USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - public distribution

Date: 10/31/2006

GAIN Report Number: MX6089

Mexico

Solid Wood Products

Annual Report

2006

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Report Highlights:
Mexico's imports of solid wood products are expected to increase slightly in MY 2007. This growth is mainly attributable to a positive outlook for the Mexican economy in CY 2007, with higher demand from the construction and furniture sectors, combined with a shortage of domestic production. The strong economy and tight domestic supplies will guarantee Mexico's continued reliance on solid wood imports to meet domestic demand in MY 2007. The main challenge for U.S. wood exporters, however, will be to remain competitive with third countries in the Mexican wood market

Includes PSD Changes: No
Includes Trade Matrix: Yes
Annual Report
Mexico [MX1]
[MX]

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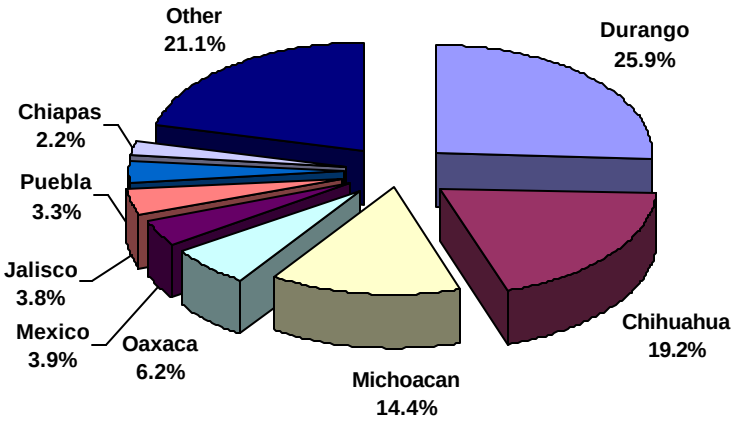
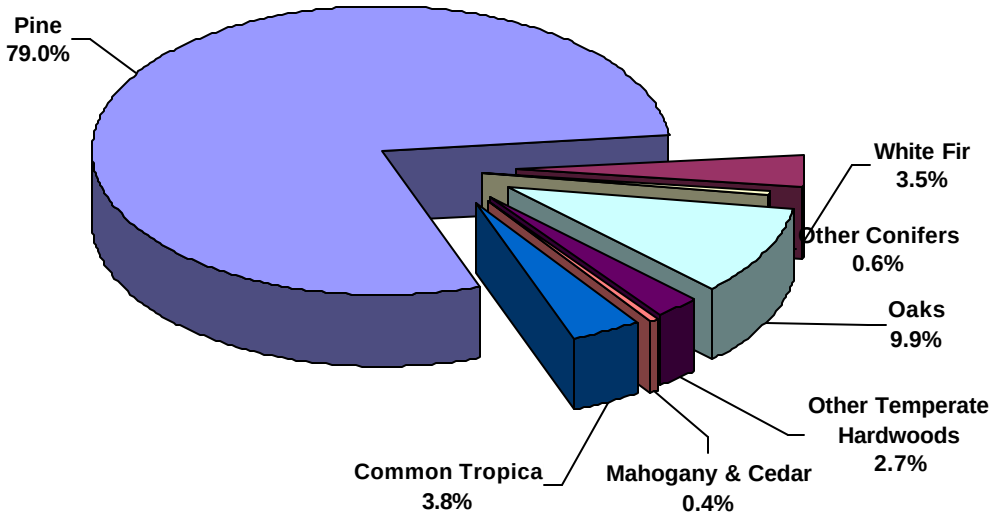
FOREST SITUATION

Mexico's main wood species, in terms of surface area and economic importance, are the *pinus* and *quercus* varieties, which account for approximately 80 percent and 5 percent, respectively, of total national timber production. The 2005 Mexican forest production (6.791 million m^3), by major producing States and species, is broken down below. This information is based on official data from the Mexican Secretariat of the Environment and Natural Resources (SEMARNAT).

DISTRIBUTION OF STANDING VOLUME BY STATE FOR 2004
(Percentage)



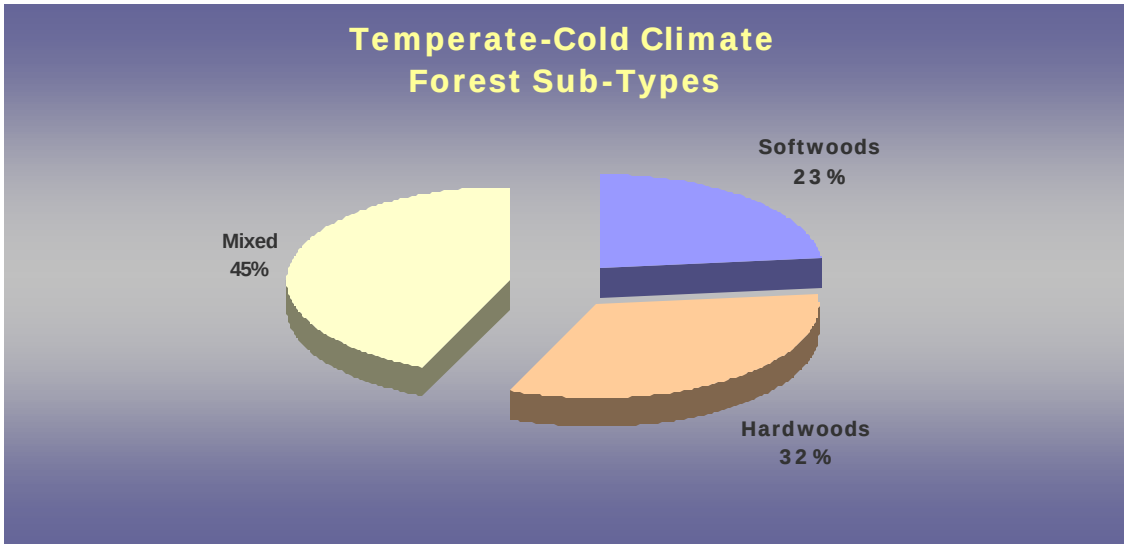
SHARE OF FOREST PRODUCTION BY SPECIES
2005



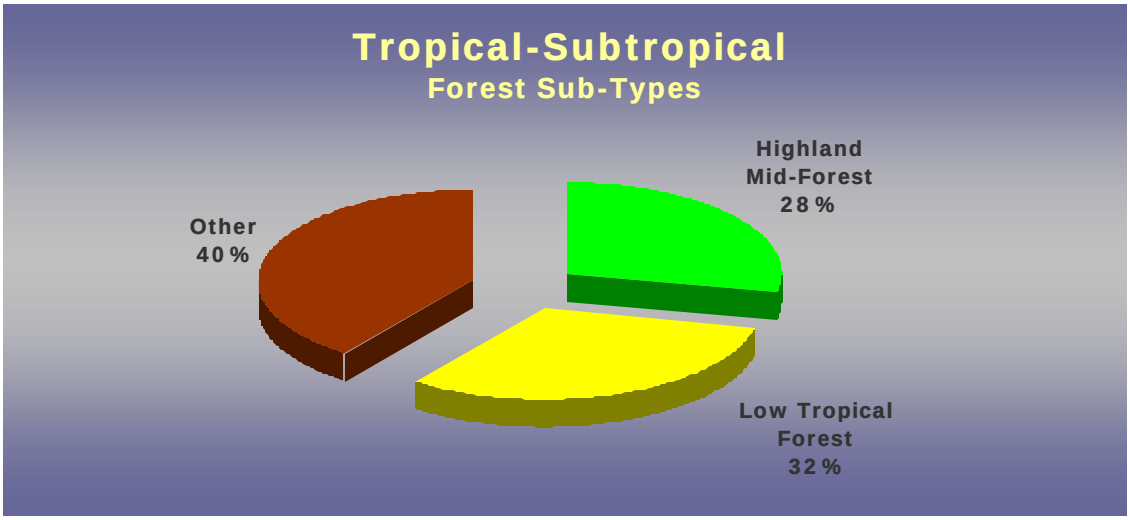
The temperate pine-oak forests of Mexico cover the mountain ranges in western and eastern portions of the country (the Sierra Madre Occidental and the Sierra Madre Oriental), which join the two ranges in central Mexico, and the Sierra Madre del Sur along the Pacific coast of Guerrero and Oaxaca. In the south, after breaking at the Isthmus of Tehuantepec, the mountains rise again in the Sierra Madre de Chiapas and the Mesa de Chiapas in southeastern Mexico. It is on the slopes of the Sierras that Mexico's pine and oak forests are found, with the greatest number of pine species of any country in the world, some 72 in two major groupings. There are also some 130 species of oak. The conifer and oak forests extend throughout the Sierra Regions, with pines dominating in the higher, colder altitudes, and oaks being more common at lower and drier altitudes. The majority of all forest management communities in Mexico are found in the conifer and oak forests, particularly in the states of Chihuahua, Durango, Michoacan, Guerrero, Puebla, and Oaxaca. Tropical forests are found on slopes along the Gulf of Mexico and the Pacific Ocean, the Isthmus of Tehuantepec and in southern Yucatan in the states of Campeche, Chiapas, Oaxaca, Quintana Roo, and Veracruz. Terminalia Amazonia, Dialium spp, Brosimum spp, Manilkara zapota, Lonchocarpus spp, and Terminalia oblonga are typical of the trees found in this area.

