



Why the Focus on the US?

At the University of Georgia's *International Forest Investment: An Executive Education Conference* in Munich in February, several attendees wondered why so much of the talks focused on timberland and timberland investments in the United States.

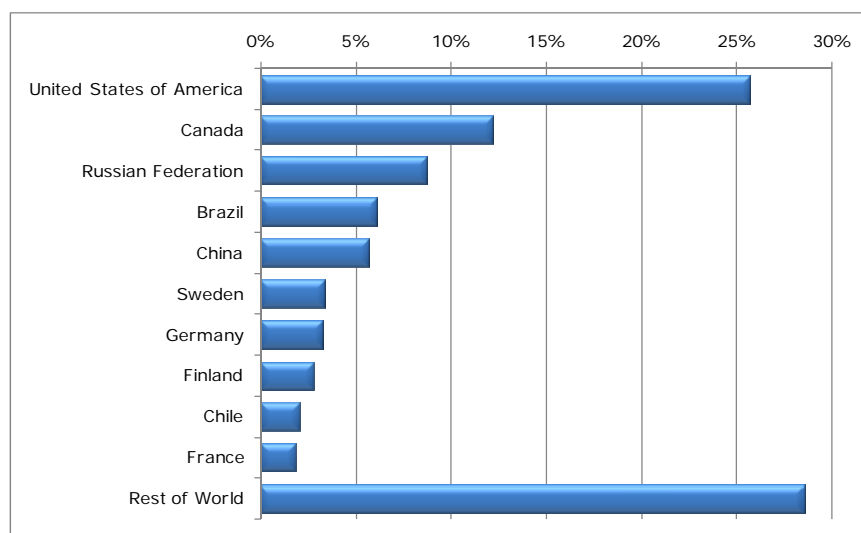
The US is a Leader in Timber Production and Consumption

One reason is that the US is a world leader in producing and consuming wood products. Figures 1 through 4 show data from the United Nations Food and Agriculture Organization for production of industrial roundwood (logs), sawnwood (lumber), panels and wood pulp. Each chart shows the top 10 producers of each product. Those top producers account for 70-80 percent of world production of each product.

The US produces just over one quarter of the world's logs (Figure 1), with second-place Canada producing about half the US volume.

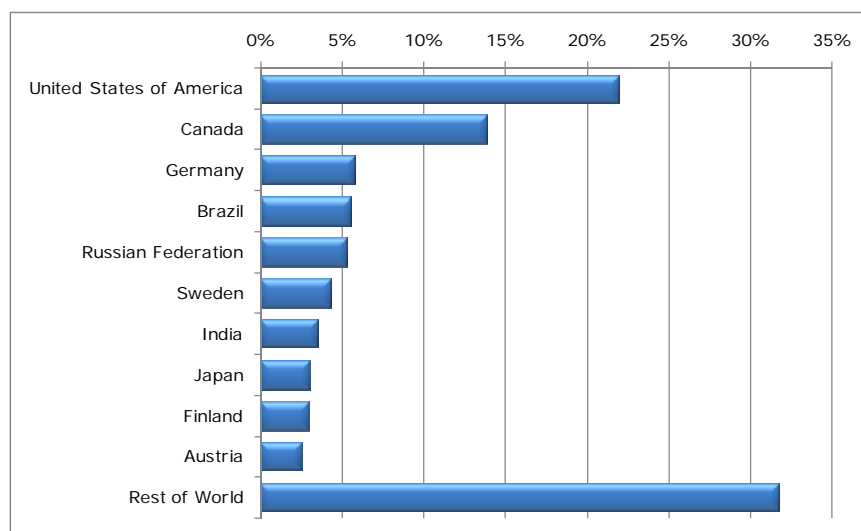
The US accounts for just over 20 percent of the world's lumber production, with Canada running a stronger second (Figure 2). Third-place Germany produces less than half of Canada's volume.

