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Mexico

Solid Wood Products

Marketing Annual

2004

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Report Highlights:
Mexico continues to offer excellent opportunities to U.S. wood and wood product exporters. Mexico is a net importer of wood and wood products and the U.S. retains a 70 percent import market share. Demand for wood products is expected to grow approximately 8 percent over the next two years as Mexico's economy recovers from the recent recession.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Mexico ATO [MX2]
[MX]

I. PRODUCTION

A. Overview

Annual round wood production decreased about 4 percent in 2003 with total wood production estimated at 6.36 million cubic meters. For 2004 round wood production is forecast to reach approximately 6.4 million cubic meters. Mexico does not have the production and foreign trade level of its NAFTA trading partners. According to the Food and Agriculture Organization (FAO), annual forest production in the NAFTA region is estimated of 583 million cubic meters, of which the United States has 69 percent, Canada, 29.7 percent and Mexico, 1.3 percent. The lower production is attributed mainly to poor management of Mexican forests.

Eighty percent of production continues to occur on communal lands “ejido”, where land can only be contracted for a year at a time. As a result, forestry companies do not have incentives to invest in infrastructure. In addition, high extraction and transportation costs due to poor road infrastructure and general access limits supply. Illegal logging and clear cutting continue limiting proper forest management. In 2003, heavy rains in the states of Michoacan, Guerrero, Chiapas and Oaxaca resulted in an immediate shortage of supply of pine from the “ejido” communities, further limiting supply from the most important soft wood production areas in Mexico. These factors, together with under developed commercial reforestation programs, result in continued timber shortages.

In terms of further processed products, the annual statistics of forest production last published in 1999 by the Mexican Secretariat for the Environment and Natural Resources (SEMARNAT) showed that Mexico has 2,058 lumber mills, 65 plywood and board panels manufacturers, 515 wooden crates and bins factories, 60 furniture manufacturers, 64 paper mills, and 735 businesses involved in other types of wood processing.

B. Forest Situation and Outlook

According to the most recent National Forest Inventory (1994) Mexico’s total forest resource base is estimated at 56.7 million hectares. Of the country’s total forest resources, about 21.6 million hectares have commercial potential. Of this area, only 8.6 million hectares are currently in use. The annual timber growth rate is estimated at 35.1 million cubic meters a year. The average productivity in temperate forests is 1.2 cubic meters per hectare per year, and in tropical forests is 0.5 cubic meters per hectare per year. The most commercially viable species are: softwood pine 82.5 percent of production; tropical species 4.1 percent; oak and fir 11.7 percent; and other softwood species 1.7 percent. Mountains dominate Mexico’s topography. Difficult terrain and insufficient access make transportation of timber and other materials challenging and costly. Based on SEMARNAT’s data, the total standing inventory of commercial forests is 2.803 billion cubic meters, of which 1.8 billion is in temperate forests and 1.0 billion is in tropical forests.

Only one-third of the total forest resource base is used for commercial purposes, however, this third is under a management plan. Only 45 percent of the established capacity is currently occupied in a series of sustainable forest management programs. Almost all of Mexico’s timber production comes from native forest, as new commercial forestry plantations are not yet ready for harvest. They will be ready for production in approximately 10 years. See Mexico Gains Report number MX3136 for more details about Mexico's forestry production.

C. Solid Wood Products Situation and Outlook

Production of solid wood products in Mexico is limited because an estimated eighty percent of the forest areas are owned under the communal property (ejido) structure, fifteen percent is private property and five percent is government owned. Private forestry companies may contract the rights from the ejido owners to harvest for only one year at a time. As a result, these companies find it financially risky to invest in the necessary infrastructure, as they cannot depend on the right to harvest the land in succeeding years. Forestry production in Mexico is largely pinewood (85 percent). Mexico grows many varieties of pine; for example, the state of Jalisco alone has twenty different varieties, in comparison to four varieties in all of Europe. Mexico also produces tropical hardwoods, of which there are ten species in production, with mahogany being the most important.

In 2003, softwood log exports to the United States from Mexico are forecast to remain flat. This estimate is, in part, due to wood and wood product exporters' emphasis on exporting higher value-added products, such as moldings, rather than softwood logs. Exports of most US wood products to Mexico were not strong in 2002 in general, and slow growth in the construction industry dropped sales in 2003.

D. Prices

In 2003 heavy rains in the states of Michoacan, Guerrero, Chiapas and Oaxaca resulted in an immediate shortage of supply of pine from the "ejido" communities. As prices for "ejido" pine rises, opportunities for tulipwood and increasingly cottonwood are emerging. End users recognize tulipwood and cottonwood as acceptable substitutes to pine. According to industry sources, currently the producer price of round wood is $80.00 per cubic meter. The following charts provide average prices for wood in Mexico in 2003.

