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Mexico

Solid Wood Products

Marketing Bi-Annual

2006

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Report Highlights:
The United States has the largest share of the Mexican import market for forest products. Forty six percent of lumber imports to Mexico are sourced from the United States. Potential markets for wood products in Mexico are furniture manufacturing, handling materials industry and both the construction and interior decoration manufacturing sectors.

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

PRODUCTION

For MY2006, round wood production is forecasted to reach approximately 8.4 million cubic meters. Production increase is expected as the Mexican economy continues to grow. As the economic situation improves along with the construction and furniture industries, forest product consumption will also increase in MY2006.

PS&D Table						
Country	MEXICO					
Commodity	SOLID WOOD PRODUCTS		1000 Cubic Meters			
	2004 Revised		2005 Estimate		2006 Forecast	
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate
Market Year Begin	01/2004		01/2005		01/2006	
Production	8000	7800	0	8200	0	8400
Imports	4742	2733	0	2782	0	2808
Total Supply	12742	10533	0	10982	0	11208
Exports	76	102	0	85	0	92
Domestic Consumption	12666	10431	0	10897	0	11116
Total Distribution	12742	10533	0	10982	0	11208

Source: World Trade Atlas

Forest Situation & Outlook:

Mexico ranks 14th in forest surface in the world (141.7 million hectares) and 26th in production. It is the fourth in mega-diversity with 273 tree species and 20 thousand species of non timber-yielding species. And yet, Mexico, today, faces a serious crisis characterized by constant ecological degradation and an important loss of forest and rainforest. For example, from 1993 until 2004, 8 million hectares were lost; forest production has come to a standstill and there is no positive change in social development in sight. It is estimated that at the present time, 1.13 million hectares are deforested every year; therefore, Mexico ranks second in the world in this category. As a consequence of this serious deterioration, it is estimated that 7 million square meters of wood are illegally sold. The strategy of the GOM to enhance productivity and competitiveness of the forest sector is focused on boosting the forest-farmer organizations through the Forest Handling Units that promote sustainable forest development. To this end, the National Forest Commission grants funds to producers to strengthen planning and integration of production chains, promotes the financing of technological projects for good forestry management, provides direct support for the establishment and maintenance of commercial forest plantations and channels funds to environmental services.

FOREST DEVELOPMENT PROGRAMS, 2001-2005

						January-june		
	2001	2002	2003	2004	2005	2004	2005	Annual Variation %
Direct Financing to producers	234.9	342.3	312.8	357.7	340.4	94.97	94.18	-0.8

(Million Pesos) [1/]								
Hectares incorporated to technical handling programs (Million Hectares)	2.73	1.60	1.28	2.40	1.30	0.879	0.214	-75.7
Estimated production								
Wood (Million Cubic Meters)	1.8	1.7	1.9	2.05	1.5	0.485	0.859	77.1
Wood pulp & waste (MT)	43 824	15 338	26,399	1716,800	712,371	994,664	188,300	-81.1
Producers benefited	5 649	2 452	5 477	4 382	3 974	1 800	553	-69.3

1/ Federal resources.
Source: Secretaría de Medio Ambiente y Recursos Naturales.
Rate of Exchange: 11.50 Pesos = 1.00 USD

COMMERCIAL FORESTRY PLANTATIONS DEVELOPMENT PROGRAM, 2001-2005

	2001	2002	2003	2004	2005
Million Pesos	285.9	648.1	438.1	425.3	295.7
Hectares	39 725	96 748	68 461	66 213	46 000
Estimated production [1/]					
Wood Products (Millions Cubic Meters)	8.2	19.9	14.1	15.3	9.6
Wood pulp & waste (MT)	3 973	9 675	6 846	5 959	4 640
Producers benefited	1 409	10 171	6 873	4 030	3 500

1/ Trees require between 7 to 25 years to maturity, depending of the species.
Source: Secretaría de Medio Ambiente y Recursos Naturales.
Rate of Exchange: 11.50 Pesos = 1.00 USD

REFORESTATION PROGRAM, 2000-2005

							January- July		
						Goal	2004	2005 p/	% Annual Variation
	2000	2001	2002	2003	2004	2005			
Planted trees (Millions)	297	217	258	210	202	200	22.0	10.19	–53.7
Reforested Surface (Thousand Hectares)	240	165	225	187	196	170	19.1	9.05	-52.6
Plants Survival (%) [1/]	20.0	40.0	49.	43.	50.0	50.0	-	-	-

1/ Evaluation of reforestation 2004 will be done in 2005. 50 per cent registered in 2004 and 2005 represents the set goals.
Source: Secretaría de Medio Ambiente y Recursos Naturales.