According to the National Forest Commission (CONAFOR), Mexico's total forest resource base is estimated at 84.57 million hectares. The breakdown by forest type and hectarage is as follows:

MEXICO'S MAJOR FOREST TYPES



Type	Sub-Type	Has. (Millions)	%
Temperate-Cold Climate	Softwoods	7.78	23.22
	Hardwoods	11.1	33.12
	Mixed (Softwoods and Hardwoods)	14.63	43.66
	Subtotal	33.51	100



Type	Sub-Type	Has. (Millions)	%
Tropical-Subtropical	Highland mid-forest	14.48	28.36
	Low tropical forest	16.29	31.9
	Other	20.29	39.74
	Subtotal	51.06	100

Notes: Softwood: Conifer Forest; Hardwoods: Oak Forest; Mixed: Conifer – Oak Forest and Tropical Rain Forest; Highland mid-forest: High and Medium Tropical Forest; Low tropical forest: Low Tropical Forest. Other: Include some Subtropical Shrubs like conifer Shrub (MJ), Subtropical, Shrub (MST), Tamaulipeco Thorn Shrub (MET), Sarcocaule Shrub (MSC), Sacocrasicaule Shrub (MSCC), Sacrocrasicule Cloud Shrub (MSN), Submontano Shrub (MSM). Chaparral (ML) and Mezquital (MK), according to the classification system.
Source: National Forest Commission (CONAFOR): National Continuous Maps of the Land Use and Vegetation. Series II (1993) and Series III (2002).

Based on the Article 5 of the 2003 forest law, forest resources may belong to communal property ownership groups (*ejidos*), local communities, indigenous peoples and indigenous communities, private landowners, or the government. Ejidos and local communities own an estimated 80 percent of Mexico's forests. These forests are also known as *"propiedad social",* or forests under social property. Approximately 8,500 communities, or *"nucleos agrarios",* own and manage this land. Approximately 15 percent of Mexican forest area is owned privately, and 5 percent is classified as national land.

Mexico's forests continue to be characterized by their fragmentation and high levels of human presence. Official estimates state that approximately 12 million people live in, or adjacent to, forestland in Mexico. Dwellers on these lands are generally considered to be the poorest segment of the rural population. A substantial number of ejidos depend on forestry activities for their livelihoods. As a consequence of this large and growing population, natural resources and the environment are being stressed. One of the most significant adverse impacts has been the constant degradation of forest ecosystems and deforestation. Official deforestation rate estimates predict annual forest losses that range from 365,000 to 1.5 million hectares.

The main driver of this deforestation has been agricultural and livestock expansion. Deforestation can also be attributed to other factors such as population density, population growth, increased food demand, high agricultural export prices, exchange rate devaluation, increased debt-servicing ratios, and round wood production. The impact of this rapid deforestation includes:

- A general degradation of the ecosystem;
- Erosion and sedimentation in lakes;

- Reduction in the recharging of watersheds;
- Flooding;
- Reduced biodiversity; and
- A reduction in the productive potential of the land.

Consequently, official sources have recognized the urgency to implement different types of reforestation activities. Until recently, little effort has been made to link deforestation, or stability in forest cover, with community forest management. The vast majority of community-managed forests are in the mountainous, coniferous zones, which in recent decades have shown lower rates of deforestation, although no cause-and-effect relationship has been established. In addition, tropical land use change has been well below national rates in two areas where community forestry has been prominent, southern Campeche and central Quintana Roo. Forest degradation is often the starting point for deforestation. The direct causes of deforestation and forest degradation include the existence of incentives for forestland conversion, high levels of rural poverty, illegal logging, and the cultivation of illegal crops.

Mexico continues using its forest resources in a non-sustainable manner, despite some isolated efforts to the contrary. In addition, the current government support system does not actively encourage forestry plantings or re-plantings. The sector continues to be affected by insufficient resources for harvesting, inadequate basic infrastructure for distribution of raw materials, and low productivity per hectare. Moreover, extraction and transportation costs continue to be extremely high (between 30 and 40 percent of the total production cost) since the processing plants are not located close to the harvested areas, and because of poor road infrastructure.

Forest management is conducted mainly in the ejido-owned forests, most of which are located in the temperate and subtropical forest zones. Harvesting in ejidos and privately owned forests is implemented through cutting permits. Three kinds of permits are given out:

1. Small-scale harvesting permits in areas of up to 20 hectares;
2. Medium-sized harvesting permits for areas of between 20 and 250 hectares; and
3. Commercial logging permits for areas above 250 hectares.

It is primarily the forest owners and ejido communities, as well as contractors working for timber traders or the forestry industry, who carry out logging activities in tropical forests. Forest owners must employ at least one forestry professional who is in charge of forest management, and they must also present a forest management plan and a yearly harvesting plan to SAGARPA. In order to maintain forest integrity, SAGARPA regulates foresters by establishing a minimum cutting diameter, which tends to vary by state. In Quintana Roo (a tropical hardwood producer), for example, foresters harvest high-value species with a diameter of 55 cm and above, and trees of other species with a diameter of 35 cm and above.

As already mentioned, forested areas in Mexico are owned and managed by approximately 8,500 “ejidos” and local communities, though private ownership is also important. The extent of forests within “ejidos” varies, the smallest ones being around 300 hectares and the largest nearly 450,000 hectares. An estimated 7.1 million hectares of closed forests (both temperate and tropical) are covered by management plans for timber and/or non-timber forest production. It should be noted that often communities lack the organization and funds to manage forests and woodlands effectively. There is also often a divergence between national interests to protect and manage forests, and particular local interests and agendas. Recent conflicts have arisen over the extension of protected areas without proper consultations with the people living in these areas. Another area of conflict is excessive utilization and unauthorized land conversion. For example, there is an ongoing conflict in

tropical forest areas in the states of Chiapas and Oaxaca over a lack of access to land and poorly defined property rights.

It is estimated that the volume of illegal round wood harvesting is between 5-7 million m^3 annually. The Government of Mexico (GOM) has taken a wide range of actions to combat illegal logging.

The forest sector's main problems can be generalized as follows:

a. Poorly defined and enforced property rights, leading to short-term production decisions and an unfavorable investment climate;
b. Inadequate administration of communal property (*ejido*) and local communities as units of commercial forest production;
c. Over-exploitation of resources;
d. Negative trade balance in forest products;
e. Inefficient production and processing capacity, leading to an inability to compete in the global marketplace;
f. Environmental degradation, which is closely linked to poverty-induced behavior; and
g. Inadequate institutional and legal frameworks to promote sustainable production, resulting in high transaction costs and lack of consistency in regulations.

Over the last few years, forest communities have shown an interest in a certification scheme for responsible forestry management and operations. A scheme such as this represents a creative and forward thinking effort to stimulate the adoption of sound forest management policies through the marketplace by encouraging consumers to choose timber products from well-managed forests. Mexico's achievements in forest certification clearly show the strength of the sector in global terms. According to available information, only 3 percent of the 29.63 million hectares, which have been certified worldwide, are considered "communal," but within this category, Mexico clearly dominates, with nearly half of the communities, and half of the certified community forests worldwide. As of September 2005 there were 41 FSC-certified (Forest Stewardship Council) Forest Management Units (FMUs), which cover a total area of 707,829 hectares of natural forest. The vast majority of this land is community-owned. Of these, twelve FMUs, covering about 163,000 hectares, are located in the tropical part of Mexico.

STRATEGIC INDICATOR: FOREST AREA

It should be noted that the Strategic Indicator Table continues be based on the Periodic National Forest Inventory of 1994, as the Secretariat for the Environment and Natural Resources (SEMARNAT) did not publish the National Inventory of 2000-2001. According to SEMARNAT officials, this inventory was not published due to the use of an inappropriate methodology to estimate the forest situation. Currently, however, the National Forest Commission (CONAFOR) is managing the national forest inventory (see MX1055). CONAFOR officials stated that the final version of this inventory will not be available until 2009.

STRATEGIC INDICATOR TABLE: FOREST AREA			
(MILLION HECTARES/MILLION M^3)			
COUNTRY: MEXICO	PREVIOUS	CURRENT	FOLLOWING
REPORT YEAR: 2006	CALENDAR YEAR (2005)	CALENDAR YEAR (2006)	CALENDAR YEAR (2007)
TOTAL LAND AREA	196.70	196.70	196.70

Total Forest Area	141.17	141.17	141.17
--of which, Commercial	21.60	21.60	21.60
----of commercial,tropical hardwood	NA	NA	NA
----of commercial, temperate hardwood	NA	NA	NA
----of commercial, softwood	NA	NA	NA
--of forest area, noncommercial	9.70	9.70	9.70
Forest Type	30.2 1/	30.2 1/	30.4 1/
--Of which, virgin	NA	NA	NA
--Of which, plantation	0.68	0.68	NA
--Of which, other commercial (re-growth)	NA	NA	NA
Forest Ownership			
--Nationally owned and no commercial access	9.00	9.00	NA
--Nationally owned, commercial logging permitted	7.00	7.00	7.00
--Other publicly owned land, no commercial access	NA	NA	NA
--Other publicly owned, logging permitted	113.4 4/	113.4 4/	113.4 4/
--privately owned commercial forest	NA 2/	NA 2/	NA 2/
Total Volume of Standing Timber	2,803.49	2,803.49	2,803.49
--Of which, Commercial Timber	NA	NA	NA
Annual Timber Removal	7.5 3/	7.5 3/	7.5 3/
Annual Timber Growth Rate	35.10	35.10	35.10
Annual Allowable Cut	8.20	8.30e/	NA

1/ Corresponds to temperate-cold climate forest, of which 68 percent are softwoods and 32 percent are hardwoods
2/ 21.2 million hectares are privately owned but there is no specified commercial area
3/ Annual Average
4/ Corresponds to communal property ("ejidos") but there is not specified commercial area
Source: The Secretariat for the Environment and Natural Resources (SEMARNAT) based on The National Forest Inventory, 1994.
E/ Estimated

PROGRAMS

In order to reverse the processes of forest degradation, and to recover Mexico's forest area, the GOM strategy has been to strengthen the reforestation, protection, conservation, and restoration of forestland, as well as to prevent and combat forest fires, plagues, and tree illnesses. At the same time, the GOM has encouraged the decentralization of the forest service to state and municipal governments. Federal funds dedicated to the forest sector have increased from $264.7 million pesos in 2001 (U.S. $23.9 million) to $2.376 billion pesos in 2006 (U.S. $215.0 million). The majority of this funding has been allocated to forestry development and the prevention of forest fires. The following is a breakdown of the 2001-2006 budget allocation for the main governmental forestry programs, which continues to be coordinated by the National Forest Commission (CONAFOR):

CONAFOR: FEDERAL BUDGET APPLIED IN THE MAIN PROGRAMS, 2001-2006 (MILLION PESOS)

Programs	2001	2002	2003	2004	2005	2006 p /
TOTAL	**264 .7**	**1, 354. 3**	**1, 748. 6**	**2, 240. 7**	**2, 241. 2**	**2, 376. 1**
PRODEFOR	154. 6	178.5	235.6	320.4	340.4	340.9
PRODEPLAN	n.a.	502.0	405.8	314.4	310.5	130.6
Conservation and Restoration of Forestry Ecosystems 1/	0	0	0	211.1	n.a.	317.3
PROCYMAF II 2 /	n.a.	27.5	31.7	66.5	68.9	67.9
PSA 3 /	0	0	199.9	406.6	324.4	245.1
FOREST FIRES	n.a.	0	270.6	331.5	314.1	530.7
PRONARE	62.3	353.8	306.1	196.0	233.5	334.0
Others	47.7	292.3	297.9	393.8	420.8	409.6

1 / Includes the budget dedicated to the reforestation actions, of conservation and restoration of forest soils of forest sanity. Of 2001 to 2003 these actions were included the budget of the National Reforestation Program, between 2004 and 2005 they were integrated through the Program of Conservation and Restoration of Forest Ecosystems (PROCOREF).

