

Timberland Investments in South America: A Profile of Colombia

By: Brooks C Mendell, Rafael De La Torre, and Tim Sydor

Principal, Forisk Consulting; Manager of Planning and Analysis, CellFor Corporation; and Forest Economist, Forisk Consulting. Dr. Mendell can be reached at bmendell@forisk.com.

U.S. investors increasingly seek opportunities to diversify their timberland portfolios internationally. Why? One reason is the increasingly competitive environment for U.S. timberlands. In the past five years, the number of TIMOs, as well as the financial resources available for timberland investments, has grown, driving up average per acre prices. For example, International Paper's recent transactions implied per acre values exceeding \$1,200/acre, over 20% above the average for industrial timberland sales in the South over the past five years. A second reason is a desire to balance U.S. and international holdings across asset classes. A comparison of the distribution of domestic versus international capitalization by asset class of U.S. investors indicates additional opportunities to diversify timberland holdings internationally (Table 1).

Table 1. U.S. Global Capitalization in Stocks, Bonds, Real Estate, and Timberlands, 2005

	Stocks	Bonds	Real Estate	Timberlands
Domestic (U.S.)	53%	52%	43%	76%
International (Outside U.S.)	47%	48%	57%	24%

Source: UBS Global Asset Management, Lehman Brothers, Global Forest Partners

Institutional capital from the U.S. has been flowing through timberland investment management organizations (TIMOs) to timberland investments

in South America. TIMOs with substantive assets under management in South America include Global Forest Partners, GMO Renewable Resources, Hancock, and RMK. To date, investments have been focused on the countries of Argentina, Brazil, Chile, and Uruguay (profiled in TMS Market News, 3rd Quarter 2004). More recently, investors have sought opportunities elsewhere in Latin America, such as in Venezuela and in hardwood plantations in Central America.

Colombia, sitting in the northwest corner of South America (Figure 1), is best known for its prodigious coffee industry. Colombia's reputation as the finest producer of soft-bean coffees contrasts with an often reported industry of illegal crops. Fortunately, crime has declined with the election of President Uribe in 2002 (he was reelected this Spring). In addition, Colombia has long viewed forestry as an attractive growth industry and alternative land use. "The General Forest Law," put in place in April 2006, updates the country's forest policy and is expected to boost reforestation. Two authors of this article recently spent time in Colombia to participate in timberland investment seminars and to investigate forest plantation opportunities. They report the following:

Colombia, a Spanish-speaking country, with coasts in two oceans, is the third most populous country, after Brazil and Mexico, in Latin America, with 45 million inhabitants. The capitol, Bogotá, has 7 million inhabitants. The country is about nine times the size of North Carolina or eight times Florida and, due to its topography, features temperatures ranging from tropically hot in the lowlands to freezing on the snowy mountain peaks.

Nearly half of Colombia's land base is categorized as forest land. Natural forests source 70% to 80% of the market timber supply while forest plantations produce 20% to 30% of the market timber. Recent evaluations from CONIF (National Corporation for Research and Forest Development) estimate that Colombia has 16 million hectares for commercial forest plantations, of which 4.0 million hectares can be managed in intensive silviculture programs. The forest products industry relies heavily on these plantations for its

raw material needs as follows: pulp (100%), particle boards (70%), treated wood (90%), and round mining timber and poles (70%). Diverse sources indicate that annual round wood production is 2.5-3.7 million cubic meters.

Colombia is not new to forestry. Over fifty years ago, the Colombian government initiated a thorough study of the country's forestry situation¹. The newly founded World Bank provided support, which supplied a forestry adviser to survey forest condition, and make specific recommendations. As a result, new forestry faculties for forest engineering and a basic forest service were staffed and given better resources.

Recent Colombian forest projects have reached and exceeded the highest growth rates recorded across South America. For example, the average mean annual increment for conifers is 20 m³/ha/yr, and for eucalyptus, 30 m³/ha/yr, in rotations of 15 to 18 years for pine, and 6 to 8 years for eucalyptus. With a year-round growing season, Colombia has two planting seasons in the Andean region and one in the Caribbean and Eastern plains regions. Now, more than 4.0 million hectares are available for intensive silviculture forest plantations at prices ranging from \$1,000 to \$1,500 per hectare (\$400 - \$600 per acre).

Today, Colombia features a variety of integrated forest industry firms that own 5,000 to 100,000 acres of forestland to support their activities. These include largest include pulp and paper firm Carton de Colombia, plywood and particle board manufacturer Monterrey Forestal (a subsidiary of Pizano S.A), and lumber firms Cipreses de Colombia, Refocosta, and Pro-Oriente. In 2004, these firms helped export \$32 million of primary forest products and timber, while Colombia imported forest products worth \$47 million. Interestingly, Colombia has low per capita consumption of forest products. One reason may be because a key driver of demand, housing construction, includes only 5% of lumber as a housing component. This is in contrast to other

countries, where timber represents as much as 75% of housing construction materials. Therefore, exports are important and Colombia is well-positioned geographically at the midpoint between North and South America.

Colombia has improved its suitability for forestry investments. Political and economic stability have improved. Knowledge and expertise with fast growing species are established, as is state-of-the-art forest regeneration technology. Local industries and the Minister of Agriculture have allocated resources to address concerns of forest businesses and institutional forestland owners, making Colombia increasingly attractive to international timberland investors.



Figure 1: South America with Colombia circled
Source: World Factbook

¹ Van Bottenburg, M. 1952. The forest situation in Colombia, Unasylva Vol.6, No. 2