



Frequently Asked Questions

March 27, 2008

In summary, what is the nature of the deal between Canopy Capital and the Iwokrama International Centre that has been widely reported in the media?

- This deal is not about Canopy Capital buying land; and
- This deal is not an emissions-based carbon trading deal.

The agreement is about:

- Measuring and then placing a value in the market place on eco-services of Iwokrama to humanity such as rainfall and biodiversity;
- Using income from the ecosystem services to help make Iwokrama financially independent of institutional donors by 2010 in accordance with the IIC Business Plan and Iwokrama's research obligation;
- Continuing to help the local communities to enhance their economic and social opportunities as partners with Iwokrama; and
- Overall this ground-breaking agreement will help Iwokrama to show to the international community that you can use a Rainforest but not lose it.

What is Canopy Capital?

Canopy Capital was established in 2007 to drive capital to the rainforest canopy. 20% of the company is held by the Global Canopy Programme, a UK charity dedicated to the research and preservation of tropical forests. The remaining 80% is funded by a dozen international investors, including the Waterloo Foundation. The Global Canopy Programme provides advice and technical expertise to Canopy Capital. All of Canopy Capital's investments will benefit local communities and conservation efforts in tropical rainforests as well as financial investors. Its first deal was signed in March 2008 with the Iwokrama International Centre for Rainforest Conservation and Development in Guyana.

What is Iwokrama?

The Iwokrama Reserve is 370,000 hectares of pristine tropical forest in Guyana. It lies at the heart of the Guiana Shield, one of only four remaining rainforest regions in the world. It was given as a gift to the Commonwealth in 1989 for the purpose of research into global warming and sea level rise. Administered by an international board of trustees, the Iwokrama Reserve shows how tropical forests can be conserved and sustainably managed to provide ecological, social and economic benefits for the local communities and for Guyana and the wider world.

The Iwokrama International Centre for Rainforest Conservation and Development (IIC) was

established in 1996. Its exemplary track record of research and international governance make it ideally placed to form the bridge between the conservation of forest canopies and capital markets. The IIC works in close partnership with the 16 local communities (with a total population of about 7000 people within the Reserve and in the surrounding areas). It has the support of the President of Guyana, Bharrat Jagdeo, and the Commonwealth Secretariat and its Patron is The Prince of Wales.

What is the relationship between Canopy Capital and Iwokrama?

In March 2008, Canopy Capital entered into a partnership with the IIC to measure and then place a value on the Ecosystem Services (ESS) of Iwokrama's tropical rainforest. Such services include rainfall production, water storage, and weather moderation.

Has Canopy Capital bought the land and trees of Iwokrama?

No. Canopy Capital is simply buying a licence to measure and then value the Ecosystem Services provided by the Iwokrama forest for a period of 5 years, by making a guaranteed yearly payment to the IIC. Canopy Capital believes that the sovereignty of the forests it invests in should remain with the forest-owning people and nations that own them.

What are Ecosystem Services?

The Ecosystem Services (ESS) provided by tropical forests are vital to maintaining life on earth. Forests like Iwokrama are the most important mechanism on the planet for transporting heat from the land surface (where we live) up into the atmosphere, cooling the surface on a vast scale. It would take the equivalent of 50,000 times the daily energy output of the world's largest hydropower station to evaporate the 20 billion tonnes of water coming off the Amazon each day. That's energy that would otherwise heat the land surface. Replacing this priceless natural air conditioning and moisturising system would be impossible if the forests were lost.

Our energy, food and environmental security all depend on keeping tropical forests alive. Entire national economies - cities, water suppliers, agribusiness and hydropower - rely to some extent on these "rain machines". Putting a value on these services is like taking out an insurance policy to maintain the Earth's life support system. We need to start valuing rainforests' role in moderating our climate and mitigating against climate change before it's too late.

How can these Ecosystem Services be quantified?

The impact of science in alerting the world to the value of forest ecosystem services is crucial. Brazil has played a leadership role through its Large Scale Biosphere-Atmosphere Experiment in the Amazon, and with the Global Canopy Programme is now starting to define and measure the benefits provided by Ecosystem Services more accurately, so that economists can place an appropriate value on them. Canopy Capital is helping to develop a rating system to accommodate the diversity of tropical forests as an investment asset class.

How will Iwokrama benefit financially from this deal?

Guaranteed initial income from Canopy Capital will be used by the IIC to continue the sustainable management and conservation of the Iwokrama Reserve and to provide livelihoods for the local communities who have depended on the Iwokrama forest for generations. In the longer term, 90% of any investment upside will go to the IIC for use in this way.

Canopy Capital is an investment company. How will it make money?

Canopy Capital is exploring various approaches to securing substantial investment in Ecosystem Services. In particular, Canopy Capital is looking at marketing Ecosystem Services through an

'Ecosystem Service Certificate' attached to a 10-year tradable bond, the interest from which will pay for the maintenance of the Iwokrama forest.

As atmospheric levels of greenhouse gases rise, emissions will carry an ever-mounting cost and the conservation of rainforests will acquire real value. In the future, countries that choose to conserve their forests are therefore likely to have global assets worth billions of dollars a year. The investment community is beginning to wake up to this opportunity.

Is there real investor appetite for this new approach to forest conservation?

Yes, and it is increasing. The Iwokrama initiative was announced at the world's first Biodiversity and Finance Conference in New York, in itself indicative of the growing interest in environmental investment.

What happens to investors' money if the forest is degraded or destroyed?

The IIC's mandate is to protect and monitor the Iwokrama forest on behalf of Guyana and the international community, under the auspices of the Commonwealth – something the IIC has successfully achieved in cooperation with the local community since its inception. Should the forests suffer significant degradation (either natural or through human activity), Canopy Capital can suspend its payments for Ecosystem Services. The IIC can also suspend the agreement if Canopy Capital does not fulfil its commitments.

How does this deal help in the fight against climate change?

Deforestation contributes an estimated 20% of all carbon emissions - more than the global transport sector. If we continue to cut down 13 million hectares of tropical forests a year, the odds of containing climate change are virtually nil.

This deal is a strategic step towards investment in standing forests and the increasingly scarce Ecosystem Services which are a vital 'life support system' on local, regional and global scales. As part of a comprehensive climate strategy, it is also critical that countries with low historic deforestation rates are compensated to avoid creating perverse incentives to deforest in the future.

There is currently timber harvesting activity in Iwokrama. Does this compromise the integrity of the forest?

Not at all. 50% of the Iwokrama Reserve has to remain untouched in perpetuity. Of the remaining 50%, a sustainable and highly selective timber harvesting is limited to an area of 108,000 hectares which allows for a total annual cut of 20,000 m³ - less than 1% of the entire Iwokrama forest. This operation received Forest Stewardship Council (FSC) certification earlier this year, and local communities are shareholders in the sustainable harvesting.

President Jagdeo of Guyana has asked for the UK's support to protect his country's forests. Is there a connection with this deal?

This deal is in keeping with President Jagdeo's visionary approach to safeguarding all the forests of Guyana, but it is not related.

Can this model be applied beyond Iwokrama?

Absolutely. Many forests around the world urgently require protection. If the Iwokrama model is successful, this partnership will prove that conserving forests can be more valuable than converting them for other uses.