

Major Trends Affecting the Global Forestry Sector Outlook

2024 Megaflorestais

Presentation by
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August 21, 2024, Alto do Chao, Brazil



New Forests



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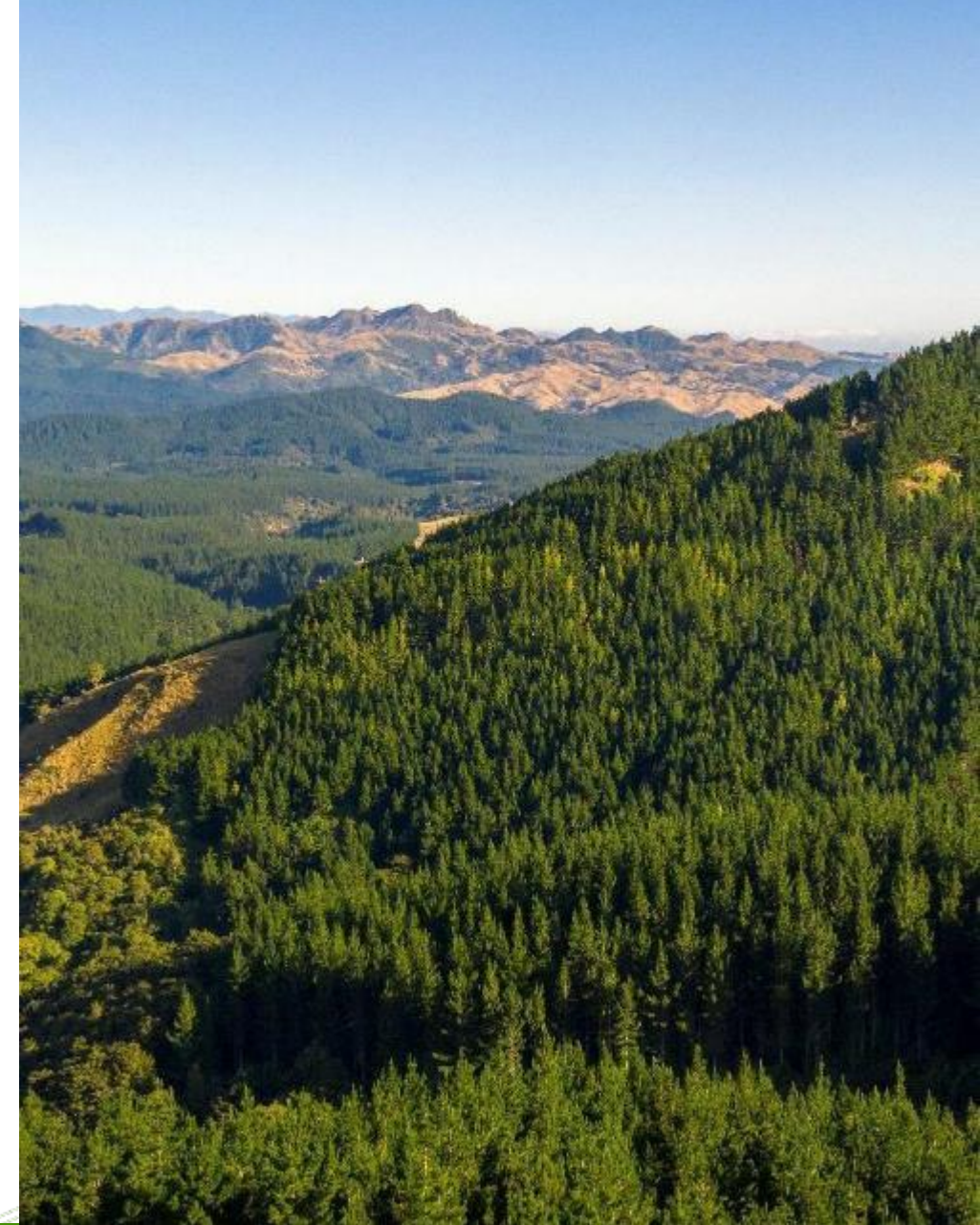
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About New Forests

Founded in 2005 to manage institutional forestry investments, New Forests is one of the world's largest forestry investment firms¹, investing in both the productive use and long-term stewardship of forests and land through sustainable real assets investment.

- Approximately AUD 11.7 billion (USD 8 billion) in assets under management² including over 4.3 million hectares (over 10 million acres)³ of land across the regions in which we operate.
- Regional investment strategies offering focused investment opportunities in real assets and natural capital, across developed and emerging markets.
- Head office in Sydney; 140+ employees across Australia, New Zealand, Singapore, the US and Kenya.

