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Chile

Solid Wood Products

Annual

2005

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Report Highlights:
Chile's forest production will continue to increase as more trees are reaching harvesting age. Exports also are expected to grow both in volume and in value in 2005, as prices for forest products are rising again.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
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Executive Summary

Total output of Chile's forest sector grew again in 2004. The area devoted to commercial forestry increased again, by over 32,000 hectares. Exports increased from $2.52 billion in 2003 to $3.40 billion in 2004.

For 2005, both the volume and value of total forest production and exports is expected to continue growing, as prices for some products like lumber and wood pulp are recovering.

Development of Chile's forest products sector has occurred mainly through expanded commercial planting, with excellent adaptation of radiata pine and eucalyptus. Future growths will occur as a result of developing the relatively untouched and unmanaged native forests in southern Chile. However, this is contingent on the contents of the proposed native forest legislation, which has been stalled in Congress for several years.

Forest Situation

A total of 130,640 hectares were planted in CY2004, which increased the total planted area nationwide by 80,067 hectares. Of the total planted area in 2004, a little over 68,000 hectares correspond to new-planted area and almost 63,000 hectares are reforestation. Total yearly-planted area has increased again after some years of a slowdown due to a number of factors, including less favorable planting and tax incentives in the new forestry law (DL 701), the high cost of land relative to neighboring countries, and the disruptive activities of ecologists. Nevertheless, total forest production will continue to expand as private tree farms reach harvest able age.

Chile's development of an important forest products sector is due in great part to the success of radiata pine. Radiata pine matures in 20-24 years in Chile, with thinning it can be available for use after just 15 years, compared to 30 years in New Zealand and Australia, and 40-60 years in North America and Europe. Since the pine grows so quickly in Chile, the wood is very soft.

Table 1 - Annual Coniferous Growth Rate

Country	Growth Rate (M3/ha/yr)
Chile	24.0
New Zealand	20.0
United States	3.0
Sweden	2.9
Canada	2.2

Table 2 - Total Chilean Radiata Pine and Eucalyptus Planting December 2004 (In Hectares)		
Region	Eucalyptus	Radiata Pine
I (Northern border)	288	-
II	2	-
III	1,259	1
IV	1,846	6
V	36,456	11,046
Metropolitan	10,881	993
VI	22,656	62,127
VII	20,456	361,703
VIII	183,329	606,240
IX	127,454	249,910
X	84,975	116,404
XI	-	-
Total *	489,603	1,408,430
* Limited planting exists in Regions XI and XII		
Source: Chile's Forestry Institute (INFOR)		

Table 3 - Radiata Pine: Distribution by Age (Hectares)					
Age in Years	1965	1980	1990	2000	2004
0-5	19,663	303,994	325,626	433,861	343,085
6-10	52,612	192,220	344,426	276,435	350,989
11-15	86,233	76,959	369,240	319,025	320,102
16-20	69,858	51,974	142,772	297,982	224,971
21-25	27,003	44,655	40,307	120,231	137,463
26-30	4,395	33,898	10,363	17,742	22,968
31 or more	921	13,239	9,365	8,841	7,852
Source: Chile's Forestry Institute (INFOR)					

Eucalyptus is the second largest planted species in Chile. Planting has increased at a more rapid pace than for radiata during the last few years, because Eucalyptus products command higher prices and can be harvested even sooner than radiata pine. As of December 2004, over 489,000 hectares have been planted. Eucalyptus has great potential in Chile, since it can be harvested after only 10 to 15 years. The growth capacity for Eucalyptus is up to 30 CUM per hectare per year.

Present estimates put total native forests at 13.4 million hectares. Out of this total, 4 million hectares are protected as forest reserves and 5 million belong to private enterprises and under protection. According to industry, an estimated 4 million hectares are considered to be productive. The exploitation of the mostly over-mature native forest consists primarily in selective cutting, mainly wood for chip production. Chilean native forests possess numerous tree species that have no known European or North American counterpart.

