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Brazil

Solid Wood Products

Annual Report

2004

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Report Highlights:

Brazil's production of solid wood products is expected to increase in 2005 by an average of 5 percent, reflecting an improved economic outlook with higher demand from the construction and furniture sectors, and higher exports due to a favorable exchange rate.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Brasilia [BR1]
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Executive Summary

The economic outlook for 2005 calls for continued growth, with inflation under control, a decline in the unemployment rate, and an increase in the trade surplus. The economic performance will also help to improve the performance of the construction and furniture sectors, which likely will increase demand for solid wood products.

Production

Brazil remains without a reliable inventory of its forest resources, mostly in the Amazon region, which makes it difficult to estimate the exact forest area. There is no official data on solid wood production. Information provided in the Forest Area Strategic Indicator Table and on the PS&D tables are our best estimates, and data is derived from interviews with industry leaders and unofficial data furnished by our contacts in the sector.

Forest Situation Report/Outlook

Brazil has a diversified and rich vegetation characterized by various forest ecosystems, which results from climatic, geological, and relief differences found in its vast territory. The principal forest resource base of Brazil is the Amazon region with approximately 260 million hectares or 40 percent of Brazil's territory. It contains nearly 80 percent of the national forest resources.

The other important resource base is the "Cerrado" (savanna) with 140 million hectares or 25 percent of the country's territory, followed by the "Caatinga" with 83 million hectares in the dry lands of Brazil's Northeast region. Other important ecosystems are the "Pantanal" in the wetland areas of Central Brazil, the Atlantic forest along the coast of Brazil, and the temperate forest of the South, mostly consisting of pine. Eucalyptus plantations are spread throughout several states, but are predominant in the southeast region.

The native forests cited above are not the only major source of timber for Brazil's forest products industry. In fact, the panel products and the pulp and paper industries rely mostly on industrial plantations with an estimated area of 6 million hectares. While most of the native forests are made up of hardwoods, such as the Amazon region, which accounts for nearly 20 percent of the world's tropical hardwood forest resources, the industrial plantations consist primarily of eucalyptus (62 percent) and pine (38 percent). Except for the Amazon forest, the location of major stands is relatively close to the forest products industry, as well as to the pulp and paper mills. Also, except for the Amazon region, where seasonal floods are a major constraint, accessibility to timber resources is not a major problem in Brazil.

Conservation and environmental policies in Brazil are restricting further illegal timber cuts, mostly in the Atlantic forest. However, in the Amazon, illegal timber removals remain a major problem despite the heavy penalties that can be applied by Brazilian inspectors. There are no reliable numbers on illegal timber removed from the Amazon region. Our best estimate is that about 28 million cubic meters of logs are removed from the Amazon region, per year, and only 27 percent are from areas with forest management. All other timber comes from illegal deforestation, Indian reserves, and public lands. Contrary to what is commonly said, the majority of illegal timber from the Amazon is not exported, but its major destination is the Southeast and Southern regions of Brazil. According to the Association of Timber Exporters from the State of Para (AIMEX), 20 percent of timber produced in the Amazon is exported, while 80 percent is destined for the domestic market, mostly the state of Sao Paulo.

In addition to the illegal timber removals, the commercial forest sector in the Amazon also faces other constraints which contribute to higher production costs, such as: lack of adequate long-term financing, international pressure for conservation and preservation of the Amazon forest, competition from livestock (cattle raising), crops (mostly soybeans in the new frontier areas), road openings, forest burnings, and the landless agrarian movement in Brazil.

The most recent survey of Amazon deforestation shows that the rate of deforestation reached 16 percent, between August 2002 and August 2003, which raised strong criticisms from environmental NGOs. Trade sources in the Amazon have reported to OAA that forestry related activity is actually responsible for only 2 percent of the total deforestation in the Amazon region, and that cattle raising and soybean plantations have contributed more to deforestation in the area. However, this is a highly controversial issue in Brazil and lack of reliable data from the government fuels more debate on the subject.

Most of the forests in Brazil are privately owned and managed, while government forests are mostly for protection and preservation. However, in the Amazon region land title remains a problem for nearly half of the territory.