Through July, 2005 10.19 million trees were planted on 9,050 hectares. There was a decrease of 52.6 per cent in reforested hectares and a 53.7 percent in trees planted as compared to the same time period of time in 2004, is due to poorer soil and climate conditions in reforested areas in 2005. For information related to forest land areas, timber removals, timber growth, illegal logging, annual allowable cut, etc. see Solid Wood Products Report MX5091.

Solid Wood Products Situation & Outlook:

MY2006 solid wood products production is forecasted to increase because of expected growth in construction activity. The largest construction companies in the housing segment are expecting to increase their sales in 2006. This is in-line with the target estimate of the two main financing bodies serving the housing market, INFONAVIT and FOVISSTE. The majority of solid wood products continues to go to the construction sector as well as for packing purposes, for small to medium household furniture manufacturers, and in the formation of concrete.

Prices

Industry sources pointed out that the current cost of domestic round wood is between US $100-110 per cubic meter, as compared to $80 in 2003. The following charts provide average prices for wood in Mexico in 2005:

Average Hardwood Lumber Prices	USD Board Foot	
Thickness		
	Oak	Ash
1”	3.55	3.48
1.5”	4.84	3.80
2”	5.26	4.10

Source: Camara de la Industria de la Madera
Rate of Exchange: 11.50 Pesos = 1.00 USD

Average Softwood Prices	USD/Board Foot	
0.30 x 2.50 mts. (12" x 98")	1.88	1.59
Pole 1 ½ x 3 ½ x 98"	0.91	0.89

Source: Camara Nacional de la Industria de la Madera
Rate of Exchange: 11.50 Pesos = 1.00 USD.

Average Tropical Hardwood Lumber Prices	USD/Board Foot	
Thickness	White Cedar	Mahogany
1"	1.88	6.17
1.5"	1.88	6.17
2"	1.88	6.17

Source: Camara Nacional de la Industria de la Madera
Rate of Exchange: 11.50 Pesos = 1.00 USD.

Average Softwood Plywood Prices					
Thickness in mm.	Layers	Size In cm.	Grades		
			1st.	2nd.	3rd.
2.7	3	1.22x2.44	$7.05	$6.47	$5.67
3.0	3	1.22x2.44	$8.28	$7.60	$6.69
4.5	3	1.22x2.44	$9.80	$8.99	$7.92

5.5	5	1.22x2.44	$10.67	$9.79	$8.54
8.6	5	1.22x2.44	$14.87	$13.64	$12.96
12.0	5	1.22x2.44	$17.85	$16.38	$15.56
15.0	5	1.22x2.44	$22.16	$20.33	$19.31
18.0	7	1.22x2.44	$25.36	$23.26	$22.10
- Construction centering①					
15.0	5	1.22x2.44	$21.36		
16.0	5	1.22x2.44	$23.58		
①Concrete pouring					

Source: Productora de Triplay, Durango, México.
Rate of Exchange: 11.50 Pesos = 1 USD.

TRADE

Overview/Outlook:

The forest industry continues to be heavily concentrated in the states of Durango, Chihuahua, and Michoacan, which have more than 60 percent of all industrial installations. Mexican timber production and the forest industry are not considered to be internationally competitive because production costs (including transport) are high, community-managed forests are inefficient, few forests are actively managed, and a lack of infrastructure makes most of the timber inaccessible. Moreover, price distortions in round wood play a fundamental role in determining wood use in Mexico. Prices for standing stump wood generally conform to market demands, particularly in the higher grades and species.