Figure 1. Industrial Roundwood Production, 2006 (CM)



Source: UN FAO FAOStat

Figure 2. Sawnwood Production, 2006 (CM)



Source: UN FAO FAOStat

China passed the US in panel production in 2006 (Figure 3). While production in the US has been fairly steady at roughly 43 mm cubic meters per year since 2000, China's production has tripled in the last six years.

Finally, the US is the world's largest wood pulp producer (Figure 4), accounting for about one third of the world's production in 2006. Canada is again in second place, producing about a third of the US volume.

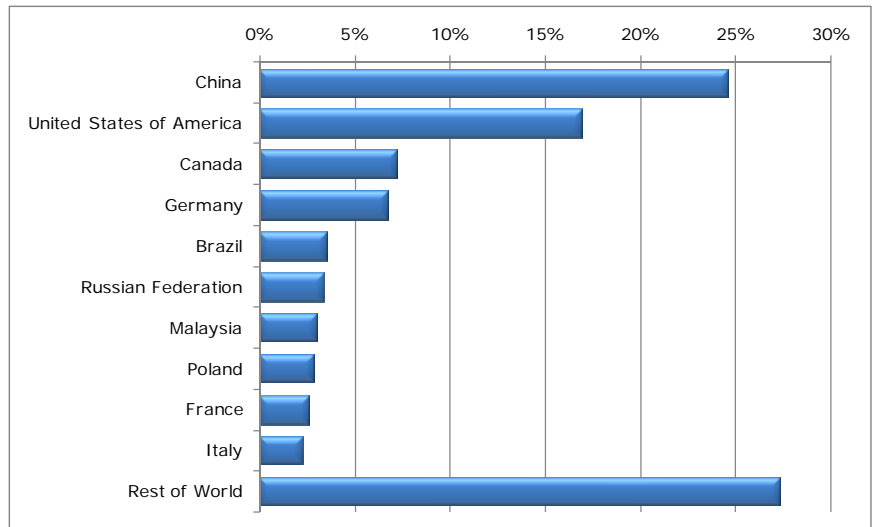
Larger volumes imply more producers and consumers of timber, which provides more outlets for timber for timberland owners. This may be especially important for institutional investors (such as pension funds) that are looking for lower risk.

The US Has the Largest Private Timberland Base in the World

A second reason for a US focus is that, in the early days of institutional timberland investment (the 1980s), investments were focused on US investors buying US timberland. There was (and is) a lot of timberland in the US and much of that is privately owned.

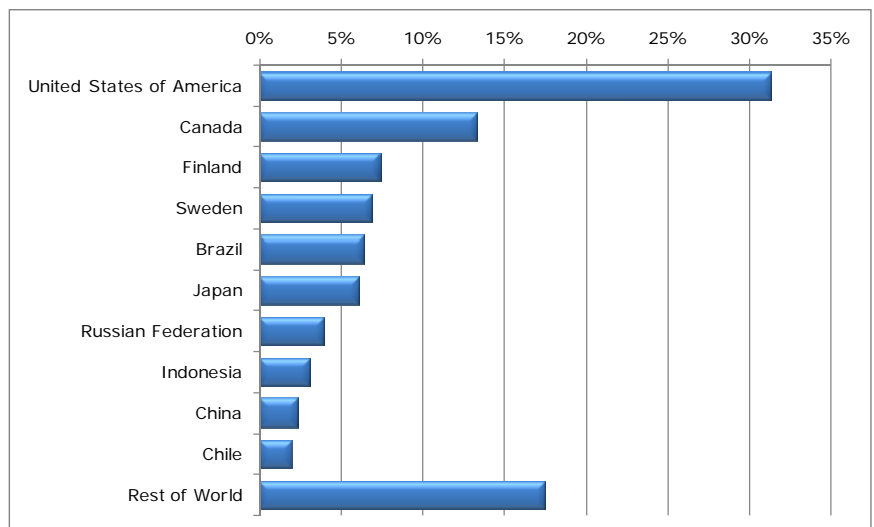
While the US ranks only fourth in total forestland area (Figure 5), it has the largest reported area of private timberland (Figure 6). We stress "reported", because most of the large forested countries in South America did not report ownership data to the UN (Table 1). Only Brazil might have more private timberland than the US, because the US has more *private*

Figure 3. Wood-Based Panels Production, 2006 (CM)



Source: UN FAO FAOStat

Figure 4. Wood Pulp Production, 2006 (MT)



Source: UN FAO FAOStat

timberland (174 million ha) than the *total* timberland in the other countries in Table 1.