2 / Starting 2004, this program was named Program of Community Forest Development (PROCYMAF II), before Project of Conservation and Sustainable Handling of Forest Resources in Mexico (PROCYMAF).

3 / The Program of Environmental Services Payments (PSA), began on 2003.

p / Programmed Budget.

n.a. Not Available data.

Exchange rate is approximately U.S.$ 1:00 =11.05 pesos

SOURCE: Secretary of Environment and Natural Resources.

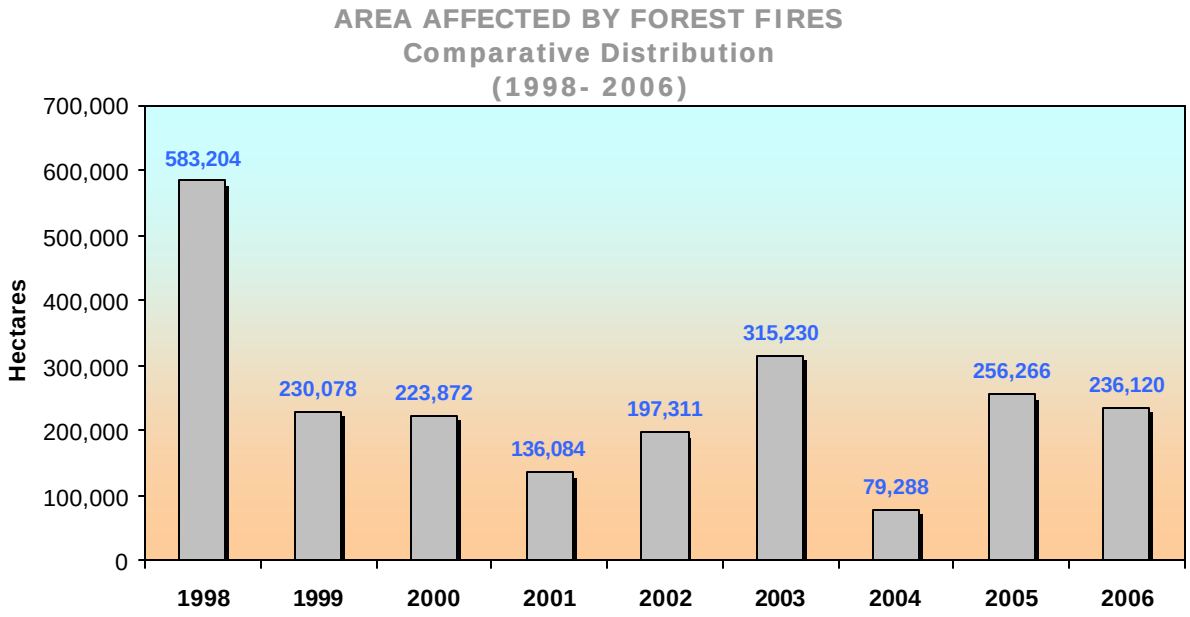
The main government forestry programs, managed by CONAFOR, include:

- The National Forest Development Program (PRODEFOR);
- The National Program for the Promotion of Forest Plantations (PRODEPLAN); and
- The Communal Forestry Development Program (PROCYMAF II).

CONAFOR also funds and coordinates activities to fight forest fires. The following is a summary of these programs during from 2001-2006.

AREA AFFECTED BY FOREST FIRES

Although highly variable from 1998 to 2006, the annual average area affected by forest fires was 250,828 hectares. During the first seven months of 2006, the number of forest fires was approximately 6 percent lower than the annual average. Official sources pointed out that in 2006 favorable weather conditions during the first months of the year contributed to a decrease in the number of forest fires. These sources also estimated that the final number of forest fires for 2006 would not change substantially, as the 2006 rainy season has been fairly normal. CONAFOR data on area affected by forest fires, as of August 3, 2006, is as follows:



PERIOD	1998		1999		2000		2001	
	FIRES	AFFECTED AREA	FIRES	AFFECTED AREA	FIRES	AFFECTED AREA	FIRES	AFFECTED AREA
JAN 1ST – AUG 03, 2006	14,268	583,204	7,954	230,078	8,534	223,872	6,304	136,084
COMPARISON EACH YEAR VS. 2006 (%)	-40	-60	8	2.63	0.60	5.47	36.18	73.51

PERIOD	2002		2003		2004		2005		2006	
	FIRES	AFFECTED AREA	FIRES	AFFECTED AREA	FIRES	AFFECTED AREA	FIRES	AFFECTED AREA	FIRES	AFFECTED AREA
JAN 1ST – AUG 03, 2006	8,147	197,311	8,106	315,230	6,190	79,288	9,491	256,266	8,585	236,120
COMPARISON EACH YEAR VS. 2006 (%)	5.38	19.67	5.91	-25.10	38.69	197.80	-9.55	-7.86	0.00	0

SOURCE: FOREST FIRES MANAGEMENT OFFICE, CONAFOR

In the first seven months of 2006 forest fires have affected 194,067 hectares of grazing land, and 42,053 hectares of forest area. The states of Michoacan, Mexico, Chihuahua, Jalisco, Puebla, Chiapas, Oaxaca, Tlaxcala and Morelos, were among those most affected by forest fires in 2005. These states represent 75.9 percent of the total affected area in Mexico. According to CONAFOR, in 2005 the authorized budget to combat forest fires reached $314.2 million pesos (U.S. $28.4 million). The federal government has allocated $530.7 million pesos (roughly U.S. $ 48.0 million) for this purpose in 2006.

PRODEPLAN, the Forestry Plantations Support Program, works to stimulate private sector investment in forestry plantations by developing joint ventures with landowners, rather than merely establishing harvest contracts on ejido lands. Under this program the maximum subsidy may not exceed 65 percent of the first seven years' investment costs. According to industry sources this program is mainly directed towards producing pulpwood for the paper and cellulose industries.

Since 1997, PRODEPLAN has funded 3,299 commercial forestry-planting projects on 412,218 hectares. The most mature plantings are located in Mexico's Southeast region, in the states of Veracruz, Tabasco, and Campeche, and, to a lesser degree, in Chiapas, Oaxaca, and Puebla. The main planted species are tropical eucalyptuses, red cedar, teak, mahogany, rubber, and multiple pine species. Foresters were first able to start harvesting PRODEPLAN supported projects in 2003. These projects have produced approximately 250,000 m^3 of forested area, which represents near 2.5 percent of Mexico's total round wood production. It is estimated that this production will continue growing until it reaches 60 to 70 percent of total round wood production in the country, anticipated to be sometime around the year 2025. Up until this point round wood production in Mexico had been derived almost entirely from natural forests. Because of PRODEPLAN, a considerable percentage of Mexico's round wood production will be relocated to commercial-planting projects in states in the southeastern portion of the country within the next five to 10 years.

PRODEPLAN was allocated $130.6 million pesos (U.S. $11.8 million) in 2006, a reduction of 63 percent compared with a year earlier due a reduction in federal funding for this program. CONAFOR sources stated that part of the cut back was reallocated to activities to combat forest fires. PRODEPLAN funds were distributed as follows:

- $114.8 million pesos for the establishment of 13,700 hectares of commercial forest plantations;
- $10 million pesos to support 905 forest plantation programs; and
- $5.8 million pesos for program operation.

From January-July 2006, the following PRODEPLAN activities were carried out:

- Verifications of field plantations, and payment of $40 million pesos (U.S. $3.6 million) to managers of 109 projects, with a surface of 10,000 hectares of new plantations;
- Continued crop activities on commercial forest plantations, and initiation of other plantations, with an estimated round wood production of 265,000 m^3 per year, to supply the cellulose and plywood industries.

PRODEPLAN RESULTS 2001-2006

DESCRIPTION	REALIZED					GOAL
	2001	2002	2003	2004	2005	2006
Million pesos ①	285.9	648.1	438.1	425.3	353.0	124.8
Supported Area (Has.)	39,725	96,748	68,461	66,213	53,826	13,700
Forecast production ② Round Wood (Million m^3)	8.2	19.9	14.1	15.3	11.1	2.8
Producers beneficiaries	1,409	10,171	6,873	4,030	2,608	670

① Includes the supports allocated to growers and excludes the operational program expenses.
②Support beneficiaries should establish the forestry plantation in a maximum period of 3 years. The harvest stage requires a development period between 7 and 25 years depending on the forestry species planted, the environment and productive objective.
SOURCE: SEMARNAT/CONAFOR

PRODEFOR is a program to develop common lands and their communities (ejidos). This program focuses on promoting responsible and sustainable forest management, the conservation of natural resources, as well as increasing the productive capacity of forest ecosystems by promoting technological modernization in the forestry sector. During the first seven months of 2006, $143.9 million pesos (U.S. $13.0 million) were allocated to support 3,142 projects, which benefited 2,482 producers. Also, $20.3 million pesos (U.S. $1.83 million) were channeled to support 706 projects for the development of forest handling programs and technical studies, incorporating almost 1.5 million hectares. Lastly, $123.7 million pesos (U.S. $11.1 million) were allocated for 2,436 training activities, providing equipment, development of tourism activities, and forest management programs.