Our vision is to see investment in land use and forestry as central to the transition to a sustainable future.



¹ IPE Natural Capital Report 2024

² The AUM number includes unaudited figures as of 31 Dec 2023 for ANZFF, ANZFF2, ANZFF3, FIT, TFT and EEL, and audited figures as at 31 Dec 2023 for LG, TCAT, AFIP, TAFF2, and 3 US Timberland Funds. TAFF and 1 Timberland Fund are still awaiting audit sign off. The AUM also includes AUD 1.2 billion of committed uncalled capital from fund vehicles and managed funds.

³ Gross hectares under management includes a variety of land uses such as timber plantations, natural forest areas, agriculture, conservation areas, and carbon projects. In some carbon projects in the United States, New Forests manages carbon projects held on third-party owned land.

The Global Forestry Sector

The role and nature of the forestry sector is evolving

Demographic trends

Demographic trends and economic growth are drivers of future regional wood demand

The circular bioeconomy

Presenting new market opportunities and driving new product innovations

Intensified production systems

The rising role that intensified production systems will play in future incremental wood supply

The rise of sustainability

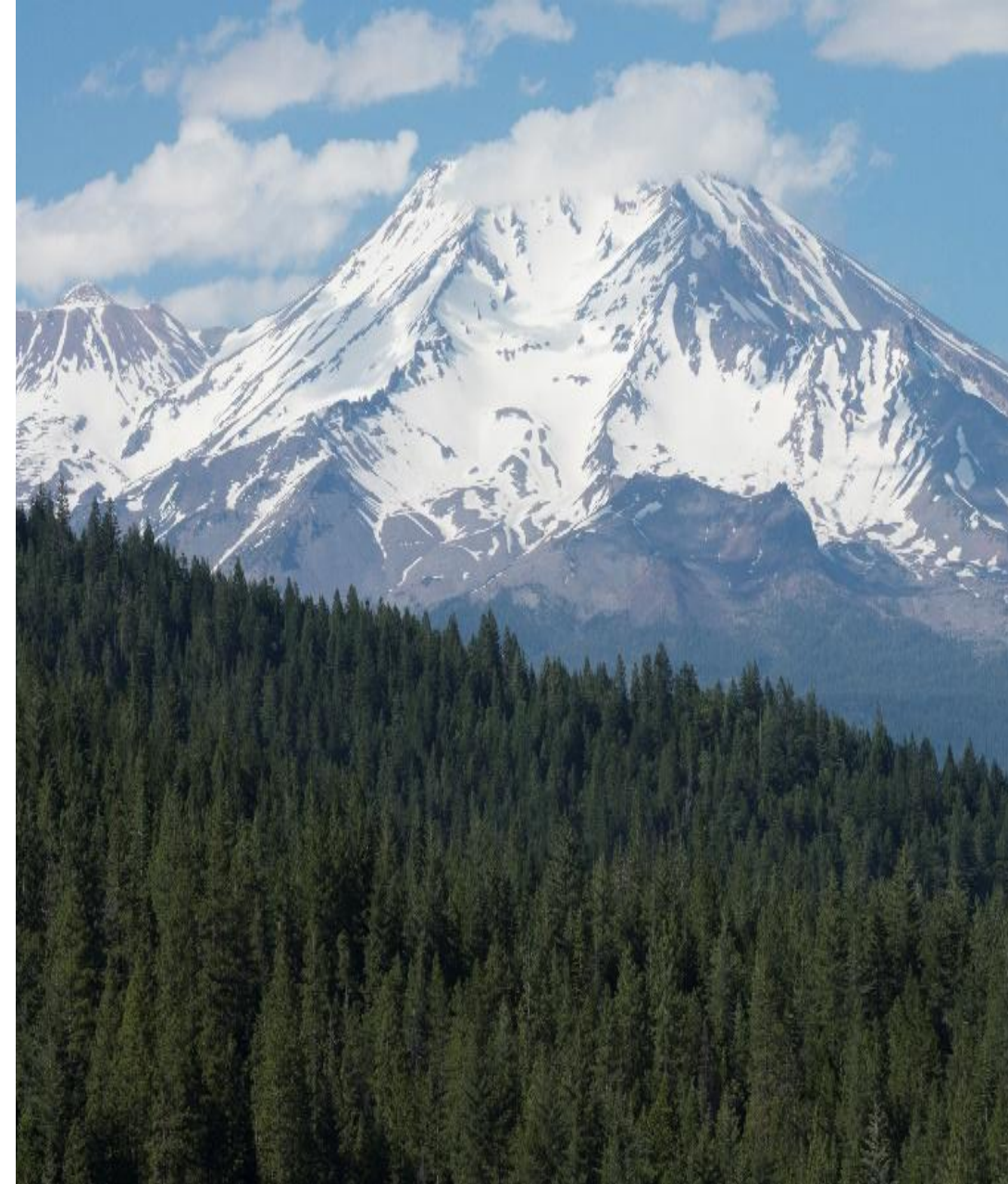
Environmental market exposures and emergence of the concept of a natural capital asset class with multiple sources of option value

