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Back to [Publications List](#)

Argentina's Forest Products Industry: A Country Profile

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Executive Summary

Argentina's geography, demographic profile, and level of infrastructural development are very favorable in comparison to other possible sources of plantation timber. It has a highly-educated population of over 35 million people who are generally more sophisticated and accustomed to a higher standard of living than those in other Latin American countries. Its industry and infrastructure, although somewhat inefficient and in need of upgrades in many respects, is also vastly superior to almost every other country in the region. The stability of the government, the financial system, and the overall business climate have traditionally been suspect, but have improved dramatically over the last decade. As part of a dramatic reform plan begun in 1989, Argentina's government has improved the efficiency of its own operations, deregulated and privatized the banking system, and pegged the currency to the US dollar in order to defeat hyperinflation. The general business climate continues to improve as well, as a new, more efficient way of conducting business takes hold. As a result, Argentina has recently become more attractive to foreign investors.

More than forty years of protectionism under the import substitution model left Argentina with hyperinflation, horrible credit, and an economy that was all but closed off to foreign trade. Thanks to the successful economic reforms that have taken place since 1989 under President Carlos Menem and Finance Ministers Domingo Cavallo and Roque Fernandez, Argentina is now on the road to recovery. Thus far, GDP growth has been very impressive, inflation has been defeated, foreign investment and foreign trade have increased dramatically, and the government has restructured its debt and reined in its fiscal policy. On the negative side, unemployment has been slow to recover from massive privatizations, while Argentina's trade deficit and current account deficit remain larger than many economists would like. These economic reforms withstood a severe shock after the Mexican peso crisis in 1995. It remains to be seen whether or not a similar currency devaluation will occur in Brazil and, if so, how well Argentina's hard-fought gains will survive another traumatic episode.

The total area of forest plantations in Argentina is now approaching 1 million hectares, the vast majority of which are southern pine, eucalyptus, willow and cottonwood. The government estimates that an additional 20 million hectares of land is suitable for forest plantations, in that they have favorable growing conditions and do not compete directly with agriculture or native timber stands. Plantations have been subsidized for decades, but most have not been managed properly until recently. Hence, the quality of the plantation timber available now is still quite low but is rapidly improving. The results of genetic improvement programs, already evident in the production of pine and eucalyptus in the subtropical northern regions of Argentina, are now being developed for Douglas-fir, ponderosa pine and lodgepole pine in southern regions that are similar in climate to the Pacific Northwest. While southern pine grown in the northern regions of Argentina will primarily be exported to North American and European markets, the native hardwoods and plantation softwoods in southern Argentina can also be conveniently shipped and effectively marketed into Asia.

Argentina's government has deregulated the forestry sector and offered subsidies to reimburse plantation development. Due to the low quality of plantation timber and the underdeveloped nature of the industry, Argentina tends to export raw materials such as pulp logs and import higher-value wood products such as paper. Forest products exports, though low by global standards, are increasing at a rapid rate. Argentine

producers are now very active in trade within MERCOSUR and have recently penetrated the US structural timber market for the first time. The pulp and paper sector and the composite panel sector are more highly developed than the sawnwood, plywood, and veneer sectors. The former sectors utilize lower quality timber and enjoy higher domestic market demand. The latter two are currently developing, and should continue to do so as more well-managed plantation timber matures.

Argentina has made a remarkable transition over the past decade. It possesses the climate, infrastructure, low cost structure, educated labor force, and regulatory freedom required to support a globally competitive forest products industry. Given the rapidly developing nature of the Argentine forest resource and wood processing sectors, the high levels of investment by Chilean forest products companies, and the fact that a substantial volume of future production will be exported to the US, it is timely for US firms to begin looking for ways to understand and participate in Argentina's forest products industry.

From the beginning, the Argentine government has promoted the forestry sector as an integral component of the economic reform plan. By emphasizing Argentina's favorable climate and low land costs, the government hopes to attract foreign investment and develop new jobs in the forestry sector. The three major challenges confronting the forest products industry are high transportation costs, low domestic demand, and an underdeveloped forest products industry. High transportation costs are being addressed by new road construction and the dredging of the Parana River. Domestic demand for wood products should steadily increase as the government strives to address a serious shortage of low-income housing and Argentines begin to enjoy an increasing standard of living.

The underdeveloped forest products industry is improving rapidly due to foreign investment and the surprising success of MERCOSUR. MERCOSUR (the Southern Cone Common Market) has fully integrated the economies of the region (particularly Argentina, Brazil, and Chile) and provides the forest products industry with economies of scale that would not be possible within each country's individual market alone. Perhaps the most notable impact of MERCOSUR has been the emerging regional dominance of Chilean forest products companies. With available investment capital, confidence in their ability to conduct business with their neighbors, and experience in the global forest products industry, Chilean investments represent over 60% of the foreign investment capital that has flowed into the Argentine forest products sector this decade. As a result, they have acquired large areas of plantation land and further developed every sector of the wood processing industry. They are also working to develop domestic, regional, and global markets and have taken advantage of some of Argentina's best investment opportunities by moving quickly. While some US companies (e.g., Kimberly-Clark, Union Camp, and Trillium) have already established themselves in this emerging market, the vast majority are taking a more cautious attitude to investing in Argentina.

Argentina's government has worked hard over the last decade to provide an attractive environment for foreign investment. With very few exceptions, foreign companies now enjoy the same rights and privileges as domestic firms. Thus far, Chilean companies have been active in developing new plantations as well as composite panel production facilities. Trillium and Fletcher Challenge New Zealand have each identified exceptional timber sources. Fletcher Challenge has already developed a modern mill complex among the northern forest plantations that produces lumber, plywood, veneer, and moulding and millwork. Trillium, which is now seeking government approval for its lenga project, hopes to do the same in the Patagonia region. Since its domestic market is the strongest, the pulp and paper sector is much more competitive.

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