Chile: Forestry Sector

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Summary

Chile's forestry industry has demonstrated sizeable growth over the last 35 years, growing from 300,000 hectares in 1970 to over 2.07 million hectares of planted forest today. The vast majority of these forests are made up of Radiata Pine (1.5 million hectares) and Eucalyptus (380,000 hectares).

At present, forestry is Chile's second largest export sector trailing only the well-established copper mining industry. It represents 13% of the country's total exports. Forestry exports have grown from US$ 850 million in 1990, to a record of US$ 3.5 billion in 2005, which includes the US$ 1.6 billion paper and pulp sector.

Between 2006 and 2010, it is estimated that more than US$ 2.5 billion will be invested in the Chilean forestry sector, aimed at ensuring continued industry growth to help satisfy worldwide demand. At present, 70% of Chile's forestry production is exported to international markets. Current investments are aimed at increasing the acreage of Eucalyptus and Pine plantations, and in new industrial plants with the goal of doubling exports within the next decade.

In total, the industry has over US$ 24 billion in assets and employs over 150,000 workers.

Market Demand

Despite growing worldwide demand, the growth in Chilean forestry exports slowed in 2005, with numbers only slightly higher than in 2004. Contributing to the tempered growth was the fact that the dollar depreciated 8.7% in nominal terms against the Chilean peso in 2005, which made business more difficult for those Chilean suppliers exporting to the United States. However, the downward trend of the dollar made US manufactured forestry equipment and machinery more affordable to Chilean businesses interested in importing supplies from the United States.

In addition to the depreciation of the US dollar in 2005, other factors, which will continue to affect the Chilean forestry industry in 2006, include higher manufacturing costs related to rising oil prices, and recent or upcoming political elections throughout Latin America. Although consumption trends remain very healthy, another potential factor to be considered are interest rate hikes in the U.S., which could reduce housing construction and therefore reduce the demand for Chilean lumber.

The Chilean forestry industry competes directly against Brazil for a share of the U.S. market. Current exchange rates have been detrimental to the Brazilian industry since the Brazilian Real has increased significantly against the dollar. Other competitors include Argentina, Mexico, and New Zealand.

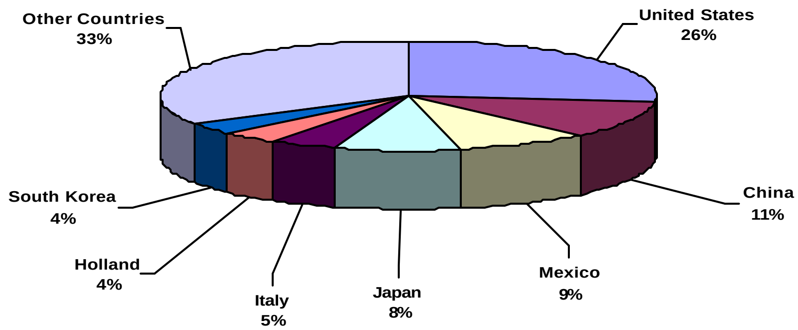
Market Data

On a product level, pulp comprises the bulk of the forestry sector's production. Sawed lumber and its derivative products are the second largest forestry sector export, with 37% of the total products exported to a diversity of markets including the United States, Japan, and Mexico.

The planted land area represents close to 2.7% of the total national land area of Chile. Today, the majority of planted forests exist along the coast in regions X and XI in southern Chile.

China is now a larger importer than Japan, currently holds the second position and imports 10.6% of Chilean forestry exports. Occupying the third position, trailing only the United States and China, Mexico had import numbers for 2005 that ballooned 28.1% over 2004. Currently, Mexico imports 9% of Chilean forestry exports.