Multiple sources of capital

Availability of multiple sources of capital with differing investment objectives is creating a variegated investment market linked with sophisticated analytical tools

Social

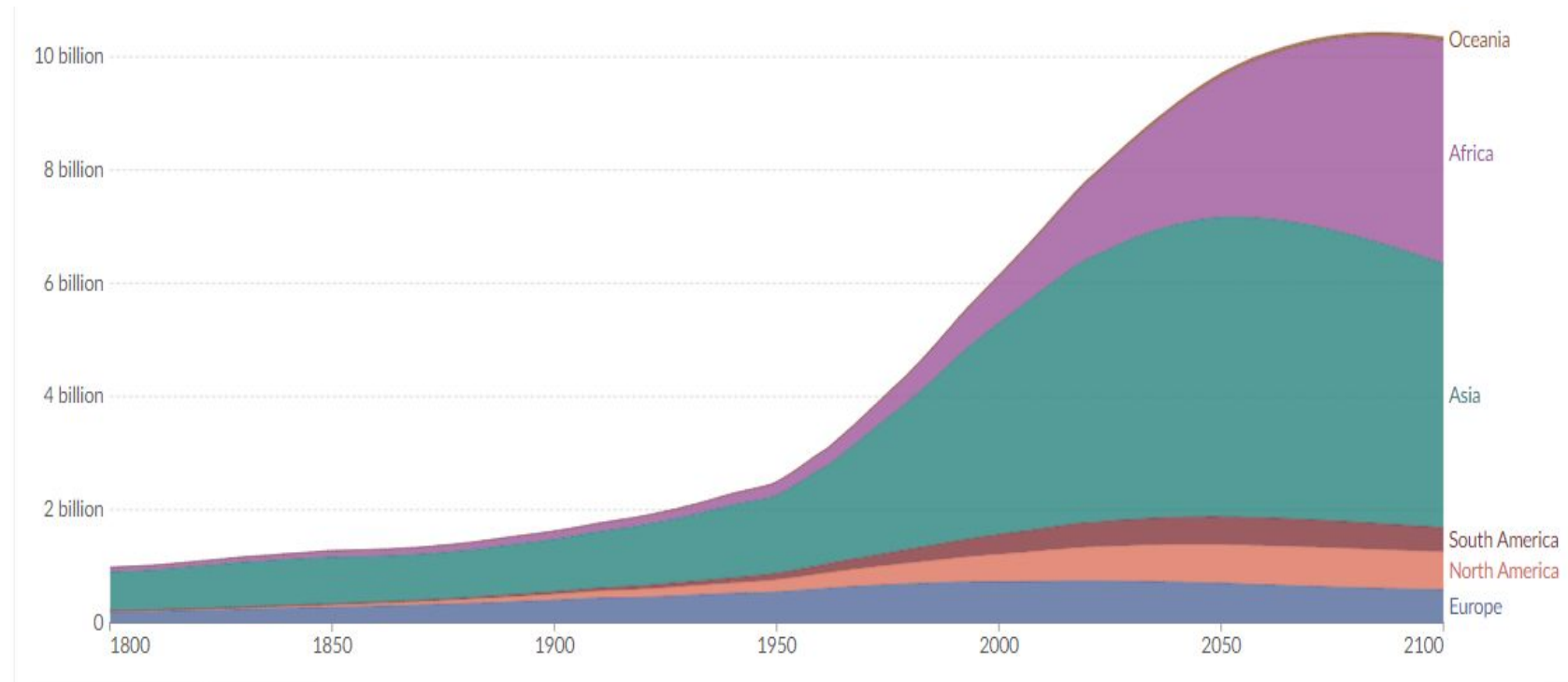
Social dimensions of land use, including rights of indigenous peoples and local communities, are changing how forestry is undertaken