Government incentives for reforestation and afforestation projects ended in 1986 when the government abolished the Fiset Florestal, a subsidy program that allocated in more than 10 years about US\$ 6 billion to the sector. Since then, practically all reforestation projects have been carried out by private companies, mostly by the pulp and paper, charcoal, iron ore, and panel industry sectors. From 1987 through 1992, the average annual reforested area in Brazil was 197,000 hectares, which dropped to an average of 150,000

hectares, per year, during the past 5 years. Industry leaders estimated that in the near future Brazil might have problems in meeting domestic wood demand. They estimate the current deficit of reforested area in Brazil around 300,000 hectares per year. Total investment during the next 6 years for newly planted forest areas is estimated at US\$1.5 billion.

The federal government created in June 2004, the PROPFLORA (The Program for Commercial Planting and Recuperation of Forests), under the Bank for Social and Economic Development (BNDES). It is a credit program, at subsidized interest rates of 8.75 percent per year with a loan limit per farmer of R\$150,000 (about US\$ 55,000), with a grace period limited to the first cut.

The exploitation of mahogany was prohibited by the Brazilian government on August 14, 2002 until March 2003 as a means to maintain the species under the Annex III of the CITES. On February 13, 2004, the federal government extended the prohibition for another 150 days and created a commission to so elaborate new rules for the sustainable management of mahogany. As of July 20, 2004, the government decided to eliminate the prohibition on exports of mahogany and other Amazon species such as Virola and Imbuia. However, exports of these species are under the rigid control of the Ministry of Environment.

Solid Wood Production Situation/Outlook

Tropical hardwood logs. Production is expected to increase by 5 percent in 2005 reflecting an improvement in the Brazilian economy, increased exports of hardwood lumber, and an increase in the area of Certified Forest in the Amazon region. According to private analysts, wood producers in the Amazon are obtaining 20 percent above market price for certified wood. Demand for forest certification is also increasing because some of the governments in the region are now offering tax incentives for wood companies that can present sustainable forest management projects to officials.

The Forest Stewardship Council (FSC) has accredited three institutions in Brazil to issue forest certificates. As of December 2004, the total forest area in Brazil with certification under the FSC is nearly 3 million hectares, of which 62 percent is in the Amazon region.

Tropical hardwood lumber. Production of hardwood lumber is expected to increase by 5 percent in 2005 because of higher wood demand from the domestic industry and increased exports. The federal government has initiated a program to provide more financing to the lower Brazilian classes, which has improved demand for home construction in 2004. This is expected to continue in 2005, which will likely boost demand for lumber. In addition, a

favorable exchange rate will improve exports of Brazilian hardwood, which is now more competitive in the world market.

The lumber industry in Brazil is composed of nearly 10,000 companies, mostly small and medium scale operations. Over the past 5 years, the lumber industry has gone through structural changes, increasing its competitiveness, technology, and investment. The distribution of lumber in Brazil by main sectors is: retail (36 percent), construction (21 percent), furniture (16 percent), industry in general (15 percent), and all others (12 percent). Wood originating from planted forests has increased its share of total lumber produced from 25 percent in the early 1990's to approximately 30 percent this year.

Softwood Lumber. Production from pine plantations in the South continues to rise as plantations begin to mature. Post estimates an average increase in production of softwood lumber in 2005 around 5 percent boosted by booming exports of softwood lumber and by increased use of this wood in the furniture industry. However, forest consultants are predicting a deficit in softwood lumber production in the near future if further investments in forestation projects are not accelerated.

Softwood plywood. Total production of plywood (both hardwood and softwood) will increase by nearly 11 percent in 2005, mostly due to higher demand from the export market and from the domestic furniture market. Brazil's furniture exports are booming to markets in Europe and in the United States.

The Brazilian plywood association does not differentiate between softwood and hardwood plywood production. However, based on interviews with industry sources, OAA has updated the breakdown in production to identify the origin of the wood using 90 percent for softwood harvested (from the planted pine forests in the south and southeast regions) and 10 percent for hardwood. The plywood industry in Brazil consists of nearly 300 companies, of which 62 percent are medium and large-scale companies, while 38 percent are small-scale companies. The installed production capacity of the plywood industry in Brazil is estimated at 2.4 million cubic meters, of which 45 companies account for 60 percent of this capacity. The breakdown of plywood production in Brazil is distributed as follow: furniture (45 percent), construction (34 percent), packaging (17 percent), and all others (4 percent).