Average Hardwood Lumber Prices USD/Board Foot		
Size	Oak	Ash
1"	3.41	3.34
1.5"	4.70	3.66
2"	5.12	3.96

Source: Camara Nacional de la Industria de la Madera
Rate of Exchange: 11.30 Pesos to 1.00 USD.

Average Softwood Prices USD/Board Foot		
Sawn wood	1/2"	3/4"
Sizes		
0.10 x 2.50 mts. (4" x 98")	1.46	1.22
0.15 x 2.50 mts. (8" x 98")	1.46	1.22
0.30 x 2.50 mts. (12" x 98")	1.74	1.45
Pole 1 ½ x 3 ½ x 98"	0.77	0.75

Source: Camara Nacional de la Industria de la Madera
Rate of Exchange: 11.30 Pesos to 1.00 USD.

Average Tropical Hardwood Lumber Prices USD/Board Foot		
Size	White Cedar	Mahogany
1"	1.74	6.03
1.5"	1.74	6.03
2"	1.74	6.03

Source: Camara Nacional de la Industria de la Madera
Rate of Exchange: 11.30 Pesos to 1 USD.

II. TRADE

A. Overview and Outlook

Currently, import tariff fees for US wood products classified under HTS chapter 44 are zero and no major technical trade barriers affect the imports of US forest products (see paragraph C. Policy and Phytosanitary Requirements). The 3-5 year outlook appears positive for Mexico, both as an importer of raw materials and semi-finished products, and also as an exporter of furniture, moldings and flooring. The US currently has an import market share of 70 percent for US wood and wood products in Mexico, and Mexico is and will continue to be a net importer of forest products. The elimination of import taxes makes the market more competitive for domestic products and domestic traders are concerned about current market trends. So far, some forest products have had either a significant reduction in prices and/or a substantial increase in imported volumes. Examples of this are poles for which the value of total imports increased from $986 thousand in 2002 to $3.1 million in 2003, an increase of 217 percent; softwood sidings increased from $69 thousand in 2002 to $826 thousand in 2003, an increase of 1,097 percent; and softwood moldings from $884 thousand in 2003 to $12.9 million in 2003, an increase of 1,369 percent.

Mexican Market for Wood and Wood Products

USD/Millions	Last Year 2002	Current Year 2003 *	Next Year 2004 **	Projected Average Annual Growth Rate for Following 2 years (%)
Import Market	1,127.0	1,217.2	1,314.5	8%
Local Production	1,289.1	1,224.6	1,242.9	1.5%
Exports	848.0	864.9	882.2	2%
Total Market	1,568.1	1,576.9	1,675.2	0.7%
Imports from US	1,097.6	1,103.8	1,172.6	6%
Exchange Rates	10.8	11.2	11.6	

Sources: INEGI, Mexican Chamber for the Construction Industry (CMIC), BANCOMEXT, Consejo de la Madera en la Construccion (COMACO), as well as interviews with major manufacturers and distributors.
*Estimate for year 2003.
** Estimations for year 2004.
Estimated future inflation rate 3.5%

B. Safeguard Investigation

Since January 1, 2003, import duties on wood products and the zero tariff rate quotas were eliminated. However, on August 15, 2002 The Secretariat of Economy (SE) announced in Mexico's "Diario Oficial" ("Federal Register") the initiation of an official global safeguard investigation against plywood imports. This investigation was in response to a petition submitted by the Mexico's National Association of Plywood Producers (ANAFATA).

For many years Mexican plywood manufacturers have been concerned about unfair competition from tropical plywood imports from Indonesia and Malaysia and softwood plywood imports from Chile. The Secretariat of Economy issued a decision on the safeguard investigation mentioned above on July 4, 2003 but this has not been published in the Diario Oficial to become effective. According to private sources, the safeguard is expected to affect plywood imports from Chile with a 12 percent import duty, and plywood imports from Indonesia and Malaysia with a 35 percent import duties. This safeguard action will not be directed toward US plywood imports due US softwood plywood imports occupy a niche market that does not compete directly with Mexican plywood products. The US hardwood industry is concerned that, if successful, this measure may be adopted by other wood production sectors, including the domestic lumber industry.

C. Policy and Phytosanitary Requirements

Currently, the US faces no major trade barriers to the imports of wood by Mexico, though all products must be imported with the NAFTA certificate of origin and follow the phytosanitary import requirements. Mexico abides by the National Plant Protection Organization (NAPPO) guidelines of the United States, Canada and Mexico. These “Guidelines for Regulating Wood Packaging Material in International Trade” were approved by the International Plant Protection Convention (IPPC) on March 15, 2002.