Safeguard Investigation

On August 15, 2002, the Secretariat of Economy (SE) announced the initiation of an official global safeguard investigation against plywood imports. On June 2, 2005, The Secretariat of Economy (SE) announced in Mexico's "Diario Oficial" ("Federal Register") the withdrawal of the official global safeguard investigation against all plywood imports under the following tariff classifications; 4412.13.01, 4412.13.99, 4412.1499, 4412.19.01, 4412.19.99, 4412.22.01, 4412.23.99, 4412.29.99, 4412.92.01, 4412.93.99, and 4412.99.99.

Phytosanitary Requirements

On September 15, 2005, the Mexican Secretariat of the Environment and Natural Resources (SEMARNAT) published in the Diario Oficial ("Federal Register") that starting September 16, 2005 Mexican inspectors will carry out visual inspection procedures to verify that wood packaging material (WPM) complies with the International Standard for Phytosanitary Measures No. 15 (ISPM-15), according to NOM-144-SEMARNAT-2004 (See MX 5502 and MX5501).

Furthermore, on July, 2005 SEMARNAT's department of forestry officials announced that NOM 144 will would have to be revised by the Federal Commission for the Improvement of Regulations (COFEMER). Changes approved by COFEMER would be published for public consultation and comments, and NOM-144 will be enforced by October 2006.

Competition:

The United States has been losing ground in the last years to foreign competition. The most significant competitor exporting solid wood products to Mexico is Chile with an over 35 percent of the total import market share, followed by the United States. Peru, Canada and Brazil also participate in the market with smaller percentages.

H.S. 4403.10.00	Softwood/Temperate Logs		Units: Kilos	
Year	2003	2004	2005	% '05 Share
Total imports	53,282	93,092	102,183	
Chile	26,181	68,650	71,331	69.0
United States	3,372	13,407	29,100	28.4
Canada	23,682	11,035	1,752	0

Source: Secretary of Economy

H.S. 4407.10.00	Softwood/Temperate Lumber		Units: Kilos	
Year	2003	2004	2005	% '05 Share
Total imports	254,889	312,322	372,257	
United States	123,717	148,232	171,311	46.2
Chile	69,685	91,683	120,897	32.5
Peru	16,927	23,037	28,527	7.6
Canada	14,599	21,920	26,439	7.1
Brazil	15,287	12,310	13,319	36

Source: Secretary of Economy

H.S. 4412.13.00	Plywood Tropical		Units: Kilos	
Year	2003	2004	2005	% '05 Share
Total imports	77,200	94,758	77,512	
Malaysia	47,780	53,802	34,317	44.2
Indonesia	19,801	13,795	11,247	14.5
Brazil	1,320	1,099	1,608	2.0
United States	1,250	799	761	0.9

Source: Secretary of Economy

H.S. 4412.19.00	Plywood Conifers		Units: Kilos	
Year	2003	2004	2005	% '05 Share
Total imports	11,399	N/A	119,009	
Chile	35,955	N/A	46,094	38.7
United States	65,522	N/A	44,129	37.0
Brazil	3,009	N/A	18,757	15.7

Source: Secretary of Economy

The aggressive promotional strategy of Chile, franchising outlets in Mexico, subsidized with government and private sector funds, continues to gain market share in the Mexican softwood and temperate logs, lumber and plywood market. Chilean groups such as Arauco and Masissa have established these franchises, modifying the wood products trading scheme in Mexico by reducing the number of middlemen. In addition, Chilean wood products imported by the Mexican industry benefit from the Mexico-Chile Free Trade Agreement.

MARKET SEGMENT ANALYSIS

Construction Sector

Construction activity in Mexico has experienced steady growth in the last four years, and this growth is expected to continue in 2006. According to official figures, it is estimated that during 2005, $3.7 billion was invested in diverse projects of energy, housing, urban development and highways.