Trade

Post estimates for 2004 another record year for exports of forest products (chapter 44 of HTS, including charcoal) at US\$ 3 billion, and also a record in imports of US\$ 75 million. Record exports of Brazilian forest products are due to (1) higher demand for lumber from the construction sector and environmental concerns (spotted owl) in the United States. The United States accounts for nearly half of all wood and wood article imports from Brazil; (2) competitive exchange rate; and, (3) increasing market promotion activities of the Brazilian forest and furniture industries. Imports of forest products are mainly from Mercosul members and reflect exemption of import tariffs.

Policy

Since Post's last annual report, two major policy issues continue to affect the forest sector in Brazil: a) The revision of the Brazilian National Forest Code of 1965, and b) the National Forest Plan (PNF, in Portuguese).

The revision of the Forest Code, Law 4,771/65, which was altered by Provisional Measure Number 2,080/96 (now in the 67th edition), increased the forest protection in each individual farm in the Amazon from 50 to 80 percent of each farm. A Joint Committee of the Congress that revised the Forest Code approved on September 5, 2001 a proposal prepared by Congressman Micheletto. The draft decreases the protection area in the Amazon from 80 to 50 percent, per farm, and in the Cerrado region from 35 to 20 percent. To become law and replace the Forest Code, the bill must be approved by a joint session of the Congress (House and Senate), and submitted to the President for final signature. The battle over the reform of the Forest Code is not over yet and it is expected to continue in 2005.

The National Forest Plan (PNF) was created by Presidential Decree No. 3,420 on April 20, 2000, but was officially announced in October of 2000. The PNF is part of a major National Government Plan (PPA 2000-2003), and has three main program areas: a) Expansion of the planted and managed forest base (Florestar), b) Sustainable Forests (Sustentar), and, c) Prevention against Deforestation, Burnings, and Forest Fires (Florescer). Total investments allocated for these program areas are estimated at US\$1.5 billion over a 3 year-period. The most important aspects of the PNF are:

a) increase by 50 million hectares (124 million acres) the National Forests (FLONAS) in the legal Amazon area by the year 2010 (10 million hectares by 2003). Currently, Brazil has 49 FLONAS totaling 15 million hectares, of which 99 percent are in the Amazon. The regulatory framework for the FLONAS is from 1994 (Decree Number 1298), but so far only one FLONA (Tapajos), in the Amazon was open for an experimental exploitation of its forest resources.

Final regulations to allow the private sector to explore these forests are not in place yet;

- b) ensure that 10 percent of the future demand for logs is supplied from these FLONAS;

- c) designate 20 million hectares of forests in the Amazon region for a sustainable production program by 2010;

- d) create a forest development fund with an annual budget of US\$40 million;

- e) improve logging efficiency by 50 percent, by 2003;

- f) increase Brazil's share of the world tropical wood market from 4 to 10 percent by 2010;

Private sources in the Brazilian forest sector remain concerned with the conservation and environmentally focused policies of the new federal administration that took over in January 1, 2003. The concern is that environmental policies prevail over forest production policies. Forest sector leaders have delivered a paper to the President of Brazil, calling for the creation of a Forest Production Agency, directly linked to the Office of the President, to foster the development of forestation projects in Brazil, which requires large amounts of long-term funding. These leaders claim that the best way to preserve the Amazon forest is to incentivate (read subsidize) forestation projects, and implied that beginning in 2005, Brazil will have a deficit in wood production.

Marketing

The Export Promotion Agency - APEX, created by the federal government in 1997, is responsible for coordinating and financing up to 50 percent of the cost of promoting Brazilian products overseas and attracting more small and medium sized companies into the export business. APEX, has two programs related to the forest sector, which are similar to the FAS Market Access Program: APEX/ABIMOVEL - The Brazilian Association of Furniture Industry, and APEX/ABIMCI - The Brazilian Association of Mechanically Processed Timber.

The APEX/ABIMOVEL is a cost-sharing market promotion program valued at US\$ 7 million (50 percent paid by APEX) to promote Brazilian furniture in targeted markets, such as the United States and Europe. The goal is to increase furniture exports by 19 percent per year and increase the current total export value of the sector to over US\$ 1 billion. Promotional activities include: market research, trade shows, trade missions, reverse trade missions, advertising in specialized media, and publication of catalogs. The Brazilian furniture sector is composed of more than 70,000 firms, mostly small companies, with a total gross income of US\$ 4.1 billion.

The APEX/ABIMCI is also a cost-sharing market promotion program, but has not been fully implemented. This year, APEX financed 30 percent of a Brazilian trade mission to China and Japan to research market opportunities for Brazilian plywood. ABIMCI is now proposing a major market promotion program valued at US\$ 8 million to double Brazilian exports of plywood within 4 years. According to ABIMCI, market promotion efforts are targeted at high-value products, and will include activities in the most important world trade shows, visits to importers, mostly in Europe, reverse marketing missions, specialized media teams, and catalogs.