Table 1. South American Countries not Reporting Ownership Data to UN FAO

Country	Total Forestland (000 ha)
Argentina	33,770
Bolivia	60,091
Brazil	493,213
Colombia	60,963
Paraguay	19,368
Venezuela	49,151

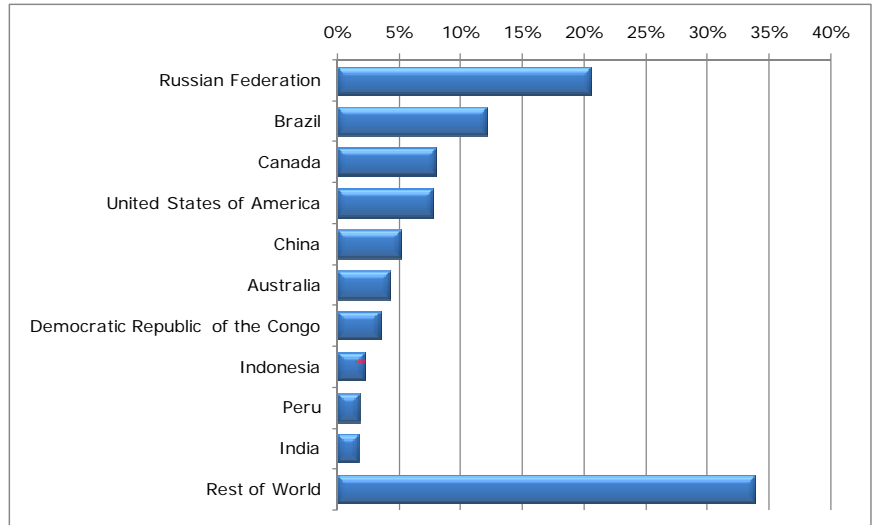
Source: UN FAO, 2005

There are some advantages to buying private timberland in the United States as opposed to leasing public lands in other places. US timberland owners usually do not need to have their timberland management plans approved by anyone. They can sell some or all of their timberland to anyone at any time without getting approval from anyone.

In those countries where timberlands have recently been “privatized”, the “buyers” have often been buying long-term leases or concessions and are subject to having their timber management and property disposition plans approved by one or many government agencies.

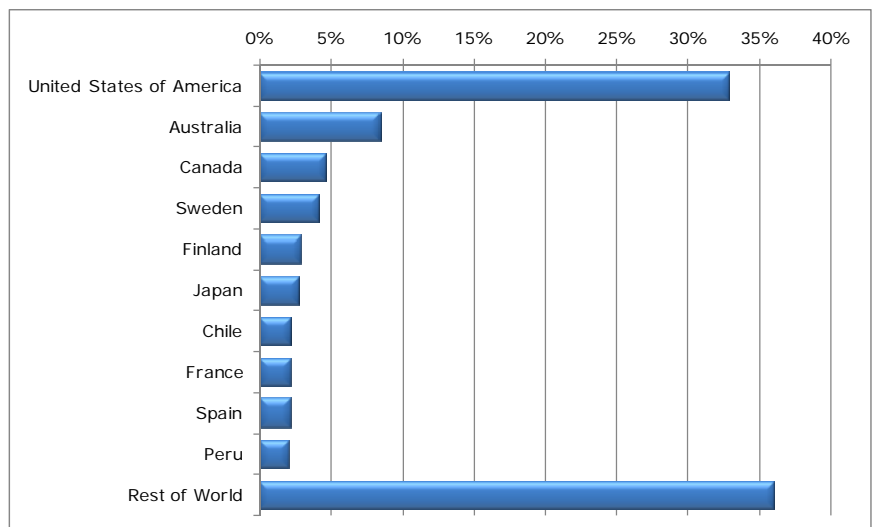
Much institutional timberland ownership is of plantations, which account for only 2.7% of the total forest area in the world. China holds 25 percent of the world’s plantations and the US has 15 percent (Figure 7).

