

UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL



GENERAL
E/CN.12/434
14 April 1957
ENGLISH
ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA
Seventh session
La Paz, Bolivia
15 May 1957

PROGRESS REPORT OF THE PULP AND PAPER
ADVISORY GROUP IN LATIN AMERICA

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I. ESTABLISHMENT OF THE PULP AND PAPER ADVISORY GROUP

1. Background

Since the end of the Second World War, international agencies have been increasingly concerned about the problems involved in assuring the Latin American countries of adequate supplies and distribution of pulp and paper products.

The United Nations decided to undertake what might be termed a preliminary survey ^{1/} of the problem as a result of several factors, the more important of which include: the need to develop pulp and paper industries to a level commensurate with region's degree of economic and agricultural development; the abundant natural resources available within the area to supply such industries and the rather discouraging prospects concerning future exportable surpluses of the traditional pulp and paper suppliers. The purpose of the preliminary study was to define the problem, outline general solutions for the countries studied and, at the same time, to point out to the countries concerned the need to take energetic steps to meet the expanding demand for the commodities in question.

2. Recommendations of the Latin American Meeting of Experts on the Pulp and Paper Industry: Establishment of the Advisory Group.

By the middle of 1954, in view of the progress made during the preliminary study of the problem, the time was ripe for completing the first stage and proceeding to the second, at which each case was to receive detailed study. This second stage was to include an analysis of each country's specific problems and in particular more attention was to be paid to economic and environmental factors forming the main obstacles to more rapid progress.

This new stage might be said to have begun with the Meeting of Experts held at Buenos Aires in October 1954 and sponsored jointly by ECLA, FAO

^{1/} See possibilities for the Development of the Pulp and Paper Industry in Latin America (E/CN.12/294/Rev.2) United Nations Publication Sales No. 1953.II. G.2

and UNTAA pursuant to resolution 58 (V) adopted at ECLA'S fifth session (April 1953).

The studies prepared for that meeting covered nearly all aspects of the problem, as may be appreciated from the great variety of documents presented.^{2/} The Meeting recognized that, while the role of the United Nations in promoting and developing the industry was necessarily a limited one, it was nonetheless of great importance. This was stressed in the recommendations, one of which emphasized the importance of placing at the disposal of the Latin American countries objective and disinterested advice relating to forestry and to the technical and economic aspects of the planning and installation of new pulp and paper mills. Accordingly, the Meeting considered that a group of experts should be placed at the disposal of the Latin American countries, composed of specialists in the industrial problems and in the economic aspects of the pulp and paper industry.^{3/}

In view of this recommendation, the proposed Advisory Group was set up by ECLA, FAO and UNTAA along the lines suggested by the Meeting of Experts. The Commission was informed of this at its sixth session, and in resolution 98 (VI), adopted on 15 September 1955, ECLA took note with satisfaction of the report presented by the secretariat on the Latin American Meeting of Experts on the Pulp and Paper Industry and of the establishment of the Advisory Group in collaboration with FAO and UNTAA.

3. Terms of reference of the Advisory Group

The Advisory Group's terms of reference might be briefly described as follows:

- a) To provide technical assistance to Governments or semi-official agencies in the preparation of general development plans relating

^{2/} See Pulp and Paper Prospects in Latin America, United Nations Publication, Sales No. 1955. II.G.4., p. 33.

^{3/} See op. cit., page 30, recommendations 3 and 4.

to the pulp and paper industry;

- (b) To assist in the preparation of the preliminary studies and analyses made by firms or individuals interested in preparing pulp and paper projects;
- (c) To provide technical advice to Governments or private firms in the formulation and presentation of projects, which should include the information necessary for: (i) technicians in charge of programming the economic development of a given country; and (ii) the financing agencies, whether public, private or international.

Naturally the above enumeration is intended to serve as a guide only; the Advisory Group's functions may include a series of aspects that have not been mentioned specifically but which must, of course, fall within these general lines.

II. STUDIES PREPARED BY THE ADVISORY GROUP

1. Argentina

The report on Argentina^{4/} was completed in January 1956. It was prepared at the request of the Argentine Government and delivered to the authorities in that country on 24 February 1956.