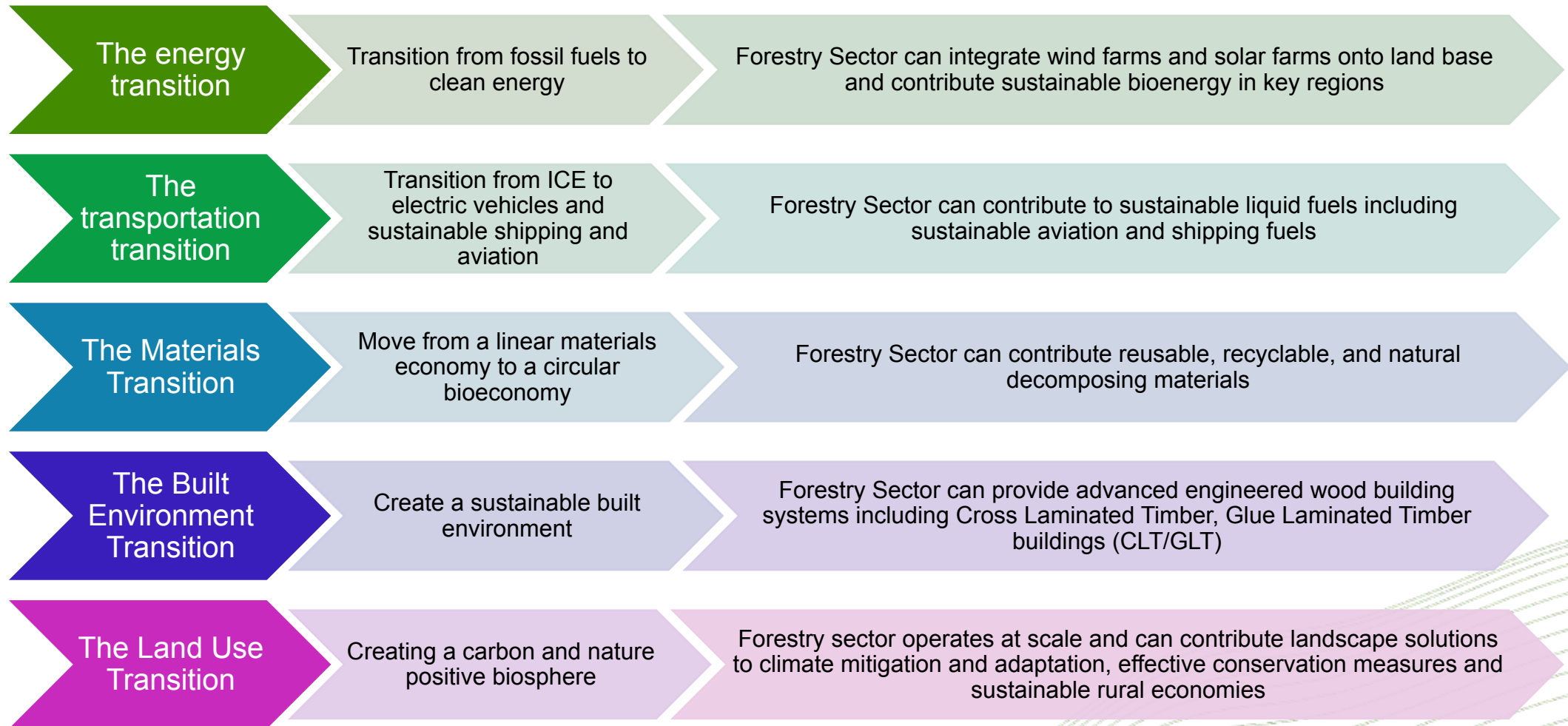
Demographics and Demand

The 21st Century will see the rising wood demand in the Indo-Pacific and Africa

- 25 years ago timber markets were dominated by North America, Europe and Japan
- Over the past 20 years China has risen to become the largest timber market in the world
- India's population overtook China in 2022, and will have a sustained urbanization process over the next 30-40 years
- Later in this century Africa's population will become dominant—up to 40% of working age people
- Wood demand is a function of age—family formation in 20s and 30s drives housing, as societies age this drives renovation, home improvements, furnishings, etc.