PRODEFOR RESULTS 2001-2006

DESCRIPTION	REALIZED					JAN-JUL			
	2001	2002	2003	2004	2005	Goal 2006	2005	2006 p/	Annual Change %
Million pesos ①	234.9	342.3	312.8	357.7	396.5	316.8	n.a.	n.a.	-
Hectares supported for integration to technical management (Million hectares)	2.73	1.60	1.28	2.40	1.22	1.30	0.214	1.52	610.3
Production forecast ②									
Estimated Round Wood (Million M^3)	1.8	1.7	1.9	2.05	1.32	1.33	0.20	0.56	180.0
# Producers benefited	5,649	2,452	5,477	4,382	2,776	2,800	682	2,482	263.9

① For the period 2001-2005 includes federal and state resources. For 2006 includes only federal resources.
② Indicates the Round wood production forecast based on the Program supports for the referred year.
p/ Preliminary figures.
n.a. Not available

SOURCE: SEMARNAT

PROCYMAF II's main objective is to provide training activities, and to promote sustainable management of forest resources, in the states of Durango, Guerrero, Jalisco, Michoacan, Oaxaca, and Quintana Roo. According to CONAFOR, the authorized budget for 2006 was $67.9 million pesos (roughly U.S. $6.2 million). From this total, 39 percent was allocated towards operational expenses and professional services, and 61.1 percent to encourage community forestry development in 300 communities (ejidos) through the establishment of 30 community forest companies. This program will effectively incorporate over 100,000 hectares of forested area into forestry management programs.

Reforestation continues to be an important issue to the GOM (previously the program was called PRONARE, see MX4120). According to CONAFOR, the goal of conservation and restoration of forest ecosystems through reforestation supports, and soil conservation practices, is to motivate forest owners to participate in forestry stewardship and sustainable management practices. These supports allow combating, in an integral and progressive way, the degradation and deforestation process. In 2006 the federal budget for these activities reached $317.3 million pesos (approximately U.S. $28.7 million), an increase of 39 percent compared to the 2005 budget. The main results of this program for 2001-2006 are as follows:

REFORESTATION RESULTS 2001-2006

DESCRIPTION	ANNUAL DATA						JAN-JUL			
	REALIZED						GOAL	2005	2006②	Annual Change %
	2000	2001	2002	2003	2004	2005	2006			
Planted trees (Millions)	297	217	258	210	202	179.1	149	10.19	1.02	-89.99
Reforested area (1000 hectares)	243	169	229	194	208	198	290	16.23	6.53	-59.73
Plant survival Index (%) ①	20.0	40.0	49.0	43.9	58.0	50.0	50.0	-	-	-

① The 2005 reforestation assessment is carried out during 2006. Consequently the figure registered in 2005 represents the established goal.
② Preliminary figures.
SOURCE: SEMARNAT.

In 2003 CONAFOR launched a pilot program designed to pay forest managers for the provision of environmental services through forest conservation activities. The program pays owners for each hectare conserved during a five year-period. In 2006 the CONAFOR program received $245.1 million pesos (U.S. $22.18 million) in funding. The funds were allocated to managers and owners of 184,000 hectares of forestland for hydrological environmental services, and 15,500 hectares of forestland for the payment for carbon sequestration, biodiversity protection, and the improvement of agro-forestry systems.

PAYMENT FOR ENVIRONMENTAL SERVICES, RESULTS: 2003-2006

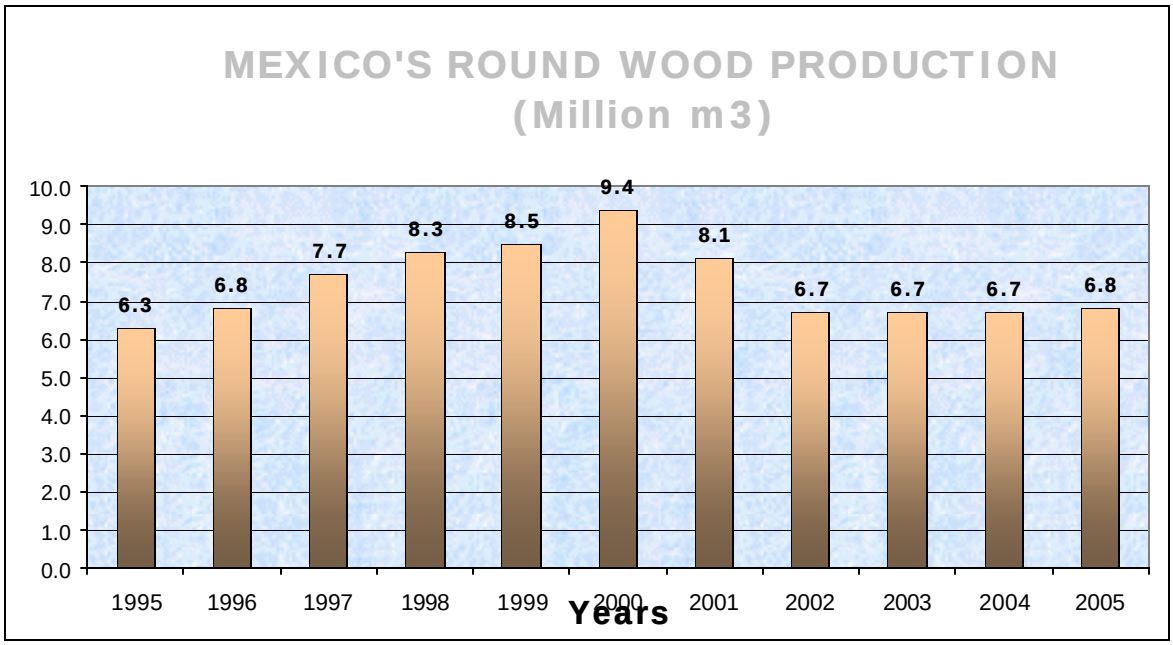
DESCRIPTION	2003	2004	2005
TOTAL	126 818.0	215 688.2	196 020.3
Incorporate surface to the payment of environmental services hydrological (Hectares)	126 818.0	184 40.3	169030.9
Incorporate surface to the payment of environmental services for carbon sequestration, biodiversity and agro-forestry systems (hectares)		31 447.9	26 989.4

PHYTOSANITARY ISSUES

In general, U.S. wood products exported to Mexico do not face major trade barriers. On January 18, 2005, SEMARNAT published in the Diario Oficial (Mexico's "Federal Register") the final rule (NOM-144-SEMARNAT-2004) for phytosanitary measures for wood packaging materials used to transport imported goods into Mexico. The revised wood packaging materials regulation became effective on September 16, 2005, and replaces the emergency rule announced on November 26, 2003. These measures are designed to bring Mexico into compliance with ISPM-15 of the International Plant Protection Convention (IPPC), and harmonize regulations among IPPC members (See MX5502).

SOLID WOOD PRODUCTS OVERVIEW

Preliminary official data of round wood production indicates that it has increased to 6.8 million m^3 in 2005, of which approximately 853,000 m^3 was non-coniferous (temperate hardwoods), and 295,000 m^3 was tropical hardwood. It is expected that this wood production trend will continue through 2006, when round wood production could reach 7.1 million m^3. Again, the main driver of this increase in round wood is greater production of pulpwood for the paper and cellulose industries, resulting from high international prices and dynamic performance in the housing and construction sector (see following chart):



Roughly 60 percent of all industrial timber installations are concentrated in the states of Durango, Chihuahua, and Michoacan. Mexican timber production, and the Mexican 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 and delivered prices generally conform to market demands, particularly in the higher grades and species. Industry sources insist that domestic prices for round wood continue to be the primary binding constraint for the domestic forest industry. Some domestic companies point out, for example, that the current cost of domestic round wood is approximately U.S. $110 per cubic meter, while in countries such Chile and Canada it is between 30 and 40 percent lower. In addition, there are a litany of other problems that the forest industry is facing, such as:

- Lack of information on specific properties of forest species, and on the market demand for the most appropriate end uses for those forest species. This has led to inefficient use of forest species;
- Fragmented forests and lack of large-scale supply areas;
- Distance from mills, low mechanization level in forestry operations, and inadequate road infrastructure. All these factors have contributed to the high extraction and transportation costs already mentioned;
- Limited vertical and horizontal integration of the industry, which results in inefficiencies at every point in the production and supply chain;
- High financing costs, which have limited investments in modern technology.

Despite these problems and limitations, it is estimated that tropical timber production for both native and introduced species will significantly increase over the next 10–15 years. This increase is mainly attributable to the federal commercial forest plantation promotion program. As already mentioned, there is an economic incentives program to promote commercial forest plantations, PRODEPLAN, which is mainly geared towards the use of (native and introduced) tropical species. Furthermore, there is the PRODEFOR program, which provides economic incentives to forest producers wishing to embark on further timber processing (i.e. value-added processing of products). According to industry sources, it is

expected that the proportion of tropical timber species harvested in Mexico will increase in the medium - to long-term (10 to 20 years). The share of tropical timber species is currently 5 percent, as compared to non-tropical coniferous species, which dominate the market with an 85 percent share. Reportedly, the proportion of tropical species should increase to 45 percent in 20 years as a result of the economic incentives program for plantations. With regard to lesser-used tropical species and secondary products, it is expected that their use should increase by 20 percent through the forest development program currently being implemented.

