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Brazil

Solid Wood Products

Annual Report

2005

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Report Highlights:

Brazil is a major player in the Solid Wood products market, exporting nearly \$3 billion in 2005. Although Brazil remains without a reliable inventory of its forest resources, mostly in the Amazon region, forest area is estimated at 412 million hectares. Despite current investments in reforestation and planted forests, Brazil remains with a production deficit of 200 thousand hectares per year, increasing expectations for imports in 2006.

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

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Economic Situation

Current economic indicators suggest that the Brazilian economy fared well despite the effects of the political crisis Brazil is experiencing in Congress, directly involving President Lula. End of year inflation (IPCA) is estimated at 5.31%, while the annual interest rate (Selic) is expected to close 2005 at 18%. Economic growth in 2005 may reach 3.31% and market analysts forecast the exchange rate to close 2005 at around R\$2.30/US\$.

The outlook for 2006 calls for continued favorable conditions. Market analysts and government institutions project economic growth between 3.5 and 4.0%. Inflation is expected to decrease, finishing the year at 4.6%. Lower interest rates are forecast in 2006 between 15.8% and 16.0% and a higher exchange rate at R\$2.50/US\$ is likely to have a positive impact on the performance of the construction and furniture sectors, thus increasing demand for solid wood products.

Although forecasts are optimistic, the Brazilian economy may experience some instability in 2006 due to the upcoming presidential elections in October. The current political crisis has strengthened the competition for the presidential campaign, as the opposition poses a major threat to Lula's reelection.

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 Post's 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. Nearly 30% of the Brazilian territory (about 240 million hectares) consists of land inappropriate for farming, but suitable for forest exploration.

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. Wood panel products, steel, charcoal, and 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 account 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. Almost half of Amazonian deforestation is credited to small properties, mostly former landless families who were given land during the last government's agrarian reforms. Sources have estimated that illegal deforestation of tropical timber has reached 55% of total production.

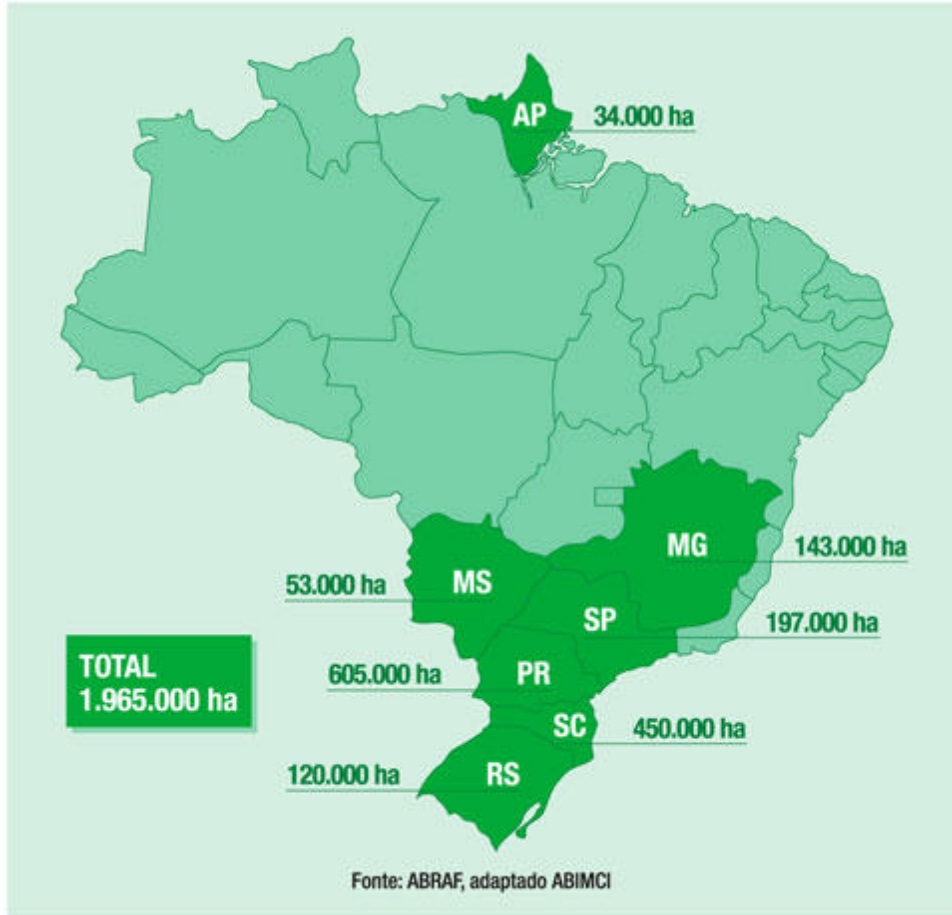
There are no reliable numbers on illegal timber removed from the Amazon region. Government estimates show that deforestation reached 18,900 square kilometers, and only 27 percent are from areas with forest management. A decrease is expected for 2006 as government (IBAMA) inspection improves and industry productivity increases. Current planted forest productivity reached 45 cubic meters per hectare. Contrary to popular belief, the majority of illegal timber from the Amazon is not exported, rather its major destination is the Southeast and Southern regions of Brazil. According to the Ministry of Development, Industry and Commerce (MDIC), 36 percent of the timber produced in the Amazon is exported, while 64 percent is destined for the domestic market, mostly to the South/Southeast regions, consuming nearly 27% of Amazonian production.