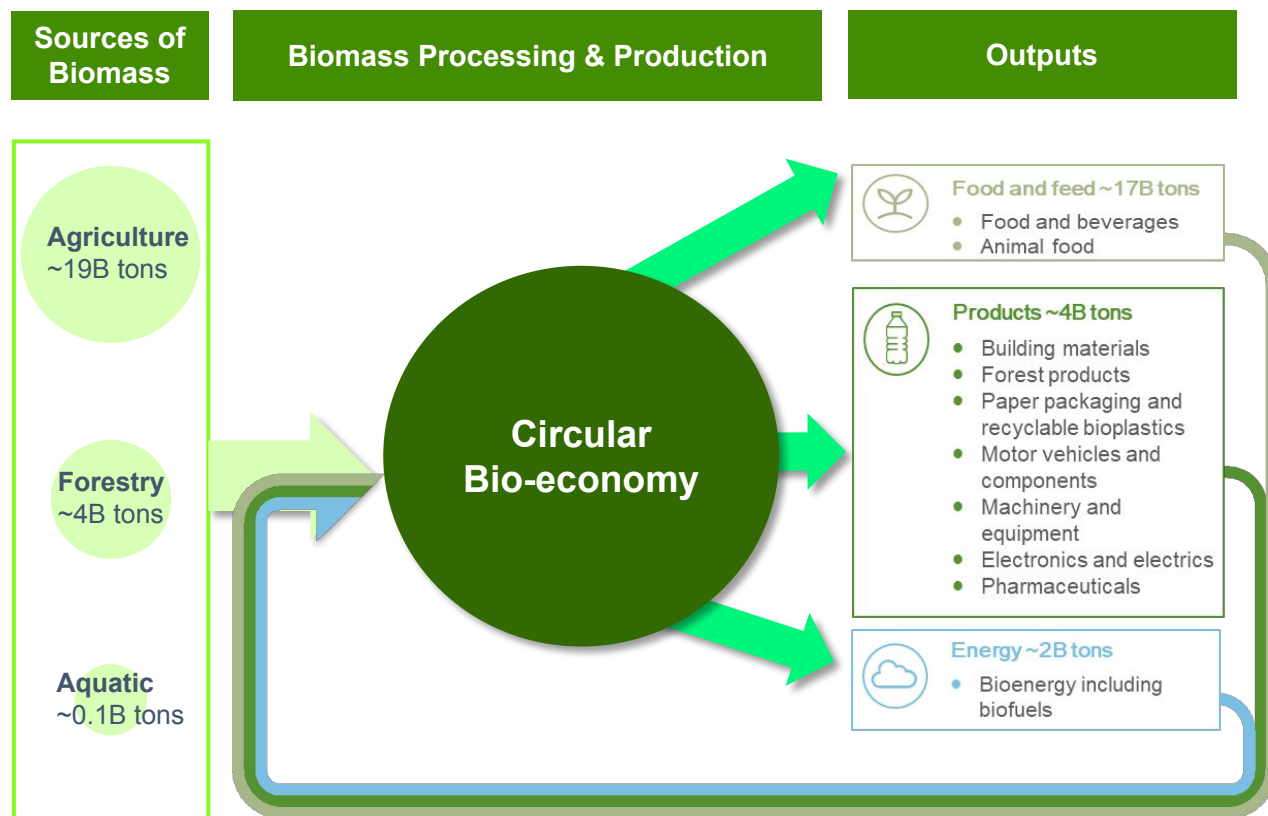


The Role of the Forestry Sector in key Sustainability Transitions



The transition to a circular bioeconomy

Demand for sustainable, re-usable, recyclable, and renewable materials is rising.



The world produces 4b tonnes of concrete, 2b tonnes of steel and 400m tonnes of plastics each year. Much of this could be replaced with wood and biomass.

How does the forestry sector contribute to the bioeconomy?

Systematic substitution of biomass-based materials for petroleum-based or high embodied energy materials (e.g. plastic, concrete and steel).

Multiple opportunities are emerging in parallel:

- Cellulosic fabrics
- Bio-based packaging
- New engineered wood materials and multi-story wood construction systems
- Biochemicals and bioplastics
- Biomass energy and fuels