Most recently, the Mexican Secretariat of the Environment and Natural Resources (SEMARNAT) published a regulation detailing technical specifications on phytosanitary treatments for packaging material: NOM-EM-144-SEMARNAT-2003. This regulation is an emergency rule with a validity of 6 months. According to SEMARNAT the emergency standard regulation NOM-EM-144 will be replaced later this year (2004) with a permanent rule.

Other Wood Products Regulations	Current Situation
NOM-016-RECNAT-1997	Sets forth sanitary regulations applicable to new sawn wood. The project was submitted on June 11, 1998, and re-opened to comments on February 6, 2002. Final resolution from authorities not yet foreseen.
NOM-017RECNAT-1997	Sets forth sanitary regulations applicable to used sawn wood and plywood imports. Project was submitted to comments on June 11, 1998. SEMARNAT is considering the cancellation of this project.
NOM-NMX-C-322-ONNCCE-2003	The National Standardization Organization (ONNCCE) proposes this standard, it sets forth sanitary regulations on wood preserved under pressure, grading and its requirements. This standard is pending to review and approval due it is only applicable to products manufactured in Mexico and chemical products recommended are not available in the country. Final resolution from authorities not yet foreseen.
NMX-C-325-1970	Standard project for oriented strand board (OSB) plywood aimed to the construction sector. This project is in process of review. A preliminary review will take place mid 2004.
NMX-C-239-1985	Standard update “Construction Industry” – Wooden housing, and urban outfitting – structural qualifications of pinewood.

D. Competition

The United States has the largest share of the Mexican import market for forest products. Seventy percent of wood products imports to Mexico are sourced from the United States. The next two most significant exporters to Mexico were Canada with a 15 percent import market share and Brazil with five percent. There is also strong competition from Chile, Malaysia, and Indonesia. Indonesia and Canada continue to effectively enter the Mexican softwood, tropical hardwood and plywood market by offering low-priced products. Chile continues to gain market share in the

Mexican softwood lumber and plywood import sector by offering good quality and low-priced products. Chilean wood products imported by the Mexican industry benefit from the Mexico-Chile Free Trade Agreement. According to industry sources, the increase in Chilean imports has come at the expense of both Indonesian tropical plywood and US softwood lumber imports. In addition, domestic lumber production remains a competitor to wood products imported from the United States because of the relatively less expensive domestic lumber due to lower shipping costs. In 2004, wood and wood product imports to Mexico are forecast to increase from all countries assuming a modest recovery in the construction and flooring sector.

Private sector sources report that Canada, Chile and Brazil have increased their promotion programs in the Mexican market. Some furniture manufacturers have substituted tulipwood and domestic pine species with Chilean radiata. However, other sources report that Chilean radiata pine has a tendency to split and twist, and they have ceased demanding it for furniture manufacturing. In order to address competitors, the US industry must continue to increase Mexican consumers' awareness of the advantages of the physical and mechanical properties of the US hardwood and softwood products through promotional and educational efforts.

E. Market Development Strategies

Interested exporters need to devote resources to research the market and meet potential distributors and importers to take advantage of the promising Mexican market for wood and products. The US supplier has important advantages in the market including: proximity and lower freight costs, high product quality, grading uniformity, species desirability and perceived value.

Potential markets for wood products in Mexico are the construction sector, the furniture and interior decoration manufacturing sector, and the material handling industry. The construction sector primarily demands plywood for concrete forming purposes. The furniture and the interior decoration sector primarily demand hardwoods. The interior decoration industry consists of a large number of manufacturers and traders of flooring, paneling and molding. The material handling industry primarily demands softwood lumber, softwood plywood and oriented strand boards (OSB) for the manufacturing of pallets and wooden crates. In addition, a niche-market worth exploring is the market for assembly plants (maquiladoras) located primarily along the US-Mexico border. Maquiladoras assemble most of the furniture destined for export markets, including structural woods, bathroom furniture, TV cabinets and tables among many other products.

Industry sources state that there is a possible trade opportunity in Mexico's hotel sector for US softwoods used in interior joinery and outdoor applications such as piers, and decks. Tropical hardwoods are demanded by the hotel industry for both interior and exterior high-end construction, but difficulties in sourcing this material makes US product a viable alternative. Mexican costumers in these resort areas, unlike other regions where concrete is by far the preferred building material, are more familiar with wood products for construction purposes. US wood exporters interested in the Mexican market should consider participating in some of the major trade shows targeting the furniture and construction industries in Mexico. Information about dates and places of some of these events follows:

EXPO MANUFACTURA 2004
When: February 26 - 28, 2004
Where: Cintermex Exposition Center, Monterrey, Mexico
Tel: (301) 493-5500 Fax: (301) 493-5705 E-Mail: info@ejkrauze.com
Show Type: Trade show for Mexican manufacturers to contact suppliers.