Given Mexico's land tenure structure, foreign investment is very limited, but tends to be higher in forest plantations, where foreign investments are currently estimated to account for 3 percent of total investments.

Over the last few years, the Federal Bureau for Environmental Protection (PROFEPA) has significantly increased the enforcement of tropical forest controls to prevent illegal logging. It is estimated that the imposition of penalties and fines has increased by 50 percent over the last three years.

INTERNATIONAL TRADING ENVIRONMENT

As a result of the lack of competitiveness in the Mexican forest industry, domestic wood products demand has been met by imports. In addition, the positive outlook of the Mexican economy has driven an expectation that over the medium and long term Mexico will remain a substantial importer of forest products. Recently, for example, the Mexico's Finance Minister stated that the economy is set to grow by 4.2 percent this year, compared to 3 percent in 2005. This growth is primarily being driven by rising car and oil exports. In addition, 2006 inflation will be approximately 3 percent, near a record low. Furthermore, Mexico's economy expanded by 5.1 percent in the first half of 2006, the fastest pace since President Vicente Fox took office in December 2000. An expansion of 4.2 percent would match the economic performance in 2004, the best year under the Fox administration.

The U.S. has continued competing with third countries for a share of the Mexican wood products market. The most aggressive competitor continues to be Chile. In recent years Chile has been making significant headway into the Mexican market through different strategies such as aggressive pricing schemes, promoting franchises for distribution centers, and a permanent presence in the major trade shows targeting construction and furniture sectors. In 2005 Mexico imported 1.5 million m^3 of softwood lumber. In the first five months of 2006 imports have increased by 20 percent over the same period in 2005, reaching 718,000 m^3. It should be noted that the market share of the U.S. softwood lumber exports increased from 12.2 percent in Jan-Dec 2005 to 36.2 percent in the first five months of 2006. This is mainly attributable to better than average prices from the U.S. However, market share of South American suppliers, mainly Chile, has been steadily increasing. According to the World Trade Atlas data, in 2005 Mexico imported U.S. $217.5 million of softwood lumber, a 199 percent increase since 2001. Imports from Chile increased from U.S. $26.8 million to U.S. $136.7 million in 2005. During the same period, Chile strengthened its market share from 36.9 percent to 62.8 percent. This growth came largely at the expense of U.S. market share, which decreased from 38.9 percent to 21.3 percent. However, Mexico's softwood lumber imports from the United States still increased in terms of value from U.S. $28.3 million to U.S. $46.4 million.

MARKET DEVELOPMENT STRATEGIES

Wood products are generally not used in the construction of homes, except in the formation of concrete, and finish work, such as molding and parquet flooring. Forest products continue

to be used mainly by the furniture industry in Mexico. However, U.S. hardwoods have established a niche in the housing interior market segment, particularly in roofs and sub-flooring. According to an industry source, among architects, white oak is the most popular U.S. hardwood. In addition, due to the continued strengthening of the Mexican economy, it is reasonable to forecast moderate growth in Mexico's consumption of U.S. hardwoods and softwood in the maquila (assembly companies), furniture, and construction sectors over the next several years. Currently the Mexican economy is exhibiting a vibrancy that has not been seen since the technology boom of the late 1990s. The agricultural sector, for example, led the way in the second quarter of 2006 with 7.6 percent growth. Services expanded by 5.1 percent, and the industrial sector grew 3.9 percent, led by construction activity, which surged 6.4 percent in the first four months of 2006. Much of that is the result of a government-led housing initiative that has helped more than 2 million Mexicans become homeowners since 2000. Public spending on construction increased in the first quarter of 2006, growing at an annual rate of 23 percent. This comes after a steep fall in the last quarter of 2005. The building of energy plants (petroleum extraction, refinery plants and petrochemicals, pipeline systems), buildings (schools, hospitals, and clinics), hydroelectric plants, transportation infrastructure (freeways, highways, roads, metro and light train), and water-treatment and sewerage plants are all underway. These projects, which are characteristic of the end of a presidential administration, have driven a resurgence of public works spending in Mexico and are the source of most of the country's construction activities.

In the furniture and maquila sectors, industry sources have stated that most manufactured Red Oak products destined for export to the U.S. will see constant or increased growth over the next few years. Unlike in the U.S., there does not appear to be significant market potential for Red Oak products in Mexico due to Mexican consumers' preference for lower-cost materials. Over the last three years approximately 60 percent of all imported hardwood products in Mexico were destined for the maquiladora sector. By far the majority of products manufactured by hardwood maquilas are furniture-related. During 2006, maquila factories exports have increased and industry sources stated that the rise in exports from these factories adds to evidence that Mexico is regaining its share of the U.S. market lost to China. These sources estimated that output from maquilas will help propel economic growth in the second half of 2006.

The activities that U.S. Cooperators should continue implementing in Mexico to maintain market share include:

- Increasing Mexican consumers' awareness of the advantages of the physical and mechanical properties of U.S. hardwood and softwood products through promotional and educational efforts;
- Continue with the temperate hardwood promotional work with Industrial Design, Architecture and Interior Design schools and universities, such as the "Red Oak Furniture Design Contest". It was organized/sponsored by the American Hardwood Export Council (AHEC) in 2005. This contest was targeted to students of Industrial Design, Architecture and Interior Design in Mexico. All the main universities were invited and the participants had to be at senior degrees of any of the mentioned careers. Approximately 209 submissions from several states within Mexico were received including outstanding designs and very creative ideas;
- Supplying technical information, organizing seminars, and carrying out site visits to smaller Mexican facilities to discuss ways in which their competitiveness may be improved through the use of wood materials;
- Compiling a credit profile of key Mexican importers for distribution to U.S. exporters. A list of importers along with a brief credit history may be supplied in advance to U.S. exporters, or the U.S. cooperators could act as an in-country source of credit information on an ongoing, need-to-know basis. Such information would be very

helpful for U.S. exporters who are considering extending credit to Mexican buyers, and would ultimately help foster more reliable purchasing and a reduction in cases of non-payment;

- Arranging for Mexican media to visit U.S. softwood and hardwood mills are a time-tested means of demonstrating the quality and efficiency of U.S. production facilities, bridging knowledge gaps, and encouraging to this media to promote, in different specialized magazines, the quality attributes of the U.S. softwood and hardwood products;
- Targeting wood consumers who may purchase U.S. hardwoods at the retail level, or request that builders, architects, and interior designers include U.S. hardwoods in their home building/renovation plans. Such advertising should help drive hardwood consumption in Mexico and translate into higher imports. Again, the U.S. "brand" along with the "sustainability principle" should continue to be emphasized.

SOFTWOOD LOGS

PRODUCTION

MY 2007 softwood production is forecast to climb to 6.2 million m^3, an increase of approximately 5 percent over last year's revised estimate (5.9 million $m^{3)}$, due to the expectation that Mexico's economy will continue rebounding. Production estimates for MY 2005 were revised downward to 5.6 million m^3, reflecting official final data from SEMARNAT.

CONSUMPTION

Overall consumption will increase approximately 5 percent in MY 2007 to 6.252 million m^3, fueled mainly by the furniture and construction sectors. Mexican sawmills continue to remove the most trees from the Mexican forests while the pulp and board industries generally rely upon thinning, tops, and sawmill residuals for their raw material supply. As previously mentioned, in MY 2006 the solid wood and board industries' most significant problem continues to be the relatively high cost of raw material.

TRADE

Imports for MY 2007 are expected to reach 28,000 m^3, a 12 percent increase over last year. The expected increase in total softwood round imports reflects growing demand, as well as the inability of the domestic industry to meet this demand because of inefficiencies and a lack of competitiveness. The United States continues to be practically the only supplier of softwood logs to the Mexican market.

TRADE MATRIX SOFTWOOD LOGS

SOFTWOOD LOGS	H.S. 4403.20	UNITS: CUBIC METERS	
EXPORTS FOR 2005 TO:		IMPORTS FOR 2005 FROM:	
U.S.	1,969	U.S.	21,880
JAPAN	72	BRAZIL	25
OTHERS NOT LISTED	0	OTHERS NOT LISTED	10
GRAND TOTAL	2,041	GRAND TOTAL	21,915

SOFTWOOD LOGS	H.S. 4403.20	UNITS: CUBIC METERS	
EXPORTS FOR 2006* TO:		IMPORTS FOR 2006* FROM:	
U.S.	0	U.S.	12,981
OTHER		OTHER	0
JAPAN	99	BRAZIL	0
TOTAL OF OTHER	9	TOTAL OF OTHER	0
OTHERS NOT LISTED	0	OTHERS NOT LISTED	0
GRAND TOTAL	99	GRAND TOTAL	12,981

SOURCE: World Trade Atlas. Mexico Edition. June 2006.
* As of June 2006.

TEMPERATE HARDWOOD LOGS

PRODUCTION

Temperate hardwood log production is expected to represent approximately 13 percent of total Mexican round wood production in MY 2007. MY 2007 total temperate hardwood production is estimated at 975,000 m^3, an increase of 5 percent over 2006 due to the continued increasing demand from the furniture-manufacturing sector. The main varieties of temperate species are oak, ash, alder, mesquite, ebony, and madrone. Oak (Quercus *spp*) is among the most important temperate zone species, a genus represented by several species in Mexico. Mexico has the largest number of species of oak in the world, and this market is the only one that has grown consistently over the last 20 years. Currently there is no classification for oak species, although there are differences within the oak family in terms of ease of drying and workability. Oak is used mainly for flooring, veneer, tool handles, and some high-quality furniture and built-in applications (kitchens, closets, doors). Mexican oak competes with tropical hardwoods, imported oak, and other hardwoods.