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 decreased 30% between August 2004 and August 2005, which is below the 40% government predictions. Trade sources in the Amazon have reported to Post 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.

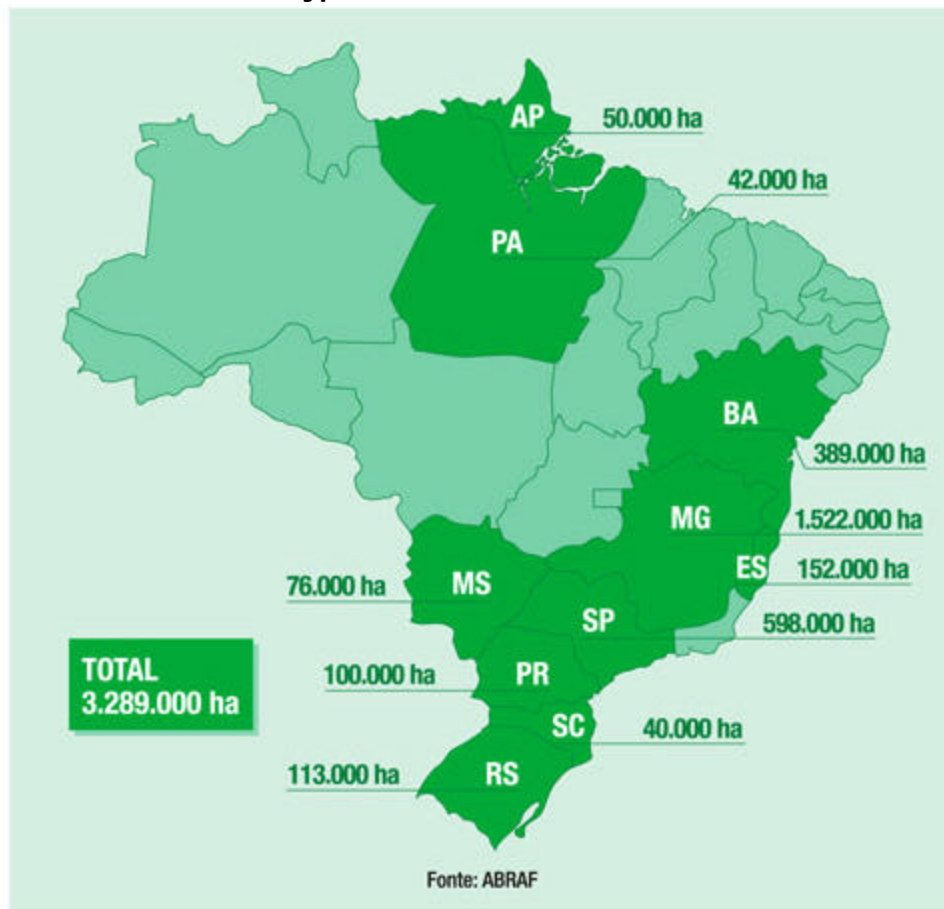
Most of the forests in Brazil are privately owned and managed, while government forests are mostly for protection and preservation. However, in the Amazon region land title remains a problem for nearly half of the territory. In 2005, total planted forest area reached 5.5 million hectares of pine, eucalyptus and other species. Another 1.6 million hectares of native forests are preserved by the wood products industries.

