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Maybe Money Can Grow on Trees

By Tom Wright

Policy-makers around the world are realizing that saving the trees is crucial to cutting greenhouse-gas emissions. Now, the financiers are jumping in.

Natsource Asset Management today announced a deal to buy 60,000 tons of carbon credits from a privately-owned California redwood forest managed by the Pacific Forest Trust. That's the first deal done under the Forest Protocols, a new set of standards drafted last year by the California Air Resources Board.

Forests are huge carbon sinks when they are left intact, and deforestation accounts for about 20% of the carbon dioxide spewed into the atmosphere each year. The United Nations agreed in December at its climate-change conference in Bali to make intact forests at least as valuable as felled ones. The preferred recipe is to allow forest-conservation projects to generate carbon credits.

But unlike other emissions-cutting activities, such as replacing coal-fired power plants with cleaner technology, policy-makers have struggled to make forest conservation part of the climate-change arsenal. That's partly because of fears that if one forest were protected, the chainsaws would just move to another place.

"Until now, forest sequestration has been an untapped asset in the effort to address climate change," said Jack Cogen, chief executive of Natsource, in a press release. "This deal illustrates that when rigorous, clear rules are adopted, these investments can reduce costs for our compliance customers and provide what we believe are attractive investment opportunities."

Natsource bought the credits on behalf of hedge funds and private equity, which can trade the credits like any other commodity. Other customers of Pacific Forest Trust include California Governor Arnold Schwarzenegger, who burnished his public-image, if not his bottom line, by buying offsets for his air travel from the same forest.

Stricter oversight is opening the way to more investment opportunities in forest conservation. Merrill Lynch joined forces with Australia-based Carbon Conservation last week to sell carbon credits from an Indonesian rainforest. Carbon Conservation hopes to conserve 1.85 million acres of tropical forest in Aceh, Indonesia, preventing the emission of 3.4 million tons of carbon dioxide every year. The project is audited by the Climate, Community and Biodiversity Alliance, a grouping of researchers, NGOs and industry.