



A new genus of mutual fund is hoping to turn a profit by saving endangered habitats.

cious, like fine paintings or gems. That's why some people advocate setting prices for their benefits and even investing in them. As financial structures go, the following projects are still in their infancy, but the early indications are promising.

In Boston, for example, there's the Hancock Natural Resource Group—the world's biggest investor in timber, with \$3 billion under management, and part of John Hancock Financial Services. It plans to launch a fund early next year for institutional investors and big corporations trying to hedge against potential new laws that would limit their carbon-dioxide emissions. Utilities would participate, the thinking goes, because it buys them time. They can rely on new forests to absorb some of their pollution while they look for ways to refit their factories or switch to alternative fuels.

In the Hancock project, environmentally sustainable forestry would generate revenues from timber, institutional investors would get profits, and the corporations would own the carbon rights of the trees they conserve. David Brand, the group's first director of carbon programs, says he intends to plant new forests in the U.S., Australia, and other countries. "I know the interest is there, because I've done the market research," he says. Some estimates are that the fund could grow to more than \$300 million in the next three years.

Besides selling carbon rights, Brand is also seeking to get large conservation groups to buy biodiversity credits on the timber properties his fund manages. For example, a green group could combine with a utility company on a single property slated for reforestation. Typically, a utility would be inclined to replant land like this with a single species of whatever tree is cheapest. But the green group, for an additional (though not outlandish) cost, could ensure that a variety of native trees gets planted, thus increasing biodiversity and creating habitats for endangered native species.

In a much smaller project, Earth Sanctuaries Ltd., based in Adelaide, Australia, became the world's first conservation company to go public this past May. The tiny firm, which has a market cap of \$24 million, buys vast tracts of degraded land throughout Australia, restores them to functioning habitats, and stocks them with threatened native wildlife. Then

investing in biodiversity

A Tree Grows On Wall Street

We all know the environment is a precious commodity. So naturally the next step is to trade it.

BY KATHERINE ELLISON ● Imagine a new financial market—let's call it the Conservation Exchange. Here, global moguls and Miami retirees alike could invest in new commodities based on the day-to-day labor of trees, rivers, and streams. "Biodiversity credits" would gain or lose value based on how well a company maintained the environment on property it owned. "Carbon rights" would reap revenues from a forest's capacity to suck heat-trapping carbon dioxide from the air and help avert global warming.

Given all the compassionate conservationism of this past political season, one might think that such a tree-hugger's fantasy market was just another bit of campaign rhetoric—little more than hot-air emissions from a presidential candidate. But in fact, the "commodification" of environmental services is becoming a trend that could end up raising billions of dollars for hardheaded environmentalism. The underlying logic runs like this: As flora and fauna succumb to human appetites and become rare, they grow more pre-

ESL uses the wildlife to attract eco-tourists, providing its main revenue.

Under Australia's accounting standards, the company can list rare numbats, platypuses, and wallabies as assets. The inventory gets audited regularly by a local chartered accountant and is now valued at \$2.3 million. Company founder John Wamsley is determined to expand his collection, and recently had some rare and dramatic success breeding platypuses in captivity. ESL's stock has suffered this year, losing 40% of its value since the listing (company directors blame bad timing). For comparison's sake, the Australian stock exchange gained 4.4% during the same period, while the Nasdaq fell 6.8%.

Finally, some new alliances are being formed between onetime mutually suspicious, if not downright antagonistic, camps. In August, the Nature Conservancy, a powerful Virginia-based environmental group with an annual budget of \$245 million, launched the International Center for Innovative Conservation Finance, which aims to invent and test novel

ways to finance conservation. The center has been discussing possible partnerships with the Milken Institute, set up by billionaire former junk-bond dealer Michael Milken, and Swiss Re, the world's second-largest reinsurance company. The conservationists hope to tap Wall Street's creativity to dream up new financial incentives

for green causes like, for example, marketing watersheds and forests provided the owners keep them in their original state.

