Global Competitor Trends: Do Brazil and Chile Impact on New Zealand and Australia?

Future Forestry Finance Conference, Auckland, March 7-8, 2012
Sydney, March 13-14, 2012

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Agenda

- Competition between Australia/New Zealand and Brazil/Chile
  - Competing in the market place for forest products
  - Competing for investment capital
  - And sometimes both (e.g., the Gunns pulp mill)
Brazil and Chile dominate the forest industry in Latin America, accounting for 54% and 17% of the total planted forest resource in the region.
Brazil has a huge eucalyptus plantation base, but Chile is Australia’s major competitor in the woodchip markets in Asia.
Combined, Brazil and Chile have more pine plantations than NZ and Australia, and growth rates are higher---- but note no one is really expanding pine plantation area over the last decade
Brazil has more FSC certified forest than the rest of Latin America combined; in addition, Chile has 1.9 M ha of PEFC certified forest, Brazil has 1.3 M
Brazil and Chile have more than double the area of FSC-certified plantations as NZ and Australia.
In 2010, Brazil and Chile accounted for 67% of wood products exports, 44% of paper exports and 90% of pulp exports from Latin America.
One key difference between Brazil and Chile is the size of the domestic market (195 million people) in Brazil; Chile’s industry has always focused more on maintaining export markets.

Wood Product Exports from Brazil and Chile, 2000-2011E

- Brazil
- Chile

Million US$
Brazil also has a large wooden furniture industry; but exports have been hindered by global recession, competition from China, and a strong Real

![Brazil: Wooden Furniture Exports, 1997-2011](Image)
Foreign ownership of plantation forests in Latin America has not changed in the last several years, and amounts to only 14% of total plantation area (compared with over 50% in Australia/NZ)
In RISI’s 2012 Global Tree Farm Economics Review, we examined 104 case studies of possible investments, representing 30 species in 35 countries, for sawlogs, pulplogs and biomass.

Chart illustrates results of case studies in NZ/Australia (red) and Latin America (black). Increasing timberland investment attractiveness (to the right along x-axis) can be considered decreasing risk; IRRs above 8% were considered “relatively high returns”.

New Zealand and Australia tend to score much higher in international benchmark rankings, and have been more attractive for international timberland investors as well.

<table>
<thead>
<tr>
<th>Country</th>
<th>Timberland Investment Attractiveness Ranking</th>
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<tbody>
<tr>
<td>New Zealand</td>
<td>3</td>
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<tr>
<td>Australia</td>
<td>4</td>
</tr>
<tr>
<td>Chile</td>
<td>6</td>
</tr>
<tr>
<td>Uruguay</td>
<td>7</td>
</tr>
<tr>
<td>Brazil</td>
<td>8</td>
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<tr>
<td>Argentina</td>
<td>19</td>
</tr>
<tr>
<td>Colombia</td>
<td>22</td>
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<tr>
<td>Costa Rica</td>
<td>24</td>
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Source: Global Tree Farm Economics Review, 2012, RISI
Despite attractive growth rates and relatively high potential returns in Latin America, ownership of timberland in NZ & Australia by institutional investors is 1.5 times greater than in all of Latin America.
Competition in the Forest Products Markets

- Logs
- Lumber
- Wood panels
- Woodchips
- Pulp
The one area where South Americans are NOT trying to compete is in the log markets in Asia.
FSC certified eucalyptus sawlogs, loading at Montevideo, Uruguay, going to Vietnam to produce garden furniture for European/USA market.

One notable exception: eucalyptus sawlogs, where a clear premium exists for FSC certified product.
New Zealand and Chile had very similar volumes of softwood lumber exports to China in 2011, but Chile did much better in the Japanese market; Brazil and Australia are not significant suppliers.
Brazil’s lumber is primarily for the domestic market (and furniture production); Chile and New Zealand are direct competitors.
Brazil’s exports of secondary wood products will include a considerable portion made with tropical hardwoods; but Chile’s secondary products are based on plantation forests.

Note: “Secondary wood products” includes Harmonized Codes 4409 and 4413-4421 only.
Exports of composite panels from New Zealand have flat-lined since 2004, but exports from Chile continue to expand; again, Brazil’s production is primarily for the domestic furniture producers.
In 2001, Chile and New Zealand had similar radiata pine plywood exports; but in 2011 Chile’s exports were four times that of New Zealand.

![Softwood Plywood Exports, 1997-2011](image)
In 2011, Australia and Chile had the same volume of hardwood chip exports to Japan; Chile and Brazil also exported some volume to Europe, and Chile is the leading supplier of *E. globulus* chips.

Source: RISI’s International Pulpwood Trade Review, 2012
On a landed basis, Australian *E. globulus* woodchips have been more expensive than Chilean woodchips --- pricing in 2012 may narrow this gap

*E. globulus* Woodchips from Australia and Chile,  
Fourth Quarter 2011 Price Comparison  
US$ per BDMT

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Chile</th>
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<tr>
<td>FOB A$/BDMT</td>
<td>$207.40</td>
<td></td>
</tr>
<tr>
<td>A$ to US$</td>
<td>0.9884</td>
<td></td>
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<tr>
<td><strong>FOB - US$/BDMT</strong></td>
<td><strong>$209.83</strong></td>
<td><strong>$148.67</strong></td>
</tr>
<tr>
<td>Compaction Factor - CBF/BDMT</td>
<td>151</td>
<td>136</td>
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<tr>
<td>Freight-US$/BDMT</td>
<td>$23</td>
<td>$40</td>
</tr>
<tr>
<td>Bunker</td>
<td>$31</td>
<td>$54</td>
</tr>
<tr>
<td><strong>C&amp;F Japan - USD/BDMT</strong></td>
<td><strong>$265</strong></td>
<td><strong>$242</strong></td>
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</tbody>
</table>
South America is not a competitor in the softwood chip markets

Source: RISI’s International Pulpwood Trade Review, 2012
If a new hardwood pulp mill is built in Australia, it will have to compete in the export markets with experienced, low-cost producers in South America.
RISI is forecasting a major expansion in BHKP production in Brazil, China and Other Far East (e.g. Indonesia) and Other Latin America (Chile/Uruguay)
Chile has been a major competitor for New Zealand in the BSKP markets, but Brazil’s focus has been on hardwood pulp.
Brazil and Chile have a larger area of pine plantations than Australia and New Zealand, but have 5.5 times the area of eucalyptus plantations. Faster growth rates in South America mean that Brazil and Chile produce considerably more wood fiber.

Brazil and Chile do not compete with New Zealand and Australia in the softwood log markets or softwood chip markets.

Chile is a major competitor with Australia in the hardwood chip markets, and with New Zealand in the softwood lumber markets.

In other wood products and market pulp, Chile and Brazil are far ahead of Australia and New Zealand.

However, the largest share of institutional investments in timberland have gone to Australia and New Zealand, and this will continue in 2012.
Questions?

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