with it."

Partner, Environmental Asset Management



- Opinion among investors on the medium to long-term prospects for a market-based approach is split between those who see considerable potential, with a market in forest carbon worth many billions of dollars, and others who see it as a relatively small market worth hundreds of millions of dollars.
- Most investors feel that a market mechanism is essential if the significant funds required for REDD are to be harnessed. The more skeptical investors, a minority, question whether it will be possible to undertake sufficient activities of the right quality to generate a significant amount of carbon credits.

"I think the best way is to incorporate it into the normal carbon market, then you have a huge market or a huge interest of companies, of governments, of anything that need to buy them."

Analyst, Green Energy and Timber Funds

The prerequisites for a market in forest carbon center on minimizing risk for investors

- Unlike markets in other commodities, the market in carbon is not one simply shaped by supply and demand. As a regulatory and legal construct, the carbon market is subject to political uncertainty and inefficiencies – both of which are potential concerns for investors.

"The problem with the carbon forestry market is that it is a totally manmade designed market, it's not a market which just rides on human behavior to work."

Head of SRI and Sustainability Research

- Investors want to minimize the risk for their investment, through the establishment of credible REDD activities, implementation of proper legal safeguards and effective international frameworks. The development of high quality forest credits will need to address all of the following:
 - *Robust monitoring and independent verification.* Vital if the offsets are to be considered "real". Thought to be achievable with proper regulation and oversight, and the use of technology like satellites.
 - *Permanence.* What happens if the trees are subsequently cut down or burnt? How can payment schemes be structured to take account of this?

"What do you do if the forest burns down or if subsequent to credits being issued the forest is cut down? There are various ways that you can approach this, you could look at it in terms of an insurance bank where the project issues 100 credits of which 20 are held in reserve or some quantity is held in reserve based on the perceived riskiness of the project. All those are put into an account to cover any fires or losses."

Analyst, Environmental Markets

- *Political and social risk.* National governments must put in place robust and durable legal frameworks. Investors need to know their ownership rights will be enforced and won't be at the mercy of changes in administration.



- *Alignment of economic interests at a local level.* Projects need to make economic sense for the people who live in the countries where the forests are concentrated. There needs to be an incentive for them not to cut the trees down for timber and to grow food. Government policy, but also corruption in developing countries, means revenue from forest carbon may not reach local people.

“How do you know that funding goes to where it’s needed? Is that funding going to go to the communities that own that land and is keeping the forest and what is it then used for?”

Fund Manager, Socially Responsible Investments

- *Additionality.* Can the threat to the forests in question be proved? A question for policy makers.
 - *Flooding of existing carbon markets.* Economists and policy makers must devise a mechanism to prevent a collapse in the price of carbon. What proportion of the market can consist of forest carbon? What is the potential scale for developing eligible projects?
 - *Leakage of deforestation across borders and displacement within countries.* A focus on national or sub-national action risks logging operations simply moving from one country to a neighboring one.
- A number of the concerns about a market in forest carbon stem from perceived drawbacks of the existing EU ETS, described by some as “opaque” and “inflexible” –all of which has implications for funding REDD.

“I think there’s a lot of unnecessary bureaucracy and complexity in the carbon markets now and those would need to be smoothed out and REDD incorporated into that for the system to work smoothly.”

Analyst, Governance and Sustainable Investment

A favorable reaction to the FCI

- Investors’ reaction to WWF’s proposals on REDD are without exception positive. The phased approach, which WWF supports, and focus on on-the-ground feasibility studies are described as “eminently sensible”. Views on the timetable are mixed: whereas some see it as too cautious, given the urgency of the situation, others feel it is perhaps too ambitious in light of lengthy ongoing negotiations. Some investors hold both views.

“I think it makes a lot of sense. I mean basically they’re embracing specific goals and they’re not picking one over the other between market and non-market so yeah, I support that.”

Broker, Environmental Markets

“Well maybe my only doubt is the very long timeframe. Of course I know it’s always difficult to achieve short timeframes, but to wait until 2020 seems very far.”

Analyst, Socially Responsible Investments

**Participant profile**

Participants were from the United States, Europe (United Kingdom, Germany, Switzerland, Republic of Ireland, France and the Netherlands) and Asia-Pacific (Japan and Australia), though the vast majority had a global focus to their role. They included those with a focus on Sustainability, SRI (Socially Responsible Investing), ESG (Environment, Social and Governance) and climate change.

Together, the firms surveyed oversee more than US\$7 trillion in assets under management.*

Organizations represented include: Allianz Global Investors, APG Asset Management, Barclays Capital, Blackrock, Camco, Citigroup, EKO Asset Management, Evolution Markets, F&C Asset Management, Fortis, Generation Investment Management, Impax Asset Management, Jupiter, Kaufman Bros, KBC Asset Management, Newton, Nikko Asset Management Co, Pictet, RCM Capital Management, Swiss Re and UBS. The views expressed are the participants' own and do not necessarily represent those of the organization they work for.

* Approximate figure in USD. Number represents the value of funds quoted in USD, GBP, CHF and EUR according to publicly available information of the total assets under management for the firms included in the survey.

**About WWF's Forest Carbon Initiative**

The WWF Forest Carbon Initiative brings together WWF's longstanding efforts on conservation, climate change and sustainable development. In close coordination with our local offices and programs around the world, we're working to advance support for an agreed global policy framework for REDD and support efforts to implement REDD on the ground, including: identifying and supporting country-level implementation through building capacity, testing approaches and implementing activities to achieve national REDD programs. FCI undertakes research and convenes thought leaders from across countries and sectors to advance the dialogue on critical issues around REDD, such as financing mechanisms and implementation challenges, to achieve not just climate benefits, but broader benefits for biodiversity and the people who depend upon forests for their livelihoods.

WWF's Forest Carbon Initiative seeks no net greenhouse gas emissions from deforestation and degradation by 2020.

For more information please contact:

Melissa Tupper
Communications Director, Forest Carbon Initiative
T: +1 202 569-0842
E: melissa.tupper@wwfus.org
W: panda.org/forestcarbon

About Brunswick Group and Brunswick Research

Brunswick Group is a leading corporate communications consultancy with offices around the globe. The firm provides strategic advice to companies and other organizations, helping them address critical communications challenges that may affect their valuation, reputation or ability to achieve their ambitions. We specialize in media and investor relations, corporate reputation management, M&A transactions, crisis and litigation communications.

Brunswick Research is the group's opinion research practice, which specializes in exploring opinion leader and public attitudes towards companies and topical debates.

For more information please contact:

Maria Figueroa Kupcu
Brunswick Group
T: +1 212 333 3810
E: mkupcu@brunswickgroup.com

Andrew Burton
Brunswick Research
T: +44 20 7936 7458
E: aburton@brunswickgroup.com