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Chile's Forest Products Industry: A Country Profile

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Executive Summary

The goal of this paper is to provide objective and reliable information about Chile's forestry sector and its current and future role in the international forest products industry. The contents should provide a well-rounded view of forestry and associated issues in Chile and would be well suited to someone looking to gain insight on this topic, update their knowledge of the subject, compare Chile to other countries of interest, or begin to understand investment opportunities in Chile. While the document does provide investment information, someone seriously considering investing in Chile would most likely want to undertake a more thorough investigation of issues specifically related to their strategic plan and some appropriate resources for this have been cited.

Chile's favorable soil and climatic conditions allow for a rapid growth rate and production of marketable wood. They have an increasing plantation resource base (mostly radiata pine (*Pinus radiata*) and Eucalyptus species) and potential to expand their forestland further. Decree Law 701, now refocused from plantations and large landowner support to subsidizing planting and trimming costs for small landowners, has been the major and often criticized piece of forest management legislation since its induction in 1974. Not yet enacted, the "Recovery of the Native Forests and Their Promotion in Forestry" seeks to subsidize native forest management as well. Property rights are more respected for plantations, there is virtually no land tenure for native forest and what ownership does exist is hard to track.

Chile's forest industry has contributed about 3% of the total GDP over the last 15 years and made up 10% of all exports in Chile and 2% of the world trade in forest products. Their primary products consist mainly of roundwood, lumber, fiberboard, particleboard, wood chips, pulp, and newsprint. As the trend moves more toward secondary products such as sawnwood, molding and millwork, and furniture, they strive to strike a balance between the two. Non-timber forest products, such as sweetbriar rose (*Rosa eglanteria*), soapbark tree (*Quillaja saponaria*), and boldo (*Peumus boldo*), while hard to estimate due to the fragmented market, also significantly contribute to exports and may offer alternatives for more sustainable management. Wood pulp producers have made major investments in modern, low-pollution industrial plants and processing technologies to meet European market demand. Chile's exports focus makes them a reliable trading partner. Chile's ability to standardize and harmonize with market demand, share market information, adapt to the Argentinean crisis, and obtain more forest products marketing training; Chile's geographical location in relation to export markets, wood quality, use of natural resource-based exports as major momentum for economic growth, and technology restrictions; and forest-certification coupled with NGO pressure or boycotts are all potential challenges to the industry and important considerations for investors.

The major competitive threats regarding Chile are its likelihood of becoming more competitive in international markets as exports increase, increasing production and exports, and low production costs and labor costs relative to competing nations. Opportunities for countries interested in working with Chile include its positioning to resume higher growth, market-oriented economy, well-diversified international trade, well established State institutions, democratic government, and relatively qualified and ethical labor force.

The Chilean government provides active encouragement to private sector forest activity and is seeking to promote foreign direct investment (FDI) to capitalize on developing value-added products. The greatest opportunities include investment in sawmills, pulp plants, wood composite panels, and wood preservation. However, there are potential challenges or serious considerations for prospective investors. There is extreme consolidation of the industry. Empresas Compañía Manufacturera de Papeles y Cartones S.A. (CMPC) of

Matte Holding and Angelini forestry own 80% of productive forestland and wield serious political power. There is a relatively small presence of foreign capital compared to the 1980's. Chile's production base structuring allowed for better positioning of local groups, so foreign investors associated with local groups, but withdrew when profits decreased. Environmental pressures/restrictions and plantation criticism make it increasingly attractive to divert investments to neighboring countries with fewer restrictions.

Chile has gained preferred market access to certain countries by participating in free trade agreements with Canada, Mexico, and tentatively with the European Union (EU). It has bilateral trade agreements with the Andean Pact countries, the Southern Cone Common Market (MERCOSUR) countries, and Central America. It has also received invitations to Asia-Pacific Economic Cooperation (APEC), Latin American Integration Association (LAIA), and North American Free Trade Agreement (NAFTA). Chile actively participates in negotiation of the Free Trade Area of the Americas (FTAA), but negotiations between Chile and the United States have been held up mainly due to the U.S.'s hesitation to address sensitive agricultural issues.

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