EXPO AMPIMM - TECHNO MUEBLE 2004
When: June 23 - 26, 2004
Where: Centro Banamex Exhibit and Convention Center, México City, Mexico
Contact: Mr. Roberto Villapando, Organizer
Tel: (52-55) 5578-7820 Fax: (52-55) 5682-9023 E-Mail: rvillalpando@ampimm.com
Show Type: Trade show for the furniture manufacturing industry.

EXIMUEBLE / PROVIMUEBLE 2004
When: September 30 - October 3, 2004
Where: Cintermex Exposition Center, Monterrey, Mexico
Contact: Mr. Honorio Garza, Organizer
Tel: (52-81) 8369-6435 Fax: (52-81) 8369-6467 E-Mail: ventas@afamnl.com.mx
Show Type: Trade show targeting furniture manufacturers.

EXPO CIHAC 2004
When: October 14 - 19, 2004
Where: Centro Banamex Exhibit and Convention Center, Mexico City
Contact: Luis Zertuche, Director American Hardwoods Export Council - Mexico
Tel: (52-55) 5282-0909 Fax: (52-55) 5282-0919 Email: luiszertuche@infosel.net.mx
Show Type: Major trade show in Latin America for the housing and building industry, it also has technical presentations and seminars.

The Southern Pine Council & Softwood Exports Council (SPC/SEC), the American Hardwood Export Council (AHEC) and the American Forest & Paper Association (AF&PA) continue to work actively in the Mexican market. There are a wide variety of activities and services that SPC/SEC, AHEC and AF&PA make available to help develop interest in US hardwood and softwood products in Mexico. For more information, interested US wood exporters may contact the Mexican offices of these associations:

American Forest & Paper Association
APA The Engineered Wood Association
Claudia Villagomez, Director
Tel 011-5255-5282-2111
Fax 011-5255-5282-0919
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American Hardwood Export Council
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Email: luiszertuche@infosel.net.mx

The Southern Pine Council
Dr. Ramon Echenique, Director
Tel 011-5255-5228-2812-3622
Fax 011-5255-5228-2816-3850
Email: mecma-sa@terra.com

III. MARKET SEGMENT ANALYSIS

A. Construction Sector

1. Overview

Houses in Mexico are primarily built using masonry and concrete materials. However, wood products play an important part in construction in the form of timbers, posts, beams, and roof beams. Mexican consumers are beginning to appreciate the advantages of US timber frame construction materials, such as the reduced construction times and improved energy efficiency. Large-scale wood frame housing construction is still limited because of the resistance from end-users, banks, insurance companies and developers.

Current population estimates indicate that by the year 2010 Mexico will have 30 million households, reflecting an average annual demand for 730,000 new houses each year. Based on the current housing deficit and future needs, the Mexican Government has agreed to provide financing for the construction of 750,000 houses. According to the Mexican Chamber of the Construction Industry (CMIC), 450,000 new homes were built in the year 2002 and major housing construction companies are planning to build over 1 million new, low-end and middle-income homes during 2003-2005.

2. Marketing

More than 60 percent of the domestic production of softwood lumber is used for concrete support in the construction sector. In the construction sector, softwood lumber is preferred over hardwoods, whether temperate or tropical. The construction sector is also the primary end-user for structural softwood lumber, treated lumber, and structural panels used for wood frame construction. Traditionally Mexico exclusively used concrete or masonry to frame houses, though more companies are beginning to build timber frame structures. According to private sources, the wood products likely to have a good demand for construction uses over the next three to five years include pressed wood panels, flooring material, lumber, plywood and doors.

B. Furniture and Interiors Sector

1. Overview

Potential niche markets are the furniture manufacturing sector and the interior decoration sector with a large number of manufacturers and traders of flooring, paneling and molding. Traditionally, small family owned and run businesses manufactured furniture in Mexico. The majority are still small local businesses, with limited modern technology, doing most work manually, though larger manufacturers with modern equipment are entering the sector. In 2003 there were 1,082 companies in Mexico in 2003, of which 86% are small, 10.8 % are medium and 2.3% are large industries[1]. The primary furniture manufacturing areas in Mexico are located in Mexico City, Guadalajara, Monterrey and San Luis Potosi. Private sources report that red oak, hard maple and alder have a high demand in the Mexican market. Furniture manufacturers demand reddish colored woods which triggers increasing competition from South American tropical lumber (banac, andiroba, mahogany and other reddish woods). Despite this trend,

[1] The size of companies is based on the number of workers: less than 10-15 is small; 16-100 is medium; and over 100 is large.

mahogany and lighter colored wood remain the most popular species for interior fittings driven in part by fashion trends throughout Europe.