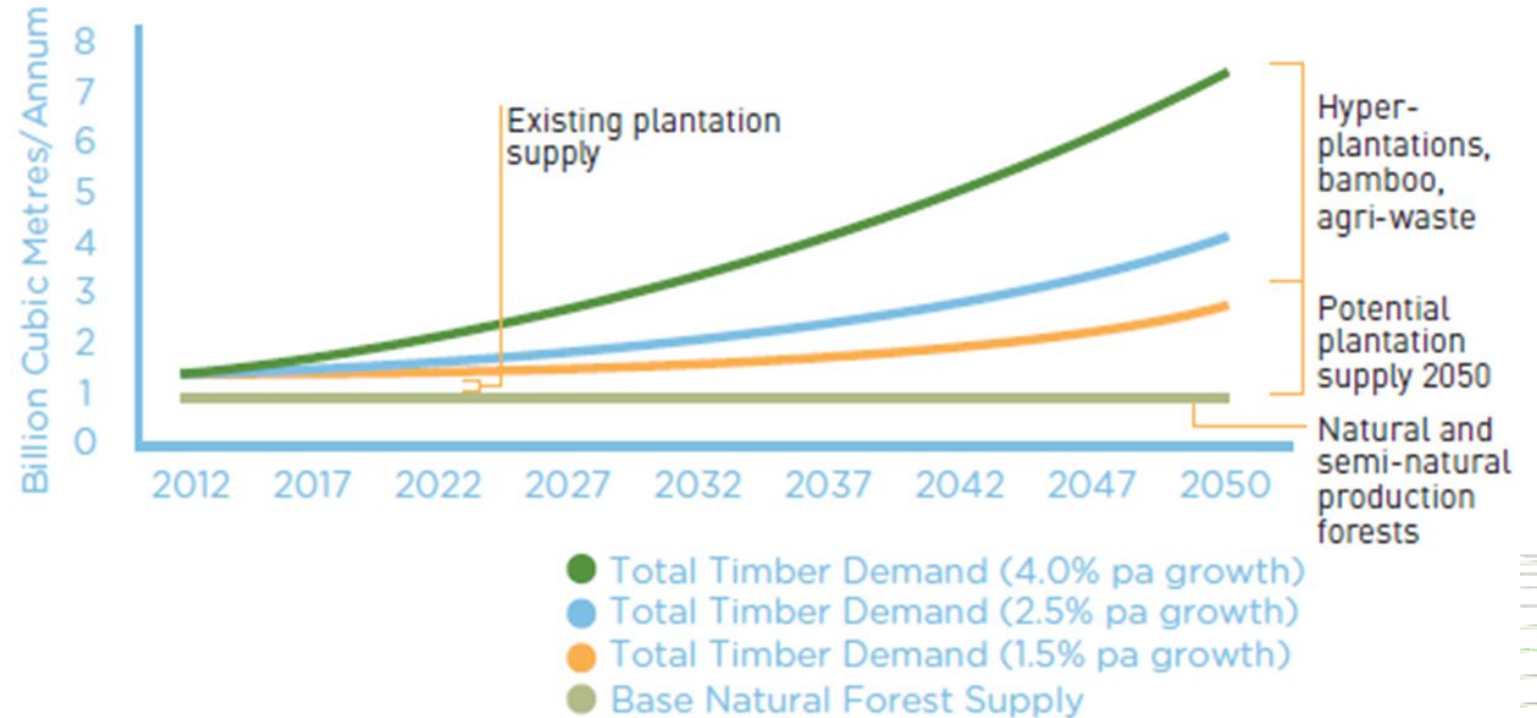
Projected Growth in Demand for Sustainable Wood, Wood Fiber and Biomass

The expected demand for biomass, wood fibre and wooden building materials will require a revolution in feedstock supply

Higher end forecasts suggest a need to as much as quadruple sustainable woody materials supply by 2050.

Meeting this demand would require four key elements:

1. Expanded recycling and re-use to add more supply from circularity
2. Increased utilization of the entire tree for building materials, fiber-based materials and biomass-based materials
3. Intensification in production systems in areas where plantation forests are already in place
4. Expansion of production systems onto degraded and marginal agriculture land



Source: WWF Living Planet Report 2014 and New Forests estimates

Timber Plantations and the Future of Wood Supply

‘Bottom up’ assessment - wood supply could increase from 2 billion cubic metres per annum to 2.5-3 billion cubic metres by 2050 in line with recent FAO outlook.¹

- **North America & Canada** - Little expectation of substantial expansion of wood production in North America—Canada declining, US West declining, only US South with potential expansion (25% of world wood supply)
- **Europe** not expected to be able to increase supply—increased emphasis on conservation (20% of world wood supply)
- **Russia and China** unlikely to expand (20% of world wood supply)
- **Australia and New Zealand** - modest expansion but small in global scale (3% of world wood supply, production might increase by 50% over next 20 years)
- **South and SE Asia and Africa** potential expansion of plantation base but modest in global scale (10% combined of world wood supply, could increase by 50% over next 20 years but constrained by environmental and social issues)
- **Latin America** currently about 14-15m hectares of pine and Eucalyptus plantations with substantial expansion potential (currently 15% of global wood supply but could double)
- **Others e.g. Japan, Korea, Central America, etc** about 5% of current supply with little prospect of growth.