Private Pine Plantation Distribution in Brazil



Source: Brazilian Planted Forests Producers Association (Abraf)

Private Eucalyptus Plantation Distribution in Brazil



Source: Brazilian Planted Forests Producers Association (Abraf)

The majority of reforestation projects have been carried out by private companies, mostly by the pulp and paper, charcoal, iron ore, and panel industry sectors, promoting small and medium farmers to plant forests. The planted area in Brazil is currently increasing at a rate of 500 thousand hectares per year, mainly in the South/Southeast regions. Industry leaders estimate that in the near future Brazil might have problems in meeting domestic wood demand. Recent estimates show a deficit of reforested area in Brazil around 200,000 hectares per year. According to industry contacts, total investments for the next 8 years for the expansion of infrastructure and planted areas, may reach US\$18 million.

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 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.

On February 21, 2005, President Lula sent to Congress a Draft Bill (PL 4776/2005) that deals with Public Forest Management. The draft bill has three objectives: to define public forest management regulations; to create the Brazilian Forestry Service, and to establish the National Forest Development Fund. Major changes are proposed for the management of public forests by ending privatization of public forests, creating paid Forest Concessions

through public biddings, creating conservation units, and allowing sustainable forest production. Only Brazilian companies will be allowed to enter the biddings and the concession period will not surpass 40 years. The draft bill also foresees the creation of the Brazilian Forestry service, which will have three basic functions: act as managing body of the concessions system, promote sustainable forest development in Brazil, and manage the National Forest Development Fund.

Solid Wood Production Situation/Outlook

Tropical Hardwood Logs

Production of hardwood logs is expected to decrease by 5 percent in 2005 because of lower deforestation rates. Increasing government inspection and slower expansion of soybean crops have driven deforestation down 30% compared to 2004. While the Certified forest area has increased in the last year, reaching 1.3 million hectares in the Amazon region, the lack of government inspectors and delays in the issuance of logging licenses have caused the production of tropical logs to decrease, favoring illegal industries. Certified wood prices may reach R\$900 per cubic meter, rather than R\$250 for regular logs.

Tropical Hardwood Logs, PS&D Table

	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Production	31790	28000	33380	26600	0	28000	1000 CUBIC METERS
Imports	380	0	450	0	0	0	1000 CUBIC METERS
TOTAL SUPPLY	32170	28000	33830	26600	0	28000	1000 CUBIC METERS
Exports	60	5	40	3	0	4	1000 CUBIC METERS
Domestic Consumption	32110	27995	33790	26597	0	27996	1000 CUBIC METERS
TOTAL DISTRIBUTION	32170	28000	33830	26600	0	28000	1000 CUBIC METERS

Exports are decreasing as the exchange rate is unfavorable for domestic producers. Greater domestic demand for certified wood may also reduce exports to more demanding markets, such as the US and European Union. As the macroeconomic scenario changes for 2006, production and exports may accompany the economic growth forecasts for next year.

Tropical Hardwood Lumber

Production of hardwood lumber is expected to maintain a 5 percent annual increase in 2005 and 2006 due to higher wood demand from the domestic industry and increased exports. The federal government has initiated a program to provide more financing to lower class Brazilians, which may improve demand for home construction in 2006 and 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.

Tropical Hardwood Lumber, PS&D Table

	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Production	16705	15000	17540	15300	0	15606	1000 CUBIC METERS
Imports	40	86	60	60	0	60	1000 CUBIC METERS
TOTAL SUPPLY	16745	15086	17600	15360	0	15666	1000 CUBIC METERS
Exports	1515	1900	1740	1938	0	1977	1000 CUBIC METERS
Domestic Consumption	15230	13186	15860	13422	0	13689	1000 CUBIC METERS
TOTAL DISTRIBUTION	16745	15086	17600	15360	0	15666	1000 CUBIC METERS

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, with technology improvements and greater investments has increased competitiveness. 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 2006 around 5 percent, maintaining the average growth rate observed in the last decade. Maturing pine plantations were implemented through government initiatives begun during the 70s and 80s. However, forest consultants are predicting a deficit in softwood lumber production in the near future if further investments in forestation projects are not accelerated. Due to the impact of the planted forest production deficit (currently around 8%), the cost of pine lumber has risen approximately 25% above inflation in 2004/05.