The US hardwood varieties most commonly used for solid hardwood furniture are red oak, white oak, hard maple, poplar and ash. Mahogany remains the main competitor for US hardwoods in furniture production. Currently, furniture manufacturers use 50 percent imported lumber with the remainder sourced from domestic tropical hardwoods and softwoods.

2. Marketing

Mexico's forest products processing industry continues to grow, particularly the furniture, molding, and flooring sectors. As a result, they are prime candidates for US raw materials. However flooring exports to Mexico continued to drop during the last two years. This decline is the result of a growing number of Mexican lumber importers and flooring distributors who manufacture their own flooring. This trend is reflected in the increase of lumber imports, especially red oak and maple. Exporters should be aware that many Mexican importers are still unable to import US hardwoods in large quantities because they lack sufficient cash flow and credit sources, and place small orders (one truckload or less) rather than place larger orders. The US industry must continue disseminating information on applications of temperate hardwood as well as softwood products. Special attention should be focused in promoting decorative panels, and moldings for interior decoration, hardwood flooring, and lumber for furniture manufacturing. Activities such as seminars targeting potential Mexican users of US temperate hardwood products could expand the market for US forest products.

Another niche market includes the assembly plants (maquiladoras) located primarily along the US - Mexico border. Maquiladoras manufacture most of the furniture destined for export markets, including structural woods, bathroom furniture and T.V. cabinets, among other products. The main concern among the assembly plants is the high price of US wood sold by distributors. In order to avoid the mark-up these companies often import US lumber directly.

3. Trade trends

Recent consumption patterns indicate that, while Mexico is the fourth most important export market for both red oak and tulipwood (primarily used for furniture) these two traditionally popular species in Mexico are beginning to lose ground to maple, the volume of which has increased during the last two years. Experts within furniture manufacturers associations attribute this increase to the growing popularity of maple furniture and flooring among higher income families who purchase maple furniture at high-end department stores. Domestic softwoods, primarily pine, still claim an estimated 90 percent of the domestic furniture, flooring, and paneling markets in the country. Imports of US hardwood molding increased sharply during 2001 and 2002, but decreased in 2003. This decrease is attributable to the emergence of distribution outlets such as Home Depot and Home Mart that carry a large variety of imported ready-to-use molding produced by other countries.

According to furniture manufacturer sources, the competition of Chinese furniture in the Mexican market represents a serious threat to the smaller Mexican manufacturers. Products imported from China, many made with US hardwoods, are expanding their market share in Mexico.

C. Material Handling Industry

1. Overview

In 2003, Mexico produced 42.7 million wooden pallets and crates and imported 96.4 million. One segment of Mexican buyers of packing material make their decision to purchase on price rather than on quality because the manufacturer will not recover the handling material. This market segment is supplied by the domestic softwood lumber industry. In contrast, exporters and shippers of higher value products such as electronic components, chemical compounds and automotive parts need to ensure the quality and safety of their exports by using good quality and resistant packing material that they can reuse (known as a captive handling system). In addition, supermarkets and large distribution centers like central markets and the agricultural sector also purchase higher value US wood handling material. This market segment that purchases both structural panel-decked plywood and oriented strand board OSB panels is likely to continue to expand. Unlike the United States, Mexico does not use plastic pallets and containers frequently; they represent only an estimated 10 percent of the cargo handling material.

2. Marketing

US producers of wood based structural plywood and OSB have opportunities to service the segment of the Mexican high value product industry that invests in captive handling systems. There are significant market opportunities for exports of US wood to this sector because of the flexibility of the custom-made pallet design to handle any kind of product, regardless of the product form, or nature of presentation (i.e., boxes, drums, sacks, bundles, bulk), and because Mexico is not a major producer of fiberboard and particleboard. The main constraints for market growth in this sector are the lack of familiarity with the panel life cycle-cost and the habit of using disposable packing materials.

Mexico has a sizable agricultural, chemical and other processed and non-processed product sectors which all require heavy-duty packaging materials for their respective exports. This market presents a good opportunity for US exports of structural plywood and OSB. Also, supermarkets and large distribution centers like the central markets and the agricultural community constitute attractive and large market opportunities for material handling products. The maquiladora industry has important centers of assembling electronic appliances, such as televisions and computers.