¹ https://www.oecd.org/en/publications/oecd-fao-agricultural-outlook-2023-2032_08801ab7-en.html

Carbon Pricing Systems

There are now multiple regulatory and voluntary markets for forest carbon offsets, but still small and dogged by controversy

| Offset Program | Current Pricing | Main Protocols | Market Features | Outlook |
|---|-----------------|---|--|---|
| California incl Quebec (Western Climate Initiative) | \$US20-35/t | Improved forest management across USA | Price floor rising annually reduces volatility, credits with Direct Environmental Benefits to California rising in value | Extended to 2030 with supermajority in legislature—California has net zero target for 2045 |
| New Zealand Emissions Trading System | \$US36/t | Reforestation | Market price sensitive to recent lifting of price cap to about USD 50 | Linked to NZ Gov't 2030 Target under Paris Agreement, but subject to revisions by future governments |
| Australian Emission Reduction Fund and Safeguard Mechanism | \$US24/t | Reforestation and extended rotations | Reverse auction with Government as primary buyer, but with increasing corporate secondary demand supporting market | Government has committed to Net Zero by 2050. Labor government creating more demand through safeguard mechanism. |
| ARR, REDD+ and other voluntary credits including CORSIA | \$US2-15/t | Conservation, reduced impact logging, restoration and reforestation | Pricing rose substantially in 2021, then pulled back in 2022 as criticism of the rigour of the market increased. | Task force on Voluntary Carbon Markets seeking to increase credibility and transparency; CORSIA, major corporate commitments will drive demand. |

Prices as of August, 2024

What about Markets for Biodiversity?

The concept of 'nature positive' is rising alongside Net Zero



Surge of Interest in loss of nature

- 70% of flying insect biomass in Europe has been lost
- 35% of fisheries are overexploited and another 57% are fully fished
- Only 4% of mammal biomass is wild animals - 60% is farm animals and 36% is human beings

Pressure for disclosure

Task Force on Nature Related Financial Disclosure (TNFD) alongside Task Force on Climate Related Financial Disclosure (TCFD).

Key areas include:

- Extinction risk of species
- Ecosystem processes like freshwater regulation, carbon storage, fire regimes, pollination
- Extent and intactness of ecosystems

Convention on Biological Diversity

Convention on Biological Diversity has set goal of 30% of ecosystems to be in protected status, including Other Effective Area Based Conservation Measure (OECMs).

- Considerable effort across multiple processes to explore market-based mechanisms including International Advisory Panel on Biodiversity Credits, Task Force on Nature Markets, WEF Biodiversity Credits Initiative, Biodiversity Credit Alliance