This is a preliminary report; it may be considered to be a general appraisal of Argentina's situation in regard to present and future supply and demand for pulp and paper products. Three of its chapters discuss briefly the newsprint problem, the general economic aspects of the industry and the need for a long-term development programme for this industry. Special reference is made to the part that might be played by the pulp and paper sector in the import substitution.

^{4/} Informe preliminar al Ministro de Industria de la República Argentina acerca de los problemas de la industria de papel y celulosa (restricted document for internal use only). (Spanish only.)

Since one of the principal reasons for presenting this report was to request observations on its conclusions from the authorities responsible for preparing the industrial development programme and from the representatives of the industries already established in the country, the part relating to recommendations for a short-term development programme was left pending. It was considered preferable to defer the drafting of this chapter until the observations mentioned above had been submitted and discussed, since they would also serve as a basis for the complete revision of the report. Some of its main conclusions are reviewed briefly below.

It was shown that Argentina will have to look to new sources of supply in the near future to meet its growing deficit of pulp and paper products; hence the availabilities of domestic raw materials suitable for pulping were briefly reviewed, although the problem was only approached from its more general aspects. For instance, in discussing the possibility of producing wood pulps in Argentina itself with a view to the replacement, in whole or in part, of pulp and paper imports, an important distinction had to be made between long-fibred and short-fibred pulps. In the first case, current resources of natural or artificial coniferous forests (long-fibred woods) are so small that it is difficult to draw up any short-term plans for the large-scale, integrated manufacture of certain types of paper requiring long-fibred pulp such as newsprint, kraft wrapping paper and kraft liner. Hence a long-term programme for the development and utilization of this potential wealth is urgently necessary. For this purpose, the report recommends that facilities should be granted for importing seed, since the difficulty in obtaining it has apparently been one of the main drawbacks to the introduction of large-scale coniferous plantations.

The situation with regard to short-fibred pulps, is much more favourable since a considerable yield is anticipated over the next few years from both the eucalypt and the salicaceous plantations (poplars and willows) provided that the present rate of planting is maintained and that forest management is efficient and orderly. The salicaceous plantations which are concentrated in the Paraná Delta are particularly important.

/The report

The report has laid special stress on the newsprint problem; in this connexion, positive conclusions are formulated concerning the technical and economic possibilities - the latter on the basis of a reasonable degree of tariff protection - of producing newsprint with local raw materials; at the same time it is considered difficult for self-sufficiency in this product to be achieved before 1965. Because supplies of newsprint available for export outside the great producing regions - North America and Europe - are essentially of a marginal nature, it seems logical that Argentina should seek to ensure a steady supply of this product from other sources.

The report suggests a possible solution to this problem: since Chile may in the near future have exportable surpluses of newsprint, it would seem advisable to draw up a long-term trade agreement with that country, so as to ensure a supply of the product in question since, as already seen, it would appear difficult for Argentina to replace newsprint imports before 1965.^{5/}

A substantial part of the report on Argentina deals with the industry's economic aspects. Among the more important of its conclusions are those pointing to the importance of the pulp and paper industry for purposes of import substitution^{6/} which together with the aspect of relative costs, constitutes by itself an important incentive for directing investment towards this sector. In indicating a possible order of priority for the various types of project, the report ranks pulp manufacture first, followed by integrated paper manufacture and then newsprint; non-integrated production of paper based on imported pulp was not recommended. Finally, on the subject of customs duties, tariff reforms are recommended since the present policy encourages paper manufacture (except for newsprint) on the basis of imported pulps while no incentive is provided for the domestic manufacture of pulp based on local raw

^{5/} See the study entitled "Possibilities of supplying Latin America's pulp and paper requirements through a regional market", submitted by the secretariat to the ECLA trade Committee in November 1956 (Conference Room Paper No. 1 of the first session of the Trade Committee).

^{6/} Depending on the product, a new project can save the amount of foreign exchange needed for its installation in a period ranging from 10 months to 2 years and 4 months.

materials. In view of this, the suggestion is made that duties on paper imports should be reduced and those on pulp imports raised.

