**SIF Policy on Investment in Forestry**

***Issue:*** Forestry is a major land use and economic activity in rural areas. Current and recent government policy has changed forestry from an activity practised predominantly by the state to one that is attractive to private investors, particularly farmers. There are many factors that make an investment in forestry quite different to other forms of investment. The most obvious of these factors is that the return on investment is realised when the timber crop is sold at the end of the forestry rotation. An investment in forestry is analysed by considering the various costs and revenues and the times at which they occur throughout a forestry rotation. The values attributed to different cost and revenue items occurring in the future must be predicted and used in the analysis. Investment in forestry is currently heavily subsidised through the provision of grants, premia and a favourable tax regime.

***The Society of Irish Foresters’ Position:***

* The Society of Irish Foresters recommends Discounted cash flow (DCF) as the most acceptable technique for the valuation of forestry investments. This is particularly suitable in Ireland where the majority of investment concerns the establishment of new plantations. DCF uses a discount rate to equalise or compare future costs and revenues in terms of today’s costs and prices. Typically, a discount rate of between 3% and 5% is used. The DCF calculation relies on the inclusion of the market value of the land as a cost at the start of the rotation. This applies to farmers who own the land already. Despite the fact that there may be no financial transaction involved, farmers incur an opportunity cost when changing their land use to forestry.
* Investment in Forestry is more attractive for farmers who get a higher annual premium for a 20 year period as opposed to non-farmers who receive a lower premium for 15 years.
* Rates of return on investment in forestry are sensitive to the many costs and revenues and the timing of these throughout the forest rotation. In the current situation where afforestation and other grants are available, the most significant cost in the analysis is the price of land and the achievable rate of return is very sensitive to changes in this. Because this cost is incurred at the start of the rotation, it is possible to accurately account for it in the analysis.
* The timber prices used in calculating revenues are difficult to predict as these sales occur late in the rotation. Instead, it is normal practice to use historic timber prices averaged over a 10-15 year period, adjusted for inflation using the Wholesale Timber Price Index.
* Investment in forestry is generally regarded as having low associated risk. However, there are natural risks associated with forestry such as wind, frost disease and fire. There are also macroeconomic risks such as changes to forestry policy at national or European level, a fall in demand for timber or the addition of forest management constraints. In any investment analysis it is important to state clearly the risks considered and where possible to account for them.
* The optimal duration of an investment in forestry, generally called a financial rotation, may very depending on specific objectives and the management considerations involved.
* Rates of return on investment in forestry are sensitive to many parameters, particularly land and timber prices. However, most analyses show that rates of return of between 4% and 7% are achievable.
* The analysis of a forestry investment is a complex task which requires a thorough understanding of both forest management and the mechanism used in the analysis. Forestry professionals are trained and practised in both of these areas. Anyone considering an investment in forestry is advised by the Society of Irish Foresters to consult with a professional forester.