CONSUMPTION & TRADE

Consumption of temperate hardwood logs is forecast to reach 982,000 m^3 in MY 2007, driven by continued strong demand from flooring and assembly companies (maquila). At the same time, imports are forecast to increase to 7,000 m^3, an increase of only 1,000 m^3, as the Mexican market continues to be highly price sensitive. Consequently, furniture plants have opted for better-priced tropical hardwood species. Import estimates for MY 2006 (preliminary data) have been revised upward to 6,000 m^3 based on information from industry sources. It should be noted that due to inconsistencies in the GOM's 2005 trade data, these MY 2005 and MY 2006 trade estimates have been based on information gathered from industry sources (6,000 m^3 for each year). No private or other government

sources concurred with the SE's figures. The inconsistencies in SE data have not been corrected and are reported below as SE data indicates.

TRADE MATRIX HARDWOOD LOGS

TEMPERATE HARDWOOD LOGS	H.S. 4403.9[a]		UNITS: CUBIC METERS
EXPORTS FOR 2005 TO:		IMPORTS FOR 2005 FROM:	
U.S.	217	U.S.	1,316
JAPAN	427	CHILE	950,960
OTHERS NOT LISTED	219	OTHERS NOT LISTED	
GRAND TOTAL	863	GRAND TOTAL	954,550

TEMPERATE HARDWOOD LOGS	H.S. 4403.9[a]		UNITS: CUBIC METERS
EXPORTS FOR 2006*TO:		IMPORTS FOR 2006*FROM:	
U.S.	746	U.S.	498
JAPAN	22,186	GUATEMALA	261
OTHERS NOT LISTED	31	OTHERS NOT LISTED	0
GRAND TOTAL	22,963	GRAND TOTAL	759

SOURCE: World Trade Atlas. Mexico Edition. June 2006.
[a] Expressed values for HS 4403.9 consolidates the following subheadings: 4403.91, 4403.92 & 4403.99
* As of June 2006.

SOFTWOOD LUMBER

PRODUCTION

MY 2007 softwood production is forecast to increase to 3.1 million m^3, reflecting dynamic performance in the construction sector. The construction sector has experienced steady growth over the last four years and is expected to continue through 2007. Official figures indicate that approximately U.S. $3.7 billion was invested in diverse projects of energy, housing, urban development, and highways during these years. Most of the softwood lumber production is used in domestic construction - mainly concrete forming. Other important uses include finishing work such as molding and parquet flooring, manufactured doors, windows, and furniture. For MY 2005 and 2006, production estimates were revised upward to 2.8 and 2.9 million m^3, respectively, according to most recent industry and official information, which takes into consideration the favorable economic conditions of the past few years.

CONSUMPTION

Overall consumption will increase approximately 7 percent in MY 2007, fueled mainly by strong demand from the construction sector and packing industry. The MY 2005 and 2006 consumption estimates have been revised downward based on new industry information (4.4 and 4.6 million m^3 respectively). As already indicated, the majority of softwood lumber production continues to go to the construction sector and for packing purposes, as well as for small to medium household furniture manufacturers. Notably, the construction sector grew at an annual rate of 6.4 percent during the first four months of 2006, more than any other sector in 2005. The sector's dynamism was mainly because public spending on construction increased in the first quarter 2006, growing at an annual rate of 23 percent,

after a steep fall in the last quarter of 2005. In the first four months of 2006 total work realized by all construction companies active in Mexico was 6.7 percent greater than the same period in 2005. This substantial increase is primarily attributable to the 17.9 percent growth in public works spending. In fact, private sector construction spending during that same time period fell by 1.3 percent. The only type of private work showing any significant increase was building – primarily the construction of multi-family housing, buildings for recreation and leisure activities, industrial buildings in general, and offices. In contrast, the part of the sector that contracted the most was related to electricity and telecommunications infrastructure. Industry sources estimate that the construction industry will register 4.3 percent annual growth in 2006. This trend should continue through 2007, albeit at lower rate, as traditionally has happened during first year of a new presidential administration.

TRADE

MY 2007 total softwood lumber imports are expected to increase by 10 percent to reach 1.9 million m^3. MY 2005 and MY 2006 import estimates have been revised downward to 1.6 and 1.7 million m^3, respectively, based on official SE data and private industry sources. According to industry sources, Chilean softwood lumber registered an increase in prices that has effectively discouraged imports into Mexico. Similarly, the export estimates for MY 2005 and MY 2006 (preliminary data) have been revised downward to 51,000 and 52,000 m^3, respectively, again based on final SE official data. For MY 2007, exports are forecast to increase to 53,000 m^3.

TRADE MATRIX- SOFTWOOD LUMBER

SOFTWOOD LUMBER	H.S. 4407.1[c]	UNITS: CUBIC METERS	
EXPORTS FOR 2005 TO:		IMPORTS FOR 2005 FROM:	
U.S.	48,552	U.S.	507,371
CUBA	1,951	CHILE	825,346
		CANADA	191,367
OTHERS NOT LISTED	12	OTHERS NOT LISTED	48,496
GRAND TOTAL	50,515	GRAND TOTAL	1,572,580

SOFTWOOD LUMBER	H.S. 4407.1[c]	UNITS: CUBIC METERS	
EXPORTS FOR 2006* TO:		IMPORTS FOR 2006* FROM:	
U.S.	100,872	U.S.	292,867
CUBA	721	CHILE	427,817
OTHERS NOT LISTED	29	OTHERS NOT LISTED	100,393
GRAND TOTAL	101,622	GRAND TOTAL	821,077

SOURCE: World Trade Atlas. Mexico Edition. June 2006

[c] Expressed values for HS 4407.1 consolidates the following subheadings: 4407.10.01, 4407.10.02, 4407.10.03, 4407.10.04 & 4407.10.99

As of June 2006

TEMPERATE HARDWOOD LUMBER

PRODUCTION

Total MY 2007 temperate hardwood lumber production is forecast to grow to 488,000 m^3, approximately 5 percent higher than the revised MY 2006 estimate (465,000 m^3). This growth is mainly a function of the continued strong demand from the furniture and interior building sectors. Production estimates for MY 2005 were revised downward to 442,000 m^3 based on official SEMARNAT data.

CONSUMPTION

Industry sources continue to report that red oak, hard maple, and alder are in strong demand in the domestic market. It should be noted, however, that furniture manufacturers demand reddish colored woods, which leads to greater competition from South American tropical lumber, such as mahogany and other reddish woods. Consumption estimates for MY 2005 and MY 2006 have been adjusted downward and upward, respectively, (718,000 and 795,000 m^3) based on industry sources. For MY 2007, consumption is forecast to increase to 848,000 m^3 as a result of strong demand from the assembled manufacturers ("maquiladoras") and the furniture industry.

TRADE

In MY 2007 Mexican temperate hardwood lumber imports are forecast to increase to 360,000 m^3, due to the greater demand from the furniture and interior decoration sectors. Reportedly, there are a growing number of Mexican lumber importers and flooring distributors who manufacture their own flooring, which could be a key factor to higher sales of U.S. raw materials, specially red oak and maple. Import estimates for MY 2005 and MY 2006 (preliminary figures) have increased to 276,000 and 330,000 m^3, respectively, based on SE official data and industry sources.

TRADE MATRIX TEMPERATE HARDWOOD LUMBER

Note: Due to inconsistencies in the GOM's 2005 & 2006 import and export data (preliminary information for 2006), the MY 2005 and MY 2006 trade estimates have been based on information gathered from industry sources and the U.S. Census data. This is significantly different from official Mexican data and U.S. Census data.

TEMPERATE HARWOOD LUMBER	H.S. 4407.9[d]		UNITS: CUBIC METERS
EXPORTS FOR 2005 TO:		IMPORTS FOR 2005 FROM:	
U.S.	517	U.S.	151,915
JAPAN	141	PERU	7,830
OTHERS NOT LISTED	160	OTHERS NOT LISTED	7,314
GRAND TOTAL	818	GRAND TOTAL	167,059

TEMPERATE HARWOOD LUMBER	H.S. 4407.9[d]		UNITS: CUBIC METERS
EXPORTS FOR 2006* TO:		IMPORTS FOR 2006* FROM:	
U.S.	21,134	U.S.	61,133
JAPAN	20,061	PERU	5,911
		CHILE	2,279
OTHERS NOT LISTED	286	OTHERS NOT LISTED	4,796
GRAND TOTAL	41,481	GRAND TOTAL	73,723

SOURCE: World Trade Atlas. Mexico Edition. June 2006.
[d] Expressed values for HS 4407.9 consolidates the following subheadings: 4407.91.01, 4407.92.01, 4407.92.99, 4407.99.01, 4407.99.02, 4407.99.03, 4407.99.04, 4407.99.05 & 4407.99.99.
As of June 2006

TROPICAL HARDWOOD LUMBER

PRODUCTION

MY 2007, Mexican tropical hardwood lumber production is estimated at 150,000 m^3. Production figures for MY 2005 were revised downward, according to official final data to 136,000 m^3. An approximate 5 percent increase in production is expected in MY 2007, due to the continued growth of the Mexican economy. Timber harvesting in most tropical forests involves the selective cutting of high-value tree species, in particular Cedrela odorata (red oak) and Swietenia macrophylla (mahogany). Both were once abundant in the forests of the Yucatan, but over-harvesting – including through illegal logging, a widespread problem in Mexico's forests – and a lack of regeneration of these light-demanding species in closed forests have brought the sustainable harvesting level to below 1 m^3 per hectare. Despite the alarming depletion of tropical hardwood forest, the direct contribution of the tropical timber sector to employment could be as high as 60,000, though a considerable number of these people work informally and are not counted in official statistics.

CONSUMPTION

MY 2007 domestic consumption of tropical hardwood lumber is forecast to increase by 7 percent to 255,000 m^3 as a result of strong demand for expensive furnishings. The demand for tropical lumber has always been high, as reflected in the prices attracted by these species in the domestic market. For example, the price of a cubic meter of red cedar or mahogany is six times higher than that of a cubic meter of pine. Furthermore, tropical timber species are much more sought after for decorative uses than coniferous lumber species, and the demand for tropical lumber in these applications is increasing as result of the dynamic performance in the construction sector. Consumption estimates for MY 2005 were revised downward according to most recent industry information to 228,000 m^3, while consumption for MY 2006 was estimated at 239,000 m^3.

