



## Global home

# South America Becomes a Global Player in the Forest, Paper and Packaging Sector

**5 July 2007** - South America is becoming a major global player in the forest, paper and packaging industry, according to research carried out by PricewaterhouseCoopers. Projections indicate that by 2011, five of the top ten market pulp producers will be based in South America, compared with two at the end of 2006. Sector opportunities and rewards fall into two broad categories – namely as a low-cost supply base for forest products, especially pulp, and as a growing market for forest, paper and packaging products.

South America possesses the richest forest resources on the planet, with 21% of the global forest area, totalling 832 million hectares. Blessed, in significant parts, with a favourable climate, fertile soil and abundant land, the continent has some of the lowest wood fibre costs in the world, which has become a prime competitive advantage

### Contacts

**Robert Barnden**

Tel:+ 46 (8) 5553 3016

**Vanessa Shaw**

Tel:+44 20 7212 1002

in world markets for globally traded forest products, particularly in pulp. Although home to an array of tropical hardwoods, the commercial interest in this region arises from its plantation forests.

Brazil dominates the sector regionally. Its total industrial roundwood harvest of around 120 million metres<sup>3</sup> annually represents almost 70% of the region's total, followed by Chile with almost 20%. Highly competitive wood costs, combined with advanced fibre technology and the latest processing technologies, have built strong wood product and pulp industries. Data from Resource Information Systems Inc (RISI) shows that in Q4 2006, Brazil ranked second to Indonesia as the lowest cost producer of bleached hardwood kraft pulp, with Chile in third place. Brazilian hardwood pulp manufacturing costs were some 22% lower than those in the US.

A few non-South American companies – such as Stora Enso, Botnia and International Paper – aim to share in these advantages. With high costs and other constraints in traditional Northern Hemisphere producing regions, and with a fibre shortage expected to continue in Asia, more of the largest pulp and paper companies should consider investing in pulp production in

South America to remain competitive. The region welcomes foreign investment.

The region has enjoyed increasing economic and political stability. The most recent data from the International Monetary Fund (IMF) shows that South America recorded real growth of 5.6% in 2006, just ahead of global growth of 5.4%. With a population of 377 million, the region's GDP per capita (roughly US\$5,000) is still a fraction of that in developed countries. However, with its mainly urbanised economies and with rising disposable incomes, the region presents a series of interesting consumer markets. With low annual per capita consumption of paper and paper board compared with developed countries, and rising incomes, domestic markets have room for substantial growth, presenting further investment opportunities.

Harnessing South America's paper and packaging potential also comes with challenges. There are macroeconomic and social developmental issues, as well as regulatory, governmental and infrastructural barriers which present risks to counter the several obvious advantages and which, taken together, have acted as a brake on the region from realising its economic

potential.

High taxes and interest rates are also impacting productivity and growth. The World Economic Forum's most recent Global Competitiveness Report placed Brazil 66th out of 125 countries, below the other BRICs (Brazil, Russia, India and China).

Robert Barnden, global forest, paper and packaging leader, PricewaterhouseCoopers, commented:

“South America has moved into the position of being a major global player in the forest, paper and packaging industry. This is especially apparent in the pulp sector where low-cost fibre, linked to advanced technologies, have moved the region, especially Brazil, into the forefront as a supplier of market pulp. However, domestic and foreign investors tapping into the region's potential must understand the challenges and appreciate that each South American market is distinctive and will require a unique approach.”

**Note to editor:**

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