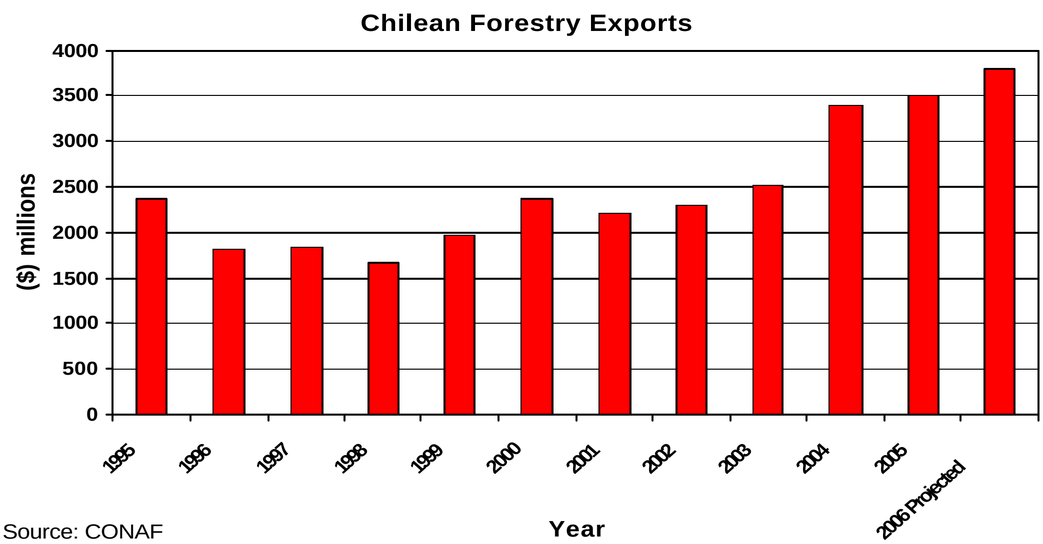
Destination Countries - Chile's Forestry Exports (2005)



Source: Lignum

After a productive year in 2004, when export values increased 34%, 2005 growth of Chilean forestry exports faded to only 2.9% to US$ 3.5 billion. This was a result of general decline in industrial production and moderating behavior of exports due to:

- U.S. imports decrease due to a slowing in housing construction (the United States accounted for 26% of Chile's total exports).
- Rising prices due to worldwide decreases in lumber stocks helped sustain the moderated growth of exports in 2005. Prices of Radiata Pine increased 11.5%, sawn pine lumber experienced an increase of 9.2%, and Eucalyptus plywood increased 14.2%.
- Less volume was exported for many products including particleboard, doors, windows and frames.
- Over-performing sectors with volume increases included sawn pine lumber, Eucalyptus chips, and plywood, which had a slight decrease in price but a 50% gain in volume.



Source: CONAF

There appears to be optimism in the first half of 2006 as exports are predicted to again break a record and grow 8.7% to US$ 3.8 billion. During the first quarter of 2006, Chilean forestry exports grew 2.2% compared to 2005 to $1.17 billion. Best performing sectors for 1Q 2006 were Eucalyptus chips (76% increase in sales), paper and cartons (22.6%), and solid wood molding (21.1%). Mexico's import figures continued their rapid increase into 2006, growing 21% over 2005.

Important New Projects

Projects	Owner	Completion	Investment (US$ Millions)
Nueva Aldea Pulp Industrial Complex Chillan (VIII Region)	Arauco	2007	1,400
Pulp Mill, Santa Fe (VIII Region)	CMPC	2010	800
MDF Plant	Masisa	2007	82

Best Prospects

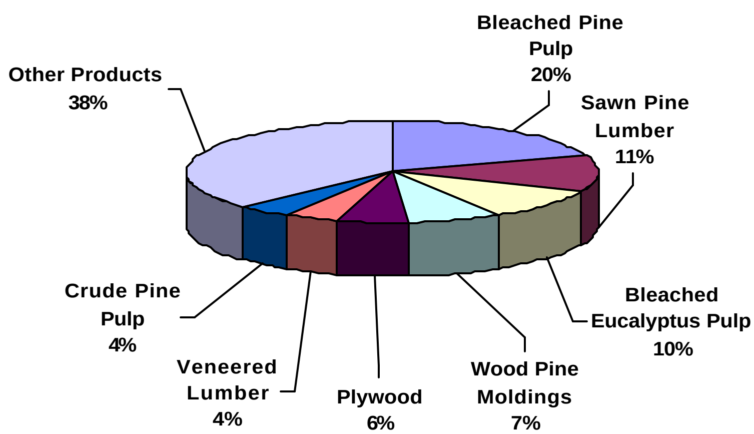
Chile's fastest growing forestry exports are wooden panels, with an average growth rate of 23.5% over the last ten years. This product category has grown because of a constant modernization of technology, development of productive capacity, and entrance of new investors.

Constant development of biotechnology and genetics combined with advantageous climatic conditions, allow Chile to harvest Radiata Pine in an average of 15 years compared to twice that in other countries like New Zealand and Australia.