TRADE

Imports of tropical lumber are expected to increase by approximately 9 percent in MY 2007 to 105,000 m^3, compared with the MY 2006 revised estimate (96,000 m^3). Similarly, import estimates for MY 2005 were revised upward to 92,000 m^3 based on official SE data. The bulk of the Mexican market continues to be price-driven, and as such remains sensitive to low-priced South American tropical lumber, especially given the relative scarceness and high

prices of domestic tropical hardwood. Imports from Peru, for example, increased by approximately 11 percent, from 110,195 m^3 in MY 2004 to 178,235 m^3 in MY 2005. Moreover, over the past five years Peru has strengthened its imported tropical lumber market share in Mexico from 49 percent to 96 percent. However, during the first six months of MY 2006 Peruvian exports have kept practically unchanged compared with the same period a year earlier, as average prices have increased by approximately 10 percent.

TRADE MATRIX TROPICAL HARDWOOD LUMBER

TROPICAL HARDWOOD LUMBER 4407.2[e]		H.S.	UNITS: CUBIC METERS
EXPORTS FOR 2005 TO:		IMPORTS FOR 2005 FROM:	
U.S.	529	U.S.	521
DOMINICAN REPUBLIC	68	PERU	178,457
OTHERS NOT LISTED	66	OTHERS NOT LISTED	7,292
GRAND TOTAL	663	GRAND TOTAL	186,270

TROPICAL HARDWOOD LUMBER	H.S. 4407.2[e]		UNITS: CUBIC METERS
EXPORTS FOR 2006* TO:		IMPORTS FOR 2006* FROM:	
U.S.	211	U.S.	314
DOMINICAN REPUBLIC	12,218	PERU	43,991
OTHERS NOT LISTED	5	OTHERS NOT LISTED	3,634
GRAND TOTAL	12,434	GRAND TOTAL	47,939

SOURCE: World Trade Atlas. Mexico Edition. June 2006.
[e] Expressed values for HS 4407.2 consolidates the following subheadings: 4407.24.01, 4407.24.99, 4407.25.01, 4407.26.01, 4407.29.01,4407.29.03 & 4407.29.99
* As of June 2006

SOFTWOOD PLYWOOD

PRODUCTION

According to the National Association of Plywood Producers (ANAFATA), Mexican softwood plywood production is expected to increase to 195,000 m^3 MY 2007, seven percent higher than the revised estimated production of MY 2006 (182,000 m^3). This increase is being driven by continued demand from the construction and furniture sectors. Production estimates for MY 2005 were revised downward to 170,000 m^3, based on the most recent ANAFATA information.

ANAFTA reported that there are 14 plywood plants in Mexico. Of these plants, seven are working at approximately 80-percent capacity, while the rest are operating at 40 percent capacity. The competition from imported plywood, mainly from Chile, and furniture imports from China, are the main factors leading to the excess capacity in the plywood plants. In addition, the majority of these plants, with few exceptions, are antiquated and inefficient by industry standards.

CONSUMPTION

Domestic consumption for softwood plywood is expected to increase by approximately 11 percent in MY 2007, to 489,000 m^3, because of expected growth in the economy and,

consequently, in construction activity. The largest construction companies in the housing segment are expecting to increase their sales in MY 2007, albeit at lower levels than those of MY 2006. The primary use of softwood plywood is in the construction industry. Consumption estimates for MY 2005 and MY 2006 have increased to 397,000 and 441,000 m^3, respectively, due to higher than previously estimated growth in the construction sector and reflecting ANAFATA information.

TRADE

MY 2007 imports of softwood plywood could increase to 295,000 m^3 as strong demand from the furniture and construction sectors continues. Import estimates of softwood plywood have been revised upward to 228,000 m^3 in MY 2005, and 260,000 in MY 2006 (preliminary figures), reflecting official final data from SE. For MY 2006, the export estimate has been revised downward to only 1,000 m^3, based on official SE data (preliminary figures). A similar level of exports is forecasted for MY 2007.

TRADE MATRIX SOFTWOOD PLYWOOD

SOFTWOOD PLYWOOD	H.S. 4412.1[f]		UNITS: CUBIC METERS
EXPORTS FOR 2005 TO:		IMPORTS FOR 2005 FROM:	
U.S.	934	U.S.	64,692
COSTA RICA	24	CHILE	108,834
OTHERS NOT LISTED	9	OTHERS NOT LISTED	54,387
GRAND TOTAL	967	GRAND TOTAL	227,913

SOFTWOOD PLYWOOD	H.S. 4412.1[f]		UNITS: CUBIC METERS
EXPORTS FOR 2006* TO:		IMPORTS FOR 2006* FROM:	
U.S.	427	U.S.	37,203
COSTA RICA	0	CHILE	70,403
OTHERS NOT LISTED	0	OTHERS NOT LISTED	26,699
GRAND TOTAL	427	GRAND TOTAL	134,305

SOURCE: World Trade Atlas. Mexico Edition. May 2006.
[f] Expressed values for HS 4412.19 consolidates the following subheadings: 4412.19.01, 4412.19.02 & 4412.19.99
* As of May 2006

HARDWOOD PLYWOOD

PRODUCTION

Production is forecast to increase slightly in MY 2007 to 22,000 m^3. This increase is primarily due to the anticipated growth of the furniture industry, which is expected to increase its sales in both domestic and foreign markets. The production of temperate hardwood plywood for MY 2006 was revised downward to 21,000 m^3 according to ANAFATA data. Production estimates for MY 2005 remained unchanged at 20,000 m^3.

CONSUMPTION

Temperate hardwood logs of good veneer quality continue to be scarce in Mexico. This scarcity has opened the market to imported veneers and logs. These are primarily oak and

walnut logs, with some ash and oak veneers. As the furniture industry responds to the expected economic growth in MY 2007, the consumption of temperate hardwood plywood is projected to increase to approximately 75,000 m^3 in MY 2007. Mexican consumption of temperate hardwood plywood is filled primarily by imports from the Peru, Brazil, Ecuador, China, and U.S. Consumption estimates were adjusted upward and downward for MY 2005 and 2006 respectively, to 82,000 and 71,000 m^3, based on the most recent industry information.

TRADE

Import estimates for MY 2005 have been revised upward to 62,000 m^3 in accordance with final official data from SE. For MY 2007, imports are forecast to increase to 75,000 m^3 based on the assumption that furniture industry demand will continue to grow. MY 2006 imports remain unchanged at 50,000 m^3.

TRADE MATRIX TEMPERATE HARDWOOD PLYWOOD

TEMPERATE HARDWOOD PLYWOOD	H.S. 4412.14[g]		UNITS: CUBIC METERS
EXPORTS FOR 2005 TO:		IMPORTS FOR 2005 FROM:	
U.S.	31	U.S.	2,626
COLOMBIA	2.5	PERU	24,706
OTHERS NOT LISTED	.5	OTHERS NOT LISTED	34,248
GRAND TOTAL	34	GRAND TOTAL	61,580

TEMPERATE HARDWOOD PLYWOOD	H.S. 4412.14[g]		UNITS: CUBIC METERS
EXPORTS FOR 2006* TO:		IMPORTS FOR 2006* FROM:	
U.S.	0	U.S.	1,218
		PERU	8,761
OTHERS NOT LISTED	0	OTHERS NOT LISTED	15,294
GRAND TOTAL	0	GRAND TOTAL	25,273

SOURCE: World Trade Atlas. Mexico Edition. May 2006.

[g] Expressed values for HS 4412.14 consolidates the following subheadings: 4412.14.00 & 4412.14.99

* As of May 2006

FOREST PRODUCT TARIFFS AND TAXES (percent)							
Country: Mexico Report Year: 2006		Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees ①	Total Cost of Import	Export Tax
H.T.S.	Product Description					
4401	Fuel wood, in logs, in billets, in twigs, in faggots or in similar forms; wood in chips or particles; sawdust and wood waste and scrap, whether or not agglomerated in logs, briquettes, pellets or similar forms.					
4401.10.01	Fuel wood, in logs, in billets, in twigs, in faggots or in similar	EX	N/A	10.00	N/A	EX

FOREST PRODUCT TARIFFS AND TAXES (percent)						
Country: Mexico Report Year: 2006		Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees ①	Total Cost of Import	Export Tax
H.T.S.	Product Description					
	forms.					
4401.21.01	Coniferous.	EX	N/A	10.00	N/A	EX
4401.22.01	Nonconiferous.	EX	N/A	10.00	N/A	EX
4401.30.01	Sawdust and wood waste and scrap, whether or not agglomerated in logs, briquettes, pellets or similar forms.	EX	N/A	10.00	N/A	EX
4403	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared.					
4403.10.01	Treated with paint, stain, creosote or other preservatives.	EX	N/A	10.00	N/A	EX
4403.20.99	Other, coniferous.	EX	N/A	10.00	N/A	EX
4403.41.01	Dark Red Meranti, Light Red Meranti and Meranti Bakau.	EX	N/A	10.00	N/A	EX
4403.49.01	Other.	EX	N/A	10.00	N/A	EX
4403.49.02	Other.	EX	N/A	10.00	N/A	EX
4403.49.99	Other.	EX	N/A	10.00	N/A	EX
4403.91.01	Of oak (Quercus spp.).	EX	N/A	10.00	N/A	EX
4403.92.01	Of beech (Fagus spp.).	EX	N/A	10.00	N/A	EX
4403.99.99	Other.	EX	N/A	10.00	N/A	EX
4404	Hopwood; split poles; piles, pickets and stakes of wood, pointed but not sawn lengthwise; wooden sticks, roughly trimmed but not turned, bent or otherwise worked, suitable for the manufacture of walking-sticks, umbrellas, tool handlers or the like; chips					
4404.10.01	Coniferous.	EX	N/A	15.00	N/A	EX
4404.10.99	Coniferous.	EX	N/A	15.00	N/A	EX
4404.20.01	Nonconiferous.	EX	N/A	20.00	N/A	EX
4404.20.02	Nonconiferous.	EX	N/A	15.00	N/A	EX
4404.20.03	Nonconiferous.	EX	N/A	15.00	N/A	EX
4404.20.04	Nonconiferous.	EX	N/A	15.00	N/A	EX
4404.20.99	Nonconiferous.	EX	N/A	15.00	N/A	EX
4405	Wood wool (excelsior); wood flour.					
4405.00.01	Wood wool (excelsior); wood flour.	EX	N/A	15.00	N/A	EX
4405.00.02	Wood wool (excelsior); wood flour.	EX	N/A	15.00	N/A	EX
4406	Railway or tramway sleepers (cross-ties) of wood.					
4406.10.01	Not impregnated.	EX	N/A	15.00	N/A	EX
4406.90.99	Other.	EX	N/A	15.00	N/A	EX