Meanwhile, a Washington, D.C., conservation group called Forest Trends has been co-sponsoring meetings

between such diverse interests as Mitsubishi International, Partner Re, Greenpeace, Weyerhaeuser, and the Sydney Futures Exchange in order to monitor and plot ways to build the emerging trade in the basic services of nature. A lot of the programs are exploratory right now, but a mutual fund with carbon rights as its main asset is a possibility.

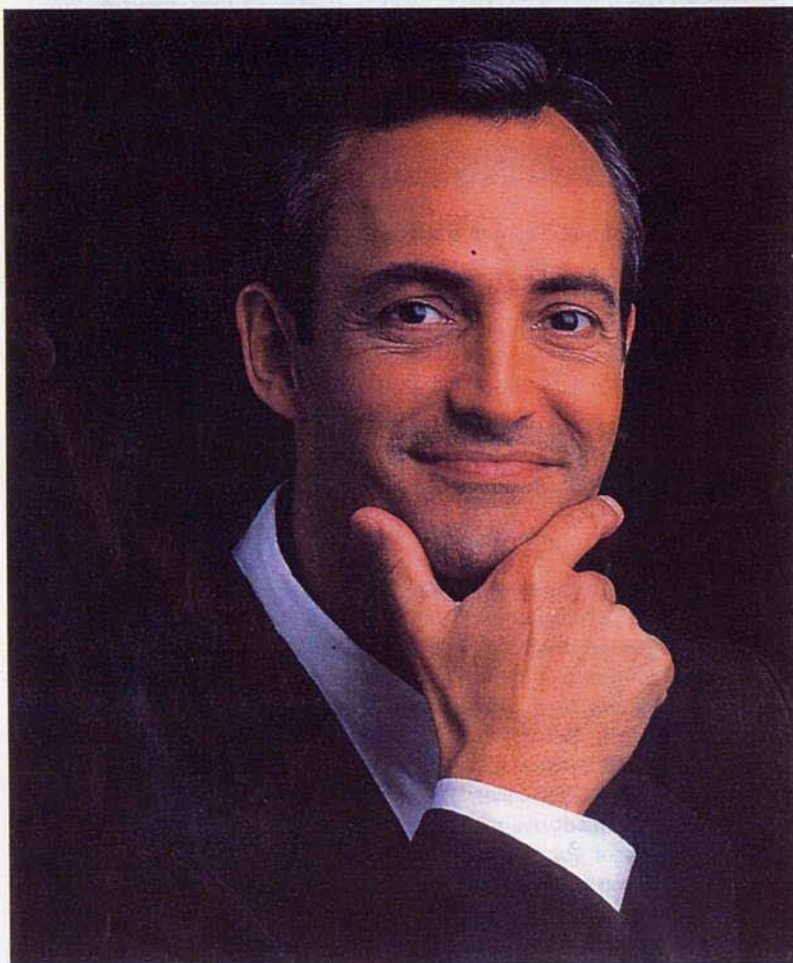
Big corporations have already been buying carbon rights. With one eye on potential emissions limits emerging from the

international global warming talks begun in Kyoto in 1997, in recent years several U.S., Japanese, and European utility companies have poured at least \$75 million into purchases of carbon rights from forests—mostly in developing countries—according to Trexler & Associates, an environmental consulting group based in Portland, Ore.

It hardly needs to be stressed that these new "green investments," at least for now, are meant for the extremely intrepid and/or motivated investor. Still, one might argue that this market wouldn't be emerging in the first place without signals of broader-based interest. David Bergé, president of the Social Investment Forum, notes that "socially responsible" investors are the fastest-growing U.S. investor group, with \$2.16 trillion in funds screened for social concerns—nearly four-fifths of which is specifically channeled to firms that don't harm the environment. Yes, that's the kind of green that talks. ■

KATHERINE ELLISON is a Pulitzer Prize-winning journalist who is working with Stanford University biologist Gretchen C. Daily on a book about innovative financial incentives for conservation, to be published by Island Press in 2001.

Corporations would own the carbon rights of the trees they conserve—and investors would get the profits.



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