Forest Subsidy Program

Law Decree (DL) 701, which is mainly designed to assist small farmers now, subsidizes planting costs by as much as 90 percent for the first 15 hectares, but only 75 percent of plantings thereafter. It also subsidizes 15 percent of the planting costs for larger farmers, when they plant land, which has been severely eroded, or land that can only be used for reforestation. A maximum of $15 million dollars yearly is destined for this purpose. Special land tax exemptions are also part of the program. During 2004, almost 20,000 hectares qualified for the planting subsidy, with payments totaling $10.0 million. There are no subsidies for trimming and forest management. During the life of this program, from 1974 to the end of 2004, the Chilean government has paid $245.3 million in subsidies.

Table 5 - DL - 701 Payment Summary

	Subsidy Amounts (US$ Million)		Area Subsidized (Hectares)
	Period	Total	Total
Trimming	1983-04	12.7	408,037
Management	1978-04	28.2	7,108,259
Reforestation	1976-04	204.3	1,145,303

Source: Chile’s Forestry Institute (INFOR).

Native Forest

The proposed law, called "Law for the Recovery and Promotion of the Native Forest" has been sitting in Congress since 1992. The bill has gone through lengthy discussions and still has not been approved, mainly due to differing views among the various government agencies involved. This law is expected to provide a framework for the sustainable management of Chile's extensive native forests.

Trade Policy

Chile has signed trade agreements with many countries, among them Mexico, Canada, European Union, United States, South Korea and EFTA. However, no significant changes are expected to occur in terms of trade because some of these countries are not Chile’s most important forest products trading partners and others already had low tariffs for wood and wood products before the agreements were signed.

Nevertheless, the forest industry is optimistic regarding new agreements, which are presently in the pipeline, like the ones with China. Reportedly, forest products are excluded and wood panels are in the 5-year tariff reduction category. By 2011 these panels should be duty free.

Forest Production

Total log production increased to 44.3 billion CUM in 2004, up from 39.1 billion in 2003. Economic recovery observed in the world, mainly in South East Asia and China, together with an improvement in the Chilean economy explains another year of expansion. Further expansion is expected in 2005, as more tree farms reach maturity and are harvested. Additionally, industry expects a slight but positive increase in demand for higher value added forest products.

Around 70 percent of Round wood output is used by the forestry industry. The remainder is used for firewood. Commercial utilization of Round wood includes pulp, wood chips, sawn wood and lumber production. At least one half of Chile's population uses firewood in their homes for heating and cooking purposes.

Tree farm thinning is the main source of Round wood for pulp logs. Wood chips are mainly a by-product of sawmill operations.

Table 7 - Chile: Log Production

	Forest Area (Thousand Ha.)		Log Harvest (1,000 M3)
	Planted	Native	
1996	1,836	7,123	33,388
1997	1,882	7,123	34,056
1998	1,914	7,123	31,672
1999	1,952	7,123	33,972
2000	1,989	13,404	36,568
2001	2,037	13,404	37,789
2002	2,074	13,404	37,791
2003	1,998	13,404	39,132
2004	2,079	13,457	44,344

Source: Chile's Forestry Institute (INFOR)

Forestry Trade

Exports

In 2004, Chile's forest product exports totaled $3.40 billion, up from $2.52 billion the year before. This amount represents 11 percent of total Chilean exports. As the global economy shows signs of recovery and a new wood pulp plant is scheduled to begin operating, the forest industry forecasts exports will expand further to $3.6 billion in 2005. Industry sources believe that new investments in the forestry sector are a sign that export will rise further.

While industry sources note it is difficult to concretely link the growth of exports to the United States to the FTA, exports to the United States did expand over 55 percent during last year. As a result, the United States has remained Chile's largest export market, accounting for over 29 percent of total exports in 2004. Industry sources expect another large expansion in exports to the United States, as housing construction comes to show strong signs of activity. China became the second largest export market with 10 percent of total exports. In the coming years, exports to China are expected to grow significantly as a result of the Chile-China free trade agreement, which should take effect during late 2006.

Industry sources forecast that forestry exports could exceed US$6 billion by 2010.