The report was discussed at a meeting held at Buenos Aires in September 1956, which was attended not only by the members of the Advisory Group but also by representatives of the public and private sectors associated with the Argentine paper products industry. At this meeting it was decided to prepare the final version of the report.

2. Chile

The report Chile potential pulp and paper exporter^{7/} was commenced in February and completed in August 1956. It was undertaken at the request of the Chilean Government and of the Corporación de Fomento de la Producción, which assisted in preparing the basic background data contained in the appendices.

The study deals with the technical and economic possibilities of establishing in Chile a pulp and paper industry designed for the export market which forms part of a broader regional development plan aimed at ensuring the supply of paper products in Latin America. It should be stressed here that this study is one of a general nature and cannot be used for the appraisal of specific manufacturing projects, which ought to be assessed on their own merits.

After establishing that there is a current market for the pulp and paper that Chile can produce and that this market will grow during the next decade, the rest of the study consists in proving that, providing certain conditions are fulfilled, Chile can produce pulp and paper at prices that can compete on the international market.

This is important for the establishment of an industry, since the present Chilean domestic market for paper products is much smaller than available reserves of fibrous raw materials.

One of the main - if not the most important - factors which indicates that this condition may be fulfilled is the low cost of standing timber due to the extraordinary growth rate of pinus radiata in Chile. Of all

^{7/} E/CN.12/424; FAO/ETAP 560; TAA/CHI/3.

the country's possible fibrous resources plantations of this conifer offer the best prospects from both the technical and the economic aspects for making pulp and paper. As a result, this was the only species considered out of all those suitable for the pulping industry.

As for aspects such as transport and electric energy shortages which constitute more or less serious obstacles to the execution of the development plans recommended, the report confined itself to stating the magnitude of the problem and to stressing that each project and manufacturing locality required to be studied in detail from the point of view of these aspects. It was outside the scope of the report to indicate ways and means of solving specific problems.

The principal recommendation advises the Chilean Government to adopt a policy and to take action to create incentives for establishing as soon as possible large scale pulp and paper industries based on the existing pinus radiata plantations. This action was recommended for two main reasons: To improve the balance of payments - since total net foreign exchange earnings would rise by some 15 to 20 per cent - and to recover the value represented by the existing plantations (about 60 million dollars). These assets can only be entirely salvaged the establishment of a pulp and paper industry. The reasons for urgency in so doing lie in the fact that plantations are rapidly reaching the average age of maximum economic return, after which the cost of standing timber will increase considerably as also the price of end-products.

The heavy investments - particularly in foreign currency - required to carry out these development plans make it essential to enlist the support of foreign capital; hence it is a function of the public sector to create the climate and conditions favourable to foreign capital through the concession of facilities for profit remittances, capital withdrawal etc.

At the same time, it is recommended that import duties on production equipment for this industry should be temporarily suspended.

Emphasis is also laid on the need to co-ordinate Chile's foreign trade policy with the development of the industry, so that its exportable

surpluses of paper products may be included in trade agreements to be signed with countries where these commodities are in short supply such as Argentina.

The importance to Chile of the establishment of a paper products industry based on its pinus radiata plantations becomes evident when it is considered that the net annual foreign exchange earnings from this sector could amount to between 60 and 85 million dollars in the first 10 years of its activity. These earnings would subsequently rise by 25 per cent, once assets had been entirely amortized. This is an important consideration because Chile's total net foreign exchange earnings were in the neighbourhood of 425 million dollars in 1955.

III. WORK PROGRAMME FOR 1957

The Pulp and Paper Advisory Group had before it pending requests, from the Governments of Colombia, Mexico and Peru, to the effect that it should meet in order to provide technical assistance to the authorities of those countries concerned with developing the pulp and paper industry.

The Group plans to proceed to Lima, Peru, in May in order to gather the basic information needed for preparing the study on that country. In the second half of the year it will go to Colombia and Mexico for the same purpose, returning subsequently to its headquarters at Santiago to draft and complete the reports, which should be ready in 1958.