Strategic Indicator Tables

FOREST AREA			
Country: BRAZIL			
Report Year: 2004	2003	2004	2005
Total Land Area (million hectares)	846	846	846
Total Forest Area (million hectares)	412	412	412
--of which, Commercial ('000 hectares)	245	245	245
----of commercial, tropical hardwood ('000 hectares)	240	239	238
----of commercial, temperate hardwood ('000 hectares)	2	3	3
----of commercial, softwood ('000 hectares)	3	3	3
Forest Type			
--of which, virgin ('000 hectares)	195	180	178
--of which, plantation ('000 hectares)	4	5	6
--of which, other commercial (regrowth) ('000 hectares)	2	2	2
Total Volume of Standing Timber (thousand cubic meters)			
--of which, Commercial Timber ('000 cum)			
Annual Timber Removal ('000 cum) 1/	168	170	172
Annual Timber Growth Rate ('000 cum)			
Annual Allowable Cut ('000 cum)			
1/ If Removals exceeds growth rate, analyze impact in text.			

WOOD PRODUCTS SUBSIDIES			
Country: BRAZIL			
Year of Report: 2004	2003	2004	2005
Total Solid Wood Export Subsidy Outlay (\$US million)			
Is there a ban on the export of logs, lumber, or veneer? 1/			
Are there export taxes (yes/no)? 2/	no	no	no
Total Wood Production Subsidy (\$US million)	6	7	8
Scope (thousands of hectares)	n/a	n/a	n/a
Are there other wood products export expansion activities? 1/			
1/ If yes, describe in report.			
2/ If yes, identify in Tariff and Tax Strategic Indicator Table.			

FOREST PRODUCT TARIFFS AND TAXES (percent)**Country: BRAZIL****Report Year: 2004**

HTS Code	Product Description 1/	2003	2004	Total Cost of Import 2/	Export Tax
4401	Fuel Wood	3.5	2	28.5	0
4403	Wood in the rough	3.5	2	28.5	0
4404	Hoop wood	3.5	2	28.5	0
4405	Wood wool	3.5	2	28.5	0
4406	Railroad sleepers	5.5	4	30.5	0
4407	Sawn wood	7.5	6	32.5	0
4408	Veneer Sheets	11.5	10	36.5	0
4409	Wood Flooring	11.5	10	36.5	0
4410	Particleboard	11.5	10	36.5	0
4411	Fiberboard	11.5	10	36.5	0
4412	Plywood	11.5	10	36.5	0
4413	Dandified wood	11.5	10	36.5	0
4414	Wooden frames	11.5	10	36.5	0
4415	Packing cases	11.5	10	36.5	0
4416	Barrels	11.5	10	36.5	0
4417	Tools	11.5	10	36.5	0
4418	Carpentry wood	15.5	14	40.5	0
4419	Tableware	15.5	14	40.5	0
4420	Wood parquetry	15.5	14	40.5	0
4421	Other articles of wood	15.5	14	40.5	0
4422	n/a				
4423	n/a				
4424	n/a				
4425	n/a				
Pre-fabricated Houses, a subsection under chapter 96		19.5	18	44.5	0

1/ Insert additional lines for Commodity tariff identification should tariffs vary within the four-digit designation for major products exported by the U.S. (4412.19: softwood plywood 10%; other plywood, 10%).

2/ Calculated as tariff plus other import taxes/fees assuming a commodity value of \$100.

PS&D Tables

Tropical Hardwood Logs, PS&D Table

PSD Table Country Brazil Commodity Tropical Hardwood Logs 1000 CUBIC METERS								
	2003	Revised	2004	Estimate	2005	Forecast	UOM	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]		
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY	
Production	29700	29700	29700	31790	0	33380	1000 CUBIC METERS	
Imports	0	23	0	380	0	450	1000 CUBIC METERS	
TOTAL SUPPLY	29700	29723	29700	32170	0	33830	1000 CUBIC METERS	
Exports	20	74	20	60	0	40	1000 CUBIC METERS	
Domestic Consumption	29680	29649	29680	32110	0	33790	1000 CUBIC METERS	
TOTAL DISTRIBUTION	29700	29723	29700	32170	0	33830	1000 CUBIC METERS	