Softwood Lumber, PS&D Table

	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Production	8350	9000	8770	9450	0	9923	1000 CUBIC METERS
Imports	125	120	275	76	0	74	1000 CUBIC METERS
TOTAL SUPPLY	8475	9120	9045	9526	0	9997	1000 CUBIC METERS
Exports	1615	1585	1695	1494	0	1569	1000 CUBIC METERS
Domestic Consumption	6860	7535	7350	8032	0	8428	1000 CUBIC METERS
TOTAL DISTRIBUTION	8475	9120	9045	9526	0	9997	1000 CUBIC METERS

Brazilian Softwood lumber has a competitive advantage due to a faster maturing period than Northern Hemisphere producers and a favorable climate and soil conditions. Brazilian pine has a maturation period of 14 years, while eucalyptus needs only 7 years. The cost of production of softwood lumber in Brazil is R\$18 (approximately US\$8) for Eucalyptus and R\$35 (approximately US\$16) for Pine.

Softwood Plywood

Total production of softwood plywood (pine) for 2005 is estimated at 2.6 million cubic meters. Brazilian plywood production is primarily oriented for export. Nearly 75% of the total production is exported to foreign markets (mostly the United States and EU). Domestic consumption of plywood has shown slow a increase due to strong competition of MDF (Medium Density Fiberboard) and OSB (Oriented Strand Board) panels.

Softwood Plywood, PS&D Table

	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Production	1816	2400	2010	2640	0	2904	1000 CUBIC METERS
Imports	320	8	480	8	0	10	1000 CUBIC METERS
TOTAL SUPPLY	2136	2408	2490	2648	0	2914	1000 CUBIC METERS
Exports	1632	1900	1960	2071	0	2278	1000 CUBIC METERS
Domestic Consumption	504	508	530	577	0	636	1000 CUBIC METERS
TOTAL DISTRIBUTION	2136	2408	2490	2648	0	2914	1000 CUBIC METERS

Devaluation of the dollar has stopped booming exports observed in the last 5 years and US purchases have not followed the trends from previous years. Brazilian plywood is currently among the most expensive products in the market. Chinese pine plywood is almost US\$100 cheaper than Brazilian product. Pine lumber prices have been recently increasing due to rising production deficits. During the past 12 months, the price of pine wood increased approximately 25%.

The plywood industry in Brazil consists of nearly 500 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 3.8 million cubic meters, of which 45 companies account for 60 percent of this capacity. The breakdown of plywood production in Brazil is distributed as follows: furniture (45 percent), construction (34 percent), packaging (17 percent), and all others (4 percent).

Trade

Post estimates exports of forest products for 2005 (chapter 44 of HTS, including charcoal) at US\$ 3 billion, which is no increase from the previous year. Import estimates have also shown the same figures as 2004, reaching US\$ 77 million. Stagnation of exports and imports of Brazilian forest products is due to (1) devaluation of the dollar compared to the real causing the loss of competitiveness of Brazilian wood products; (2) decrease in planted forest areas; and, (3) increasing inspection from government authorities of illegal wood removals and a freeze in the issuance of wood removal licenses. Imports of forest products are mainly from Mercosul members and reflect exemption of import tariffs.

Policy

Three major public policies affect the forest sector in Brazil: 1) Commercial Planting and Recuperation of Forests Program (PROPFLORA); 2) National Forestry Program (PRONAF-Florestal) and; 3) FNO-Floresta, FCO-Pronatureza and FNE-Verde.

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 directed to pine and eucalyptus plantations, at subsidized interest rates of 8.75 percent per year with a loan limit per farmer of R\$150,000 (about US\$ 68,000), with a grace period of 8 years and payment in 12 years.

Created in June 2002, the PRONAF-Florestal program, grants credit lines at a 4% per year interest rate. The grace period is also 8 years and payment in 12 years. In the 2004/05 crop year, loans totaled R\$6,404,403 (about \$2,911,000) reaching 1,967 contracts.'