Agency	Purchases	Improvement Remodeling	Total	Investment
				Billion Dollars
Infonavit	277,105	3,564	280,669	4,7
SHF	44,206		44,206	1,2
Fovisste	23,729		23,729	0.6
Fonhapo	16,168	23,173	39,341	0.5
	33,394		33,394	2.2
	21,933		21,933	0.5
Orevis	6,273	6,543	12,816	0.2
Others	5,764	37,485	43,249	0.2
Total	428,572	70,765	499,337	10.2

The housing boom will continue. The housing agencies reported 499,337 credits for construction granted in 2005, 85 percent for purchase of a house, and 15 percent for improvements and remodeling. With an estimate of $10 billion dollars credits issued.

Nationally the construction of 450 thousand units in 2004, pushed the growth of the construction sector to 4.3 per cent. This is an example of the positive trend of the last four years. Among the most important projects in the coming years are the "El Cajon" dam, 31 Petroleos Mexicanos (Pemex) marine platforms; and one oil refinery with an investment of $1.6 billion dollars.

Marketing

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.

Policy

Traditionally, masonry material is used for residential and building construction. Wood structural material is still not generally accepted.

Trade

Officials of the Secretary of Economy and of the Mexican Chamber of the Construction Industry recently met to coordinate a program for 2006 that will provide funds and services to the works for the reconstruction of the hotel service industry and restaurants, in the southeast states of the country affected by hurricanes "Stan" and "Wilma" in October 2005. The reconstruction of the hotel service industry and restaurants, in the southeast states of the country affected by the hurricanes is an exceptional trade opportunity for US hardwoods used in interior joinery and outdoor applications such as piers, and decks. For more information about this program, interested US wood exporters may contact either the US Agricultural Trade Office in Mexico City, phone 011-5255-5080-2000 or the Mexican offices of the Southern Pine Council & Softwood Exports Council (SPC/SEC), the American Hardwood Export Council (AHEC), the American Softwoods, and the American Forest & Paper Association (AF&PA). Telephone numbers and e-mail addresses are given at the end of this report.

Furniture & Interiors Sector

During the last three years, the furniture manufacturing sector in Mexico has faced recession, loss of jobs and a decrease of 10% in exports. The wood furniture sector is formed by small family owned and operated businesses comprising 784 enterprises of which 86% are small size, 11% medium size and 3% large factories1. The predominant style is handicrafts with low technological advance. The primary furniture manufacturing areas in Mexico are located in Mexico City, Guadalajara, Monterrey and San Luis Potosi.

Marketing

Potential niche markets for US hardwoods are the furniture manufacturing sector and the interior decoration sector with a large number of manufacturers and traders of flooring, paneling and molding. Private sources report that red oak, hard maple and alder have a high demand in the Mexican market. There is a growing number of Mexican lumber importers and flooring distributors who manufacture their own flooring. As a result, they are prime candidates to purchase US raw materials. This trend is reflected in the increase of lumber imports, especially red oak and maple. Furniture manufacturers demand reddish colored woods which triggers increasing competition from South American tropical lumber (mahogany and other reddish woods). Mahogany and lighter colored wood remain the most popular species for interior fittings.

The US hardwood varieties most commonly used for solid hardwood furniture are red oak, white oak, hard maple, poplar and ash. South American 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.

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. 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.

[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.

Trade

China has become the world's largest manufacturer of furniture. As a result of the industrialization process China experienced during the 90's, China has become the first supplier of furniture to the US and other countries in the world, with an annual increase in this sector of 16 percent. US manufacturers have moved facilities to China. In the districts of Shanghai and Guangdong 3 million Chinese workers produce house and office furniture in 30 thousand enterprises. 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.

H.S. 9403.00.00	Wooden Furniture		Units: Million Dollars	
Year	2003	2004	2005	% '05
Total Imports	261.8	263.7	318.5	100.0
United States	143.3	145.3	160.8	50.0
China	32.8	38.5	59.2	18.5
Spain	16.0	12.0	15.4	4.8
Italy	13.0	13.1	15.3	4.8
Canada	7.8	8.7	10.1	3.2
Brazil	5.0	8.1	9.9	3.1

Source: World Trade Atlas

A factor that could prevent the increase of US hardwood lumber is the increase in US wood product prices. Recent import cost increases may prompt Mexican buyers to seek alternative sources. 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 decreased in 2004. This decrease is attributable to the emergence of distribution outlets such as Home Depot that carry a large variety of imported ready-to-use molding produced by other countries.