Table 8 - Chile's Forestry Export by Destination
(US$ Million, FOB)

Country	2002	2003	2004
United States	622.1	642.3	998.0
China	219.3	230.5	354.1
Japan	222.7	259.2	298.4
Mexico	152.8	179.0	239.6
Netherlands	78.2	98.4	152.5
Italy	108.2	120.0	137.0
South Korea	87.6	95.3	113.8
Others	803.7	899.2	1,103.3
Total Exports	2,301.1	2,524.0	3,396.6

Source: Chile's Forestry Institute (INFOR).

Table 9 - Chile's Forest Product Export by Major Commodity (US$ Million, FOB)			
Commodity/Product	**2002**	**2003**	**2004**
Sawn wood	207.3	275.0	334.8
Wood Chips	122.6	130.1	137.3
Plywood and Boards	166.2	199.0	238.9
Round Wood Logs	24.6	13.0	12.1
Other	869.8	932.0	1,343.6
Total Forest Product Exports	1,390.5	1,549.1	2,066.7
Wood Pulp	821.8	881.9	1,211.5
Newsprint	88.8	93.0	118.4
Total Forest Sector Exports	2,301.1	2,524.0	3,396.6
Source: Chile's Forestry Institute (INFOR).			

Imports

Chile's forest product imports totaled $747 million in 2004, up from $565 million in 2003. For 2005, another expansion of imports is expected as the Chilean economy keeps growing mainly in the construction sector.

Chile has an across the board import duty of 6 percent. Additionally Chile has signed free trade agreements with several countries, among them: Mexico Venezuela, Colombia and Ecuador. All wood product imports from these countries are duty free. Additionally, most imports from the United States and Mercosur countries are duty free.

Most imports come from Brazil (19 percent), Argentina (18 percent) and the United States (13 percent). Paper, cartons and other manufactured products are the main imported products (67 percent), followed by furniture and parts (7 percent), cork and barrels for the wine industry follow with 5 and 4 percent respectively.

Wood Chips

Although wood chip output in 2004 expanded slightly again when compared to the previous year, exports fell, as more chips went to domestic pulp production. Domestic demand for wood chips has increased as a result of a new pulp plant starting production and other plants increasing their production in response to rising wood pulp prices. Smaller amounts of wood chips were made available for export to Japan, Chile's only export market for wood chips.

Table 12 - Chile's Wood Chip Production (In Thousand Metric Tons)				
Year	Total	Radiata Pine	Native	Eucalyptus
1997	4,926	2,199	1,791	935
1998	4,487	2,031	1,338	1,112
1999	4,837	2,241	1,016	1,544
2000	5,091	2,380	719	1,968
2001	5,257	2,372	386	2,464
2002	5,057	2,527	156	2,375
2003	5,691	2,874	5	2,810
2004	5,814	3,139	2	2,673
Source: Chile's Forestry Institute				

Chile has a large number of chipping facilities with widely varying capacities. Most facilities are located in Region VIII (Concepcion). Close to 50 percent of Chile's wood chip production is exported and all of it goes to Japan's paper and pulp industries.

Table 13 - Chile's Wood Chip exports for 2004			
Type	Volume Thousand MT	Value Million US$	Unit Value US$/MT
Radiata Pine	58.4	1.8	31
Eucalyptus	2,644.7	122.5	46
Native Forest	0.0	0.0	0
Total	2,703.1	137.3	
Source: Chile's Forestry Institute (INFOR)			

PSD Table							
Country	Chile						
Commodity	Wood Chips				(1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Production	6050	5814	6200	5900	0	5950	(1000 MT)
Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	6050	5814	6200	5900	0	5950	(1000 MT)
Exports	2990	2703	3020	2700	0	2700	(1000 MT)
Domestic Consumption	3060	3111	3180	3200	0	3250	(1000 MT)
TOTAL DISTRIBUTION	6050	5814	6200	5900	0	5950	(1000 MT)

Export Trade Matrix			
Country	Chile		
Commodity	Wood Chips		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2003		2004
U.S.	0	U.S.	0
Others		Others	
Japan	2811200	Japan	2703082
Spain	39333		
Total for Others	2850533		2703082
Others not Listed	0		0
Grand Total	2850533		2703082

Softwood Logs

Total softwood log production expanded again in 2004. In 2005, this expansion will continue as even more trees become available for harvest. Although softwood log production will keep expanding in the coming years, exports are expected to fall due to increased domestic demand for logs by the processing industry. The pulp industry will require more logs for pulp production as new plants come on line. There also is a strong demand by the growing local milling industries for logs for lumber, for further processing into value added products. Softwood logs for pulp are exported to Japan and softwood logs for lumber are exported to South Korea.

