

Scottish Forestry Commission

Climate Change and the Scottish Forestry Estate

Introducing the Wood Pool

Response to consultation on forestry provisions in the
Scottish Climate Change Bill

Nordic Enterprise Trust, January 2009

Introduction

The Nordic Enterprise Trust (“NET”) is a Scottish Charity whose aim is to strengthen the economies of Scotland and the Nordic countries, and to do so by developing the economic, cultural, and historical links of literally thousands of years’ standing.

In doing so our focus has been upon a field which most people take as a “given” and that is the “enterprise model” or legal and financial foundations which underpin our society.

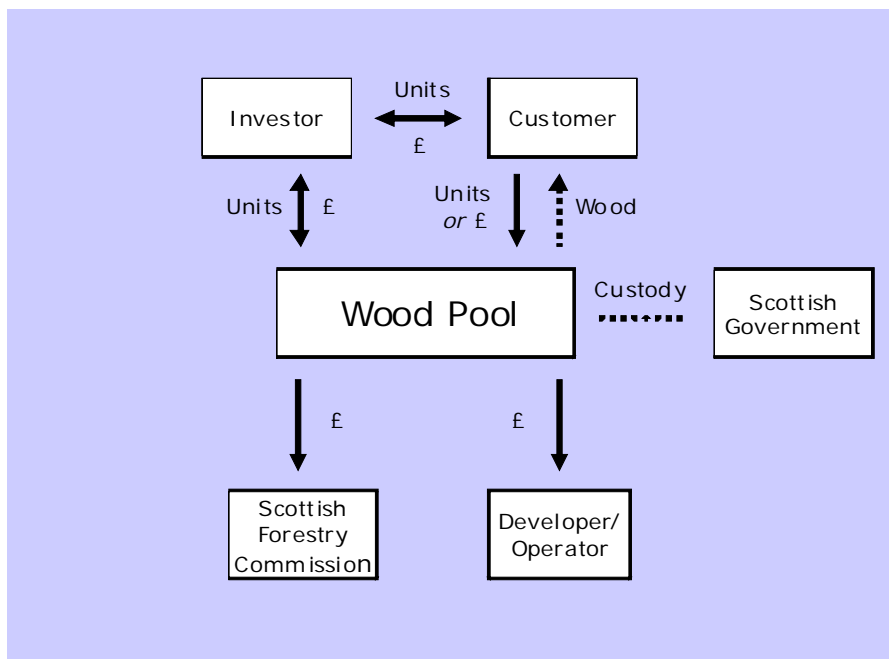
Through the development and implementation of new partnership-based legal frameworks NET is proposing new mechanisms for investment in, and use of, assets of all types, and in particular in that most important asset of all, land and natural resources.

In this Response we will outline a new form of financing and tenure framework for Scottish forestry, which we term the **Wood Pool**. We will do so through addressing the specific questions put by the consultation.

Question 1

What are your views on allowing the Forestry Commissioners to enter into joint ventures, with the intention of participating in renewable energy programmes on the national forest estate?

Our proposal envisages a joint venture structured within a UK Limited Liability Partnership as a framework, as follows. While this Response concerns a joint venture with providers of energy and forestry services, it is extensible to (say) sustainable investment in rural affordable housing.



How it Works

The key innovation is that “Units” are created within the partnership framework – similar to Units in a Unit Trust, or Redeemable Shares in a Company. These are redeemable for forestry products such as timber or wood-chip which are produced by the **Developer/Operator**.

We envisage two principal classes of Units:

- Units redeemable in Cubic Metres of wood for construction;
- Units redeemable in metric tonnes of wood-chip, or the energy equivalent.

These redeemable Units of future production will then be sold to and held by Investors, who may sell them either to other **Investors** or to **Customers**, who will then be able to present them instead of sterling in payment for wood or wood-chip supplied. It will be seen that **Customers** may, if they wish, lock in the price of future supplies by “buying forward” at a market price.

The Commission's interests and those of the **Developer/Operator** are aligned, since both share proportionally in the value over time of the Scottish timber resource, and have a mutual interest in the sustainable use of the land.

For the Scottish Forestry Commission, all unredeemed Units in the Wood Pool constitute interest-free financing.

In relation to sustainable energy use, **Investors** in the energy-denominated Units in the Wood Pool are essentially investing in Carbon-based energy. Such investment may well also attract further revenue from sales of Carbon credits which the Wood Pool may attract.

Question 2

What are your views on allowing Scottish Ministers and Forestry Commissioners to offer leases and cutting rights over parts of the national forest estate?

The commercial interests of leaseholders are opposed to those of freeholders, and the interests of the granters of cutting rights are opposed to the interests of those granted the rights. This adversarial relationship is inherent in conventional tenure and contract law.

The Wood Pool we propose, on the other hand, comprises a consensual partnership-based framework agreement which is essentially an “open” or “evergreen” leasing arrangement in which the terms of the service provided by a **Developer/Operator** consortium are specified.

For as long as the **Developer/Operator** provides the relevant services he receives a proportional share in forestry production, or the revenues from the sale of production.

Question 3

What are your views on (i) transferring the proceeds from leases and cutting rights to a not-for profit trust, for investment in woodland creation; (ii) transferring the landlord's interest in this land to a not-for profit trust; and (iii) Ministers stipulating the constitution of such a not-for profit trust.

In the Wood Pool we propose, no transfer of title or creation of a lease is necessary. The role of the Scottish Government is as Custodian, both of the land, and of the aims and objectives of the Wood Pool. Ministers will therefore retain certain veto rights of governance.

The Wood Pool agreement sets out the framework within which the various stakeholders interact. Members of each stakeholder group will then specify in sub-agreements - which may be informal "Club Rules" (Customers) or formal (eg Forestry Commission constitution) - how they self organise to achieve their aims within the overall framework.

We believe that our partnership approach is probably an order of magnitude simpler to achieve because of the absence of adversarial contractual and lease agreements.

Question 4

Are there other actions which need to be taken, or are there other changes in legislation which need to be made, in order to allow the public and private forestry sector to contribute to Scotland's target of reducing emissions by 80% by 2050? If so, please outline what these are.

The only known restriction lies in whether or not the Scottish Forestry Commission's may be a member of a UK Limited Liability Partnership. Apart from this issue, the proposed Wood Pool may be implemented as soon as agreement could be reached between stakeholders.

The ability for investors to invest directly in the energy value of Carbon sequestration in forestry will completely change the economics of forestry and will drive progress to these targets at a rapid rate.

Summary

The Wood Pool offers an elegant and organically extensible new framework for investment in Scottish Forestry in a way that aligns the interests of all stakeholders.

- **Scottish Forestry Commission** - interest-free financing through forward sales of timber and the carbon-based energy of wood-chip.
- **Investor** - new way of investing in carbon-based energy & timber.
- **Customer** – may buy forward supplies, and lock in price.
- **Developer/Operator** – commit no capital, share value created.

- **Scottish Government** – retain land in Public ownership.