The FNO-Floresta, FCO-Pronatureza and FNE-Verde are credit lines with annual rates of 6%, 8.75% and 10.75% respectively, for financing sustainable forest management projects, reforestation for energy and lumber purposes, recuperation of degraded areas, and environmental projects. Grace and payment periods vary according to each credit lines, having a minimum of 6 to 20 years respectively for FNE-Verde, 9 to 16 years for FNO-Floresta, and 10 to 20 years for FCO-Pronatureza. Low credit limits and lack of information have caused little demand and government resources remain unused.

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 (Brazilian Furniture) is a cost-sharing market promotion program valued at US\$ 8.5 million (50 percent paid by APEX and 50 percent by industries from the furniture sector associated to ABIMOVEL) to promote Brazilian furniture in targeted markets, such as the United States, Europe and Mexico. 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 four 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 Indicators Tables

FOREST AREA			
Country: BRAZIL			
Report Year: 2005	2004	2005	2006
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)	239	238	235
----of commercial, temperate hardwood ('000 hectares)	3	3	3
----of commercial, softwood ('000 hectares)	3	3	4
Forest Type			
--of which, virgin ('000 hectares)	180	178	175
--of which, plantation ('000 hectares)	5	6	7
--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/	170	172	170
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: 2005	2004	2005	2006
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? No			
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/	2004	2005	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

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Exports	60	5	40	3	0	4	1000 CUBIC METERS
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TOTAL DISTRIBUTION	32170	28000	33830	26600	0	28000	1000 CUBIC METERS

Tropical Hardwood Logs, Export Trade Matrix

Country Brazil			
Commodity Tropical Hardwood Logs			
Time Period Jan-Dec			
Units: CUM			
Exports for:	2004		2005
Time Period	Jan-Dec	Units:	CUM
Exports for:	2004		2005
U.S.	237	U.S.	2
Others		Others	
Netherlands	3390	Germany	903
India	1177	India	1324
Italy	14	Italy	72
Total for Others	4581		2299
Others not Listed	182		67
Grand Total	5000		2368

Tropical Hardwood Lumber, PS&D Table

	2004	Revised	2005	Estimate	2006	Forecast	UOM
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Tropical Hardwood Lumber, Export Trade Matrix

Export Trade Matrix Country Brazil Commodity Tropical Hardwood Lumber			
Time Period	Jan-Dec	Units:	1000 CUM
Exports for:	2004		2005
U.S.	213	U.S.	218
Others		Others	
China	418	China	426
France	228	France	233
Spain	152	Spain	155
Total for Others	798		814
Others not Listed	889		906
Grand Total	1900		1938

Softwood Lumber, PS&D Table

	2004	Revised	2005	Estimate	2006	Forecast	UOM
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TOTAL DISTRIBUTION	8475	9120	9045	9526	0	9997	1000 CUBIC METERS

Softwood Lumber, Export Trade Matrix

Export Trade Matrix Country Brazil Commodity Softwood Lumber			
Time Period	Jan-Dec	Units:	1000CUM
Exports for:	2004		2005
U.S.	1083	U.S.	1153
Others		Others	
Spain	113	Spain	90
Morocco	76	Morocco	61
Mexico	63	Mexico	43
Uruguay	37	China	17
China	35		
Vietnam	24		
Total for Others	348		211
Others not Listed	154		130
Grand Total	1585		1494

Softwood Plywood, PS&D Table

	2004	Revised	2005	Estimate	2006	Forecast	UOM
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Domestic Consumption	504	508	530	577	0	636	1000 CUBIC METERS
TOTAL DISTRIBUTION	2136	2408	2490	2648	0	2914	1000 CUBIC METERS

Softwood Plywood, Export Trade Matrix

Export Trade Matrix Country Brazil Commodity Softwood Plywood			
Time Period	Jan-Dec	Units:	CUM
Exports for:	2004		2005
U.S.	559	U.S.	489
Others		Others	
Mexico	562	Barbados	975
Dominican Republic	192	United Kingdom	255
United Kingdom	171	Puerto Rico	73
Belgium	106	Belgium	60
Haiti	80	Germany	48
Germany	55		
Total for Others	1166		1411
Others not Listed	175		171
Grand Total	1900		2071