Table 14 - Average Softwood Log Prices
(US$ per CUM)

	1980	1990	1999	2000	2001	2002	2003	2004
Export	54	49	49	46	48	47	46	49
Domestic	18	33	35	37	31	28	27	30
CH$/US$	39.0	304.9	508.9	539.5	634.9	688.9	691.4	609.5

Source: Chile's Forestry Institute (INFOR)

PSD Table

Country	Chile					
Commodity	Softwood Logs				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2004		01/2005		01/2006
Production	16200	17128	17500	18850	0	20800
Imports	0	0	0	0	0	0
TOTAL SUPPLY	16200	17128	17500	18850	0	20800
Exports	295	185	320	100	0	75
Domestic Consumption	15905	16943	17180	18750	0	20725
TOTAL DISTRIBUTION	16200	17128	17500	18850	0	20800

Export Trade Matrix			
Country	Chile		
Commodity	Softwood Logs		
Time Period	Jan-Dec	Units:	CuM
Exports for:	2003		2004
U.S.	0	U.S.	
Others		Others	
Japan	147954	Japan	116946
So. Korea	25043	So. Korea	68025
Total for Others	172997		184971
Others not Listed	0		0
Grand Total	172997		184971

Softwood Lumber

Although declining in importance relative to other sectors in the forest industry, saw milling is still the single largest consumer of logs, with pine logs making up close to 80 percent of total inputs. Close to a third of the lumber produced is exported. This is mostly the output from the larger state of the art sawmills. The remaining two-thirds is consumed locally. Production of softwood lumber is expected to keep growing in the next few years as availability of well-managed and knot-free trees increases. But exports are not expected to grow at the same rate, as the industry is trying to add value to its output by increasing its exports of manufactured wood products. However, in the long term, exports of softwood lumber should still rise as the availability of knot-free lumber increases. The increased availability of knot-free lumber is attributed to subsidized pruning and forest management under DL 701, which occurred up until the late nineties.

Softwood lumber expanded again in 2004, compared to the previous year, as a result of strong foreign demand. For 2005 and 2006, production is expected to increase as the availability of mature trees increases and investment in new milling facilities materializes.

Table 15 - Average Softwood Lumber Prices (US$/CUM)								
	1980	1990	1999	2000	2001	2002	2003	2004
Export	113	126	136	137	127	129	130	141
Domestic	76	55	80	76	61	57	58	67
CH$/US$	39.0	304.9	508.9	539.5	634.9	688.9	691.4	609.5
Source: Chile's Forestry Institute (INFOR).								

PSD Table						
Country	Chile					
Commodity	Softwood Lumber		1000 CUBIC METERS			
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/1999		01/2000		01/2001
Production	7970	7754	8770	8680	0	9700
Imports	0	0	0	0	0	0
TOTAL SUPPLY	7970	7754	8770	8680	0	9700
Exports	2700	2797	2970	3220	0	3670
Domestic Consumption	5270	4957	5800	5460	0	6030
TOTAL DISTRIBUTION	7970	7754	8770	8680	0	9700

Export Trade Matrix			
Country	Chile		
Commodity	Softwood Lumber		
Time Period	Jan-Dec	Units:	CuM
Exports for:	2003		2004
U.S.	370374	U.S.	540164
Others		Others	
Mexico	536483	Mexico	616120
Japan	380122	Japan	462511
Saudi Arabia	179202	UA Emirates	256177
UA Emirates	173617	Saudi Arabia	211629
Taiwan	86485	China	130119
China	84054	Spain	115020
Morocco	77760	Morocco	72571
Spain	71151	So. Korea	68578
So. Korea	46506	Taiwan	66576
Kuwait	37212	Kuwait	54183
Total for Others	1672592		2053484
Others not Listed	245704		203839
Grand Total	2288670		2797487