Tropical Hardwood Logs, Export Trade Matrix

Country Brazil			
Commodity Tropical Hardwood Logs			
Time Period Jan-Dec			
Units: CUM			
Exports for:	2002		2003
U.S.	0	U.S.	0
Others		Others	
India	5,372		3,694
Morocco	206,663		67,387
Vietam	31,208		1,929
Total for Others	243243		73,010
Others not Listed	3,977		1323
Grand Total	247220		74333

Tropical Hardwood Lumber, PS&D Table

PSD Table Country Brazil Commodity Tropical Hardwood Lumber 1000 CUBIC METERS								
	2003	Revised	2004	Estimate	2005	Forecast	UOM	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]		
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY	
Production	15912	15910	15912	16,705	0	17540	1000 CUBIC METERS	
Imports	30	30	30	40	0	60	1000 CUBIC METERS	
TOTAL SUPPLY	15942	15940	15942	16745	0	17600	1000 CUBIC METERS	
Exports	425	1,318	425	1515	0	1740	1000 CUBIC METERS	
Domestic Consumption	15517	14622	15517	15230	0	15860	1000 CUBIC METERS	
TOTAL DISTRIBUTION	15942	15940	15942	16745	0	17600	1000 CUBIC METERS	

Tropical Hardwood Lumber, Export Trade Matrix

Export Trade Matrix Country Brazil Commodity Tropical Hardwood Lumber			
Time Period	Jan-Dec	Units:	CUM
Exports for:	2002		2003
U.S.	126779	U.S.	86419
Others		Others	
China	155695		260853
European Union	423981		615142
Hong Kong	126779		86419
Total for Others	706455		962414
Others not Listed	315259		268879
Grand Total	1148493		1317712

Softwood Lumber, PS&D Table

PSD Table Country Brazil Commodity Softwood Lumber 1000 CUBIC METERS								
	2003	Revised	2004	Estimate	2005	Forecast	UOM	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]		
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY	
Production	6660	7950	6660	8350	0	8770	1000 CUBIC METERS	
Imports	42	43	42	125	0	275	1000 CUBIC METERS	
TOTAL SUPPLY	6702	7993	6702	8475	0	9045	1000 CUBIC METERS	
Exports	1455	1700	1455	1615	0	1695	1000 CUBIC METERS	
Domestic Consumption	5247	6293	5247	6860	0	7350	1000 CUBIC METERS	
TOTAL DISTRIBUTION	6702	7993	6702	8475	0	9045	1000 CUBIC METERS	

Softwood Lumber, Export Trade Matrix

Export Trade Matrix Country Brazil Commodity Softwood Lumber			
Time Period	Jan-Dec	Units:	CUM
Exports for:	2002		2003
U.S.	1057335	U.S.	1096256
Others		Others	
China	25687		47407
European Union	169760		214347
Hong Kong	13944		17859
Morocco	80385		103667
Puerto Rico	36979		30441
Total for Others	326755		413721
Others not Listed	190245		190199
Grand Total	1574335		1700176

Softwood Plywood, PS&D Table

PSD Table Country Brazil Commodity Softwood Plywood 1000 CUBIC METERS								
	2003	Revised	2004	Estimate	2005	Forecast	UOM	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]		
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY	
Production	830	1700	830	1816	0	2010	1000 CUBIC METERS	
Imports	0	43	0	320	0	480	1000 CUBIC METERS	
TOTAL SUPPLY	830	1743	830	2136	0	2490	1000 CUBIC METERS	
Exports	170	1300	170	1632	0	1960	1000 CUBIC METERS	
Domestic Consumption	660	443	660	504	0	530	1000 CUBIC METERS	
TOTAL DISTRIBUTION	830	1743	830	2136	0	2490	1000 CUBIC METERS	

Softwood Plywood, Export Trade Matrix

Export Trade Matrix Country Brazil Commodity Softwood Plywood			
Time Period	Jan-Dec	Units:	CUM
Exports for:	2002		2003
U.S.	203195	U.S.	503472
Others		Others	
Canada	2347		3330
Dominican Rep.	42538		55631
European Union	569112		613080
Egypt	2100		2695
Jamaica	2551		4156
Mexico	9109		21549
Puerto Rico	42538		55631
Saudi Arabia	5214		6556
U.A.E.	11609		11615
Total for Others	687118		774243
Others not Listed	43081		21777
Grand Total	933394		1299492