



International Trade Report

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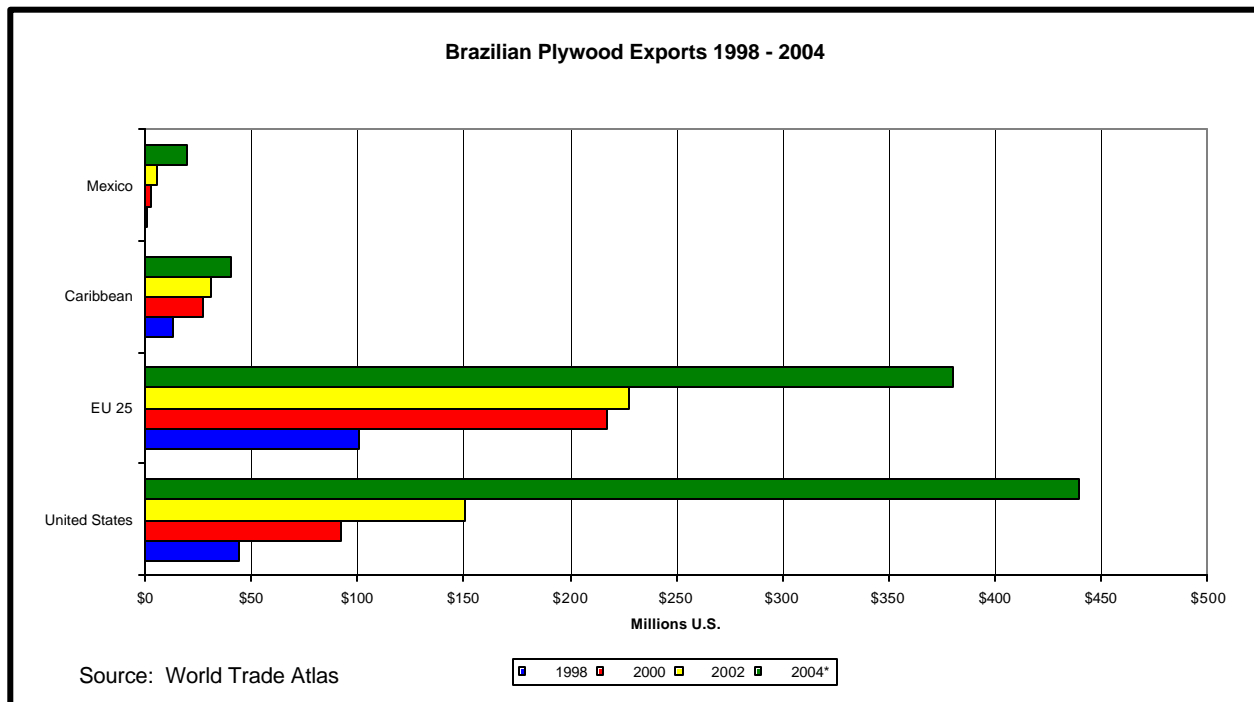
Summary

Brazilian Softwood Plywood Production and Exports Continue To Accelerate

Brazilian softwood plantations have begun to yield vast amounts of high quantity timber for use in lumber and softwood plywood. As a result, softwood plywood production and exports are forecast to grow faster in Brazil than in most parts of the world. In the last twelve months of 2004, Brazilian pine softwood plywood exports totaled US \$378 million, 60 percent higher than in 2003. Plantation tree growth rates in Brazil are as much as 2-3 times faster than in some parts of the United States, and help fuel the increasingly competitive industry.

Over the past several years, worldwide markets for panel products have undergone significant changes, as Brazil has become a major competitor.

Beginning in 2000, the Brazilian industry made significant advances in exporting low-cost softwood plywood to Europe, the United States, and the Caribbean.



Brazil's production of solid wood products is expected to increase by an average of five percent in 2005. The anticipated increase reflects an improved outlook with higher demand from the construction and furniture sectors, and higher exports due to favorable exchange rates.