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 placing 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.

Material Handling Industry

The manufacturing of cases, boxes, and crates is supplied by the domestic softwood lumber industry. In 2005, Mexico produced 45.6 million wooden pallets and crates and imported 92.5 million. Unlike the United States, in Mexico plastic pallets and containers are not frequently used; they represent only an estimated 10 percent of the cargo handling material.

H.S. 4415.00.00 Wood Packaging Material		Units: Million Dollars		
Year	2003	2004	2005	% '05
Total Imports	30.211	26.247	31.029	
United States	16.959	17.102	16.870	54.3
Chile	8.666	6.422	9.558	30.8
Canada	1.641	0.806	1.609	5.2
Sweden	0.412	0.406	0.982	3.2

Source: World Trade Atlas

H.S. 4415.20.00 Wooden Pallets		Units: Million Dollars		
Year	2003	2004	2005	% '05
Total Imports	23.530	20.822	22.867	
United States	12.677	13.404	11.587	50.6
Chile	8.665	6.422	9.558	41.8
Canada	1.315	0.412	1.004	4.39
Sweden	0.02	0.05	0.182	0.80

Source: World Trade Atlas

Marketing

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. Exporters and shippers of high 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).

Policy

In addition to the postponment of the date of enforcement of the NOM-144-SEMARNAT-2004 back to October 2006, the initial concern of the private sector that the required treatments according to the NOM-144 (See MX 5502 and MX5501) would add to the cost of packaging and transport of goods that in turn, would affect final consumers of those goods, has been minimized by government officials declaring that they will carry on a random and free of charge visual check to verify that the wood packaging material (WPM) is marked in accordance with NOM 144 / ISPM 15. If WPM presents the authorized mark and if there is no evidence of infestation then the officials will allow the shipment to continue into Mexico/United States. Increases in pallet prices are not expected to have a measurable effect on domestic consumers or on trade.

Trade

The maquiladora industry has important centers of assembling electronic appliances, such as televisions and computers. There are significant market opportunities for exports of US plywood 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. 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. Another segment of users of packing material make their decision to purchase based on price rather than on quality because the shipper will not recover the packing material. Supermarkets and large distribution centers like central markets and the agricultural sector purchase domestic wood packing material. There is strong competition from Chile and Indonesia. Chile continues to effectively enter the Mexican softwood and plywood market by offering low-priced products.

USEFUL CONTACTS

The Southern Pine Council & Softwood Exports Council (SPC/SEC), the American Hardwood Export Council (AHEC), the American Softwoods, 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, AS 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
Ph: 011-5255-2626-1838
Fax : 011-5255-2623-1853
E-mail: infoafpamx@prodigy.net.mx

American Hardwood Export Council
Luis Zertuche, Director
Ph: 011-5255-2623-1850
Fax : 011-5255-2623-1853
E-mail: luis.zertuche@prodigy.net.mx

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

American Softwoods
Fernanda Vale, Representative
Ph: 011-5255-5280-6405
E-mail: fvale@softwood.org

TRADE SHOWS

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 are as follows:

EXPO MANUFACTURA 2006
When: Marzo 7 - 9, 2006
Contact Mexico City: Mr. Sergio Munoz, Organizer
Phone: 011-52-55-1087-1650 extn. 1140
Contact Washington, D.C: Shane Poblete, Organizer
Phone: 001-301-493-5500
Fax: 01-301-493-5705
E-Mail: info@ejkrauze.com
Where: Cintermex Exposition Center, Monterrey, Mexico
Show Type: Trade show for Mexican manufacturers to contact suppliers.

EXPO AMPIMM - TECHNO MUEBLE 2006
When: June 14 - 17, 2006
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 2006
When: September, 11 - 18, 2006
Where: Cintermex Exposition Center, Monterrey, Mexico
Contact: Mr. Agustin Delgado, 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 2005
When: October 18 - 22, 2005
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.