In general terms, the sectors that are experiencing the biggest growth in exports are wood chips, wood boards, veneers, and sawn wood. U.S. suppliers of forestry and woodworking equipment should be aware of the good opportunity of selling forestry technology and equipment used in these areas.

Other opportunities in the market lie in improving sawing and drying processes, incorporating new product lines like furniture, and establishing industry to produce moldings and panels.

Share of Exports by Product (2005)



Source: Lignum

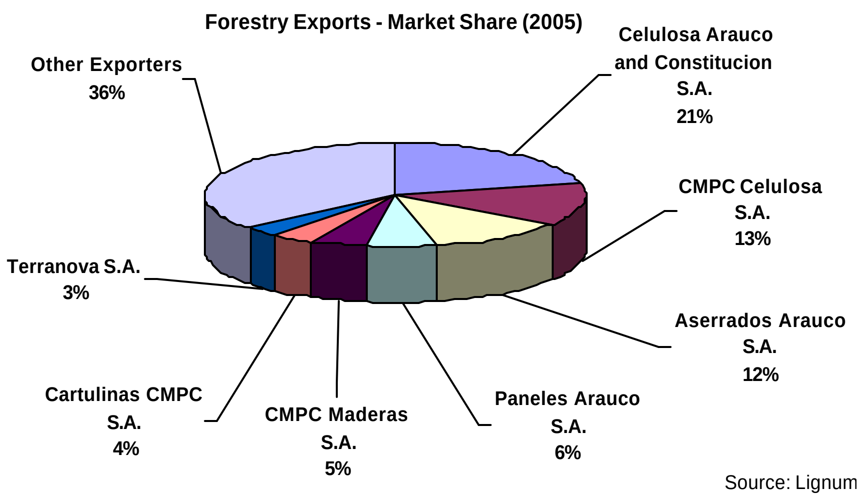
Environmental Issues also continue to rise in importance in Chile and across the globe. Demand for environmental services and consulting could increase in the years to come.

Key Suppliers

Leading exporters of forestry equipment and other forestry related products to Chile are Finland, Sweden, Brazil, Argentina, Germany, and the United States.

Prospective Buyers

Chile's primary exporting companies are shown below:



There have been several important developments in the Chilean Forestry industry:

- In May 2005, Masisa S.A acquired Terranova S.A. The new company will continue to be called Masisa S.A. with assets close to US$ 2 billion.
- In October 2005, CMPC (Grupo Matte) acquired Forestal Copihue for US$ 110 million. The deal involved the acquisition of 17,000 hectares of forest of Monterrey Pine and other industrial assets.
- In April 2006, Arauco Group bought Forestal Bio Bio from Cementos Bio Bio who had wanted to divest its forestry assets. The deal, which included 21,000 hectares of forests, a board plant, and a sawmill, was closed for US$ 136 million.
- Arauco fortified its primary position in the Chilean market and has confirmed that it has been contemplating buying assets from International Paper (US) in Brazil.

Market Entry

Through a series of Free Trade Agreements, Chile has easy access to the markets of the United States, European Union, and various other markets in Asia.

Through a legislative accord from 1974 called D.L. 701, a system of bonuses covers 75% of the net planting costs on any new forest plantation. CORFO, Chilean development agency, continues to provide incentives to both foreign and Chilean investors in the Chilean forestry sector.

Market Issues & Obstacles

Although not required by Chilean law, the environmental standards of ISO 14001 have become important to signify a management directive conscious of environmental issues. Today in Chile, many manufacturing facilities in the forestry industry have completed, or are in the process of, completing ISO 14001.

Trade Events

III Encuentro Internacional Forestal, Maderero, Celulosa y Papel- Corma Chile 2006
International Meeting on Forestry, Lumber, Pulp, and Paper
November 14 - 18, 2006
Concepción, Chile
http://www.cormabiobio.cl/

II CONGRESO LATINOAMERICANO IUFRO
International Union of Forest Research Organizations
La Serena Chile October 23 - 27, 2006
http://www.iufro.org/

Resources & Key Contacts

U.S. Commercial Service, Western Hemisphere Team Liaison:
Susan Berry: Susan.Berry@mail.doc.gov
Forestry Institute: www.infor.cl
Wood Industrialists Association: www.corma.cl
Forestry Magazine Publication: www.lignum.cl
Chilean Wood Corporation: www.corma.cl

For More Information

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