Brazilian softwood plywood certified to European standards continues to be exported to the European Union, where U.K., Germany, and Belgium consume more than 47 percent of all Brazil pine softwood plywood sold abroad.

Forest Resource / Softwood Plywood Production

Brazil is the largest producer of softwood plywood in Latin America. Timber growth in Brazil is 2-3 times faster than in the United States, leading to shorter rotation ages and thus increased competitiveness. Brazil has large fast growing pine and eucalyptus plantations that can ensure a substantial expansion of the present wood panel production. Brazilian softwood plywood producers are aggressively pursuing export markets because of the poor domestic economy. In Brazil, softwood plywood production totaled 1.8 million cubic meters in 2004. In comparison, the United States produced 12.5 million cubic meters of softwood plywood in 2004.

Government Policies

The Government of Brazil (GOB) took an active role in protecting and modernizing the forestry sector in 1967. Brazil still provides incentives, such as tax breaks, beneficial credit programs, and subsidies, all of which facilitate exporting. The GOB offers several types of tax incentives such as tax and tariff exemptions for equipment imported for production of goods for export, an excise and sales tax exemption on exported goods, and eligibility for a rebate on the social contribution tax.

Brazil is poised to reach a free trade agreement with Mexico, which will position them well with the United States and Canada in the Mexican market. Currently, Mexico is the leading U.S. market for softwood plywood.

Illegal logging reportedly plays a central role in the destruction of the Brazilian Amazon. GOB now estimates that 80 percent of logs cut in the Brazilian Amazon are illegal in origin. Due to the weakness of the federal environmental agency, most illegal activities occur unnoticed. The Brazilian Amazon, which supplied 12 percent of domestic log production in 1970, today supplies 90 percent of the country's total tropical timber production. The volume of illegal wood going into export markets is small relative to that which enters the domestic market. The problem of illegal logging occurs in the Amazon region while two-thirds of total timber harvest in Brazil comes from plantation forests. An estimated 86 percent of the timber harvested in the Amazon is consumed within Brazil. Only 16 percent of timber harvested is exported.

National Quality Assurance Program

To date, the Brazilian softwood plywood industry has begun the process of developing a national quality assurance program, however, it has yet to be harmonized with other international codes or standards. As a result, most countries still do not recognize the Brazilian softwood plywood product for construction usage. This will remain an area to monitor.

Most Brazilian softwood plywood currently competes in non-regulated markets, due to the lack of well-recognized grading programs. This has given U.S. softwood plywood an advantage in many regulated market segments where graded usage is required (i.e. in certain construction applications). However, this advantage may eventually be lost as internationally recognized bodies increasingly grade Brazilian mills.

Importance of the U.S. Market to Brazil

U.S. imports of forest products from Brazil were valued at nearly \$1.5 billion during the first twelve months of 2004, up 64 percent, compared with the same period of 2003. Exports of panel/softwood plywood products (up \$545 million), soft/treated lumber (up \$230 million), hardwood lumber (up \$85 million), and logs and chips (up \$27 million) have accounted for the overall performance to date. In comparison, U.S. exports of panel/softwood plywood products to Brazil increased during January through December 2004 by 35 percent from \$2.3 million to \$3.2 million over the same period of 2003.

Checklist on Brazil's Growth

Brazil has many advantages that have resulted in increased softwood plywood production including:

- low wood costs,
- low wages,
- favorable exchange rates,
- past subsidies for plantations,
- shorter rotations allow rapid selective improvements, and
- less strict environmental regulations.

However, Brazil also faces a number of constraints that may limit its ability to further expand or to dominate world softwood plywood markets. Constraints include:

- lower productivity of labor,
- great distance to major markets,
- lack of markets for lower grade materials,
- not transparent environmental policy,
- exchange rate volatility,
- uncertainty of subsidy payments,
- cost of capital is expensive, and
- fast growing wood lacks strength properties.

The future of the Brazilian industry looks bright. However, increased output of competing panel products from other sources could adversely impact Brazilian exports to the United States, the EU and other world markets.

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