Figure 5. Total Forestland (2005)



Source: UN FAO, 2005

Figure 6. Private Forestland (2000)



Source: UN FAO, 2005

(The UN FAO does not provide an ownership breakdown for plantations.)

Published Returns are for US Private Timberland

A third reason for a US focus in timberland discussions is that available, published returns are only for private timberlands in the US.

The NCREIF Timberland Index reports returns for properties in the US that are fee-owned, with limitations on the area of leased land or timber deeds/timber rights, and limitations on the amount of debt financing.

Until such returns are available for non-US investments, it will be difficult to discuss timberland returns without a heavy emphasis on the US. But, while US investments are relatively concentrated, non-US institutional timberland investments are widely, but thinly, spread across the globe. An international or non-US timberland index would be combining returns from softwood plantations in New Zealand, Chile and South Africa with hardwood plantations in Brazil and Mozambique, for example. Would this provide meaningful results? As non-US investment expands, perhaps such an index could be developed.

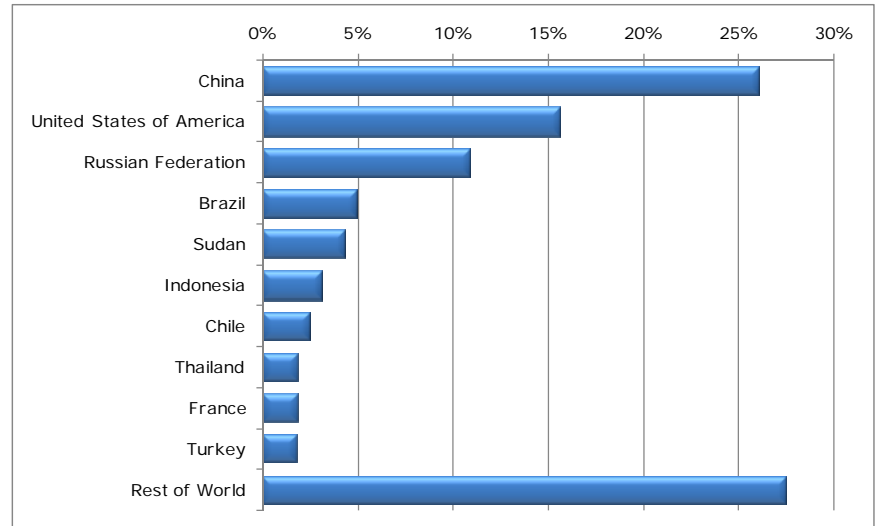
Summary

Why are discussions about institutional-scale timberland investing so often focused on the US? We have addressed three of the reasons here:

1. The US is a world leader in producing and consuming wood, so the markets for timber from timberland investments are strong.
2. The US is a world leader in the area of forestland, private forestland and plantations available for investment, to the markets for timberland is robust.
3. Publicly reported returns are available for the US only.

Other factors that we have not addressed in this issue include:

Figure 7. Plantation Forestland (2005)



Source: UN FAO, 2005

1. Pension funds and endowments from the US were some of the first institutional investors and are probably still the largest source of capital for timberland investments.
2. The US paper and forest products industry decided over a relatively short period to liquidate its vast private timberland holdings, which provided a ready supply of timberland for institutional investors.
3. The US South makes a useful benchmark for discussing timber and timberland. It has a highly developed forest products industry and forest management is highly researched and (usually) very intensive. Timberland in a country or region can often be described as “like the US South, except... (...the trees grow faster, or ...we start pruning at age 10, or...we are more export oriented, or...)”

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