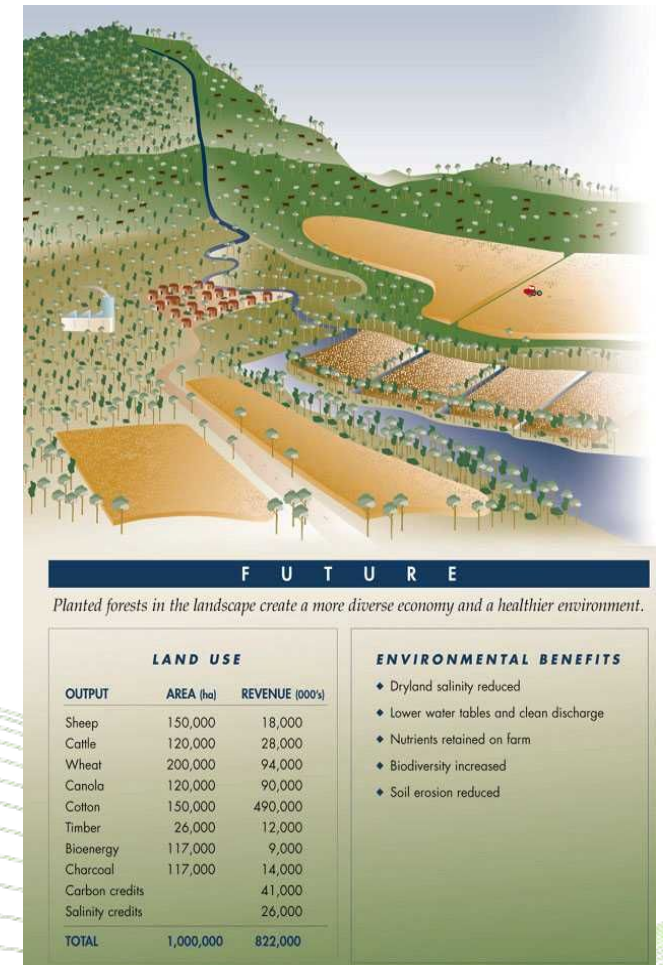
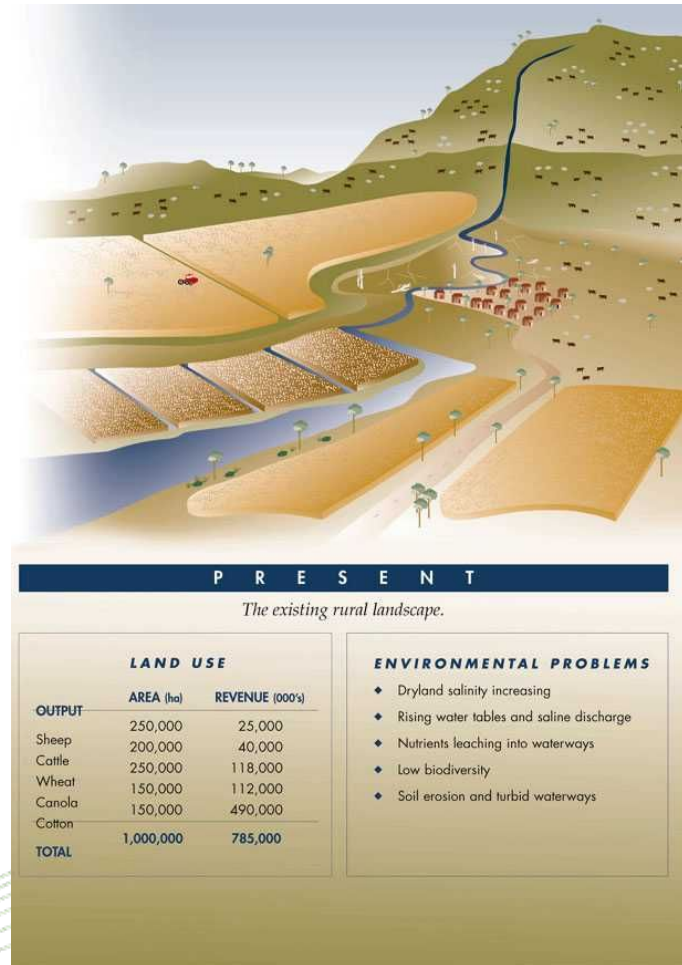
Transforming Landscapes - Australia New Zealand Landscape Investment

Forestry and Agriculture investment should become more integrated in Australia and New Zealand including investments in:

- Forestry
- Agriculture
- Conservation Finance
- Circular bio-economy processing options

Land use may shift in response to evolving physical and environmental market price signals

Higher returns can be generated from expanded access to option value and more granular allocation of land use over space and time.



Indigenous Peoples and Local Communities

New Models are emerging to support development

- Rising recognition of traditional and community land rights by governments and evolution of control
- Investors also learning how to engage with traditional landowners via FPIC, economic partnership models
- Remaining issues of information asymmetry, capability to negotiate, community decision-making vs corporate decision-making, different senses of urgency
- Taking time to establish a relationship and trust
- Examples from New Zealand, Canada, Malaysia



International Policy Framework Priorities

What is the future role of the global forestry sector



Circular Bio-economy Transition Agenda

- G20 has established Bioeconomy Transition Initiative under Brazilian presidency this year
- Forest and Climate Leaders Partnership initiative to expand use of wood in the built environment launched at COP28 in Dubai

Nature Capital Agenda

- Efforts to establish and scale carbon markets have had mixed success
- Article 6 - efforts to resolve this at Azerbaijan COP29
- Could Brazil COP30 launch a fresh approach - Global Natural Capital Agenda for Climate, Biodiversity and Community Benefits?

Conclusions

A changing role for the forestry sector

- Coming decades will see increased demand for wood, wood fiber and biomass, but also shifts in supply and demand sources
- As global population and economic activity increase, sustainability becomes increasing critical
 - Forestry sector has important role in circular bio-economy transition
 - Forestry sector has important role in emergence of natural capital as a driver of solutions across climate, biodiversity and community sustainable development
- Exciting opportunities but also a need to get policy framework in place



Thank You



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