FOREST PRODUCT TARIFFS AND TAXES (percent)						
Country: Mexico Report Year: 2006		Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees ①	Total Cost of Import	Export Tax
H.T.S.	Product Description					
4407	Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding					
4407.10.01	Coniferous.	EX	N/A	10.00	N/A	EX
4407.10.02	Coniferous.	EX	N/A	15.00	N/A	EX
4407.10.03	Coniferous.	EX	N/A	10.00	N/A	EX
4407.10.99	Coniferous .	EX	N/A	15.00	N/A	EX
4407.24.01	Virola, Mahogany (Swietenia spp.), Imbuia and Balsa.	EX	N/A	15.00	N/A	EX
4407.24.99	Virola, Mahogany (Swietenia spp.), Imbuia and Balsa.	EX	N/A	15.00	N/A	EX
4407.25.01	Dark Red Meranti, Light Red Meranti and Meranti Bakau.	EX	N/A	15.00	N/A	EX
4407.26.01	White Lauan, White Meranti, White Seraya, Yellow Meranti and Alan.	EX	N/A	15.00	N/A	EX
4407.29.01	Other	EX	N/A	15.00	N/A	EX
4407.29.99	Other	EX	N/A	15.00	N/A	EX
4407.91.01	Of oak (Quercus spp.).	EX	N/A	15.00	N/A	EX
4407.92.01	Of beech (Fagus spp.).	EX	N/A	10.00	N/A	EX
4407.92.99	Of beech (Fagus spp.).	EX	N/A	15.00	N/A	EX
4407.99.01	Other.	EX	N/A	15.00	N/A	EX
4407.99.02	Other.	EX	N/A	10.00	N/A	EX
4407.99.03	Other.	EX	N/A	10.00	N/A	EX
4407.99.04	Other.	EX	N/A	10.00	N/A	EX
4407.99.05	Other.	EX	N/A	15.00	N/A	EX
4407.99.99	Other.	EX	N/A	15.00	N/A	EX
4408	Veneer sheets and sheets for plywood (whether or not spliced) and other wood sawn lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness not exceeding 6 mm.					
4408.10.01	Coniferous.	EX	N/A	15.00	N/A	EX
4408.31.01	Dark Red Meranti, Light Red Meranti and Meranti Bakau.	EX	N/A	15.00	N/A	EX
4408.39.99	Other.	EX	N/A	15.00	N/A	EX
4408.90.99	Other.	EX	N/A	15.00	N/A	EX
4409	Wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-joi					
4409.10.01	Coniferous.	EX	N/A	20.00	N/A	EX
4409.10.02	Coniferous	EX	N/A	10.00	N/A	EX

FOREST PRODUCT TARIFFS AND TAXES (percent)						
Country: Mexico Report Year: 2006		Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees ①	Total Cost of Import	Export Tax
H.T.S.	Product Description					
4409.10.99	Coniferous.	EX	N/A	20.00	N/A	EX
4409.20.01	Nonconiferous.	EX	N/A	20.00	N/A	EX
4409.20.99	Nonconiferous.	EX	N/A	20.00	N/A	EX
4410	Particleboard and similar board of wood or other ligneous materials, whether or not agglomerated with resins or other organic binding substances.					
4410.21.01	Unworked or not further worked than sanded.	EX	N/A	20.00	N/A	EX
4410.29.99	Other.	EX	N/A	20.00	N/A	EX
4410.31.01	Unworked or not further worked than sanded.	EX	N/A	20.00	N/A	EX
4410.32.01	Surface-covered with melamine-impregnated paper.	EX	N/A	20.00	N/A	EX
4410.33.01	Surface-covered with decorative laminates of plastic.	EX	N/A	20.00	N/A	EX
4410.39.99	Other.	EX	N/A	20.00	N/A	EX
4410.90.01	Agglomerates neither covered nor finished.	EX	N/A	15.00	N/A	EX
4410.90.99	Only: particleboard and similar board, in sheets or in boards.	EX	N/A	20.00	N/A	EX
4411	Fiberboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances.					
4411.11.01	Not mechanically worked or surface covered.	EX	N/A	15.00	N/A	EX
4411.19.99	Other.	EX	N/A	15.00	N/A	EX
4411.21.01	Not mechanically worked o r surface covered.	EX	N/A	15.00	N/A	EX
4411.29.99	Other.	EX	N/A	15.00	N/A	EX
4411.31.01	Not mechanically worked or surface covered.	EX	N/A	15.00	N/A	EX
4411.39.99	Other.	EX	N/A	15.00	N/A	EX
4411.91.01	Not mechanically worked or surface covered.	EX	N/A	15.00	N/A	EX
4411.99.99	Other	EX	N/A	15.00	N/A	EX
4412	Plywood, veneered panels and similar laminated wood.					
4412.13.01	With at least one outer ply of tropical wood specified in subheading note 1 to this chapter.	EX	N/A	20.00	N/A	EX
4412.13.99	With at least one outer ply of tropical wood specified in subheading note 1 to this chapter.	EX	N/A	15.00	N/A	EX
4412.14.99	Other, with at least one outer ply of	EX	N/A	15.00	N/A	EX

FOREST PRODUCT TARIFFS AND TAXES (percent)						
Country: Mexico Report Year: 2006		Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees ①	Total Cost of Import	Export Tax
H.T.S.	Product Description					
	nonconiferous wood.					
4412.19.01	Other, with both outer plies of coniferous wood.	N/A	N/A	15.00	N/A	EX
4412.19.99	Other, with both outer plies of coniferous wood.	EX	N/A	20.00	N/A	EX
4412.22.01	With at least one ply of tropical wood specified in subheading note 1 to this chapter.	EX	N/A	20.00	N/A	EX
4412.23.99	Other, containing at least one layer of particle board	EX	N/A	15.00	N/A	EX
4412.29.99	Other.	EX	N/A	20.00	N/A	EX
4412.92.01	With at least one ply of tropical wood specified in subheading note 1 to this chapter.	EX	N/A	20.00	N/A	EX
4412.93.99	Other, containing at least one layer of particleboard.	EX	N/A	15.00	N/A	EX
4412.99.99	Other.	EX	N/A	20.00	N/A	EX
4413	Densified wood, in blocks, plates, strips or profile shapes.					
4413.00.01	Densified wood, in blocks, plates, strips or profile shapes.	EX	N/A	10.00	N/A	EX
4413.00.02	Densified wood, in blocks, plates, strips or profile shapes.	EX	N/A	15.00	N/A	EX
4413.00.99	Densified wood, in blocks, plates, strips or profile shapes.	EX	N/A	20.00	N/A	EX
4414	Wooden frames for paintings, photographs, mirrors or similar objects.					
4414.00.01	Wooden frames for paintings, photographs, mirrors or similar objects.	EX	N/A	20.00	N/A	EX
4415	Packing cases, boxes, crates, drums and similar packing, of wood; cable-drums, of wood; pallets, box-pallets and other load boards, of wood; pallet collars of wood.					
4415.10.01	Cases, boxes, crates, drums and similar packing; cable-drums.	EX	N/A	20.00	N/A	EX
4415.20.01	Pallets, box-pallets and other load boards; pallet collars	EX	N/A	20.00	N/A	EX
4415.20.99	Pallets, box-pallets and other load boards; pallet collars.	EX	N/A	20.00	N/A	EX
4416	Casks, barrels, vats, tubs and other coopers' products and parts thereof, of wood, including staves.					

FOREST PRODUCT TARIFFS AND TAXES (percent)						
Country: Mexico Report Year: 2006		Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees ①	Total Cost of Import	Export Tax
H.T.S.	Product Description					
4416.00.01	Casks, barrels, vats, tubs and other coopers' products and parts thereof, of wood, including staves.	EX	N/A	Ex.	N/A	EX
4416.00.02	Casks, barrels, vats, tubs and other coopers' products and parts thereof, of wood, including staves	EX	N/A	20.00	N/A	EX
4416.00.03	Casks, barrels, vats, tubs and other coopers' products and parts thereof, of wood, including staves	EX	N/A	20.00	N/A	EX
4416.00.04	Casks, barrels, vats, tubs and other coopers' products and parts thereof, of wood, including staves	EX	N/A	20.00	N/A	EX
4416.00.99	Casks, barrels, vats, tubs and other coopers' products and parts thereof, of wood, including staves	EX	N/A	20.00	N/A	EX
4417	Tools, tool bodies, tool handles, broom or brush bodies and handles, of wood; boot or shoe lasts and trees, of wood.					
4417.00.01	Tools, tool bodies, tool handles, broom or brush bodies and handles, of wood; boot or shoe lasts and trees, of wood.	EX	N/A	15.00	N/A	EX
4417.00.99	Tools, tool bodies, tool handles, broom or brush bodies and handles, of wood; boot or shoe lasts and trees, of wood.	EX	N/A	20.00	N/A	EX
4418	Builders' joinery and carpentry of wood, including cellular wood panels and assembled parquet panels; shingles and shakes.					
4418.10.01	Windows, French-windows and their frames.	EX	N/A	20.00	N/A	EX
4418.20.01	Doors and their frames and thresholds.	EX	N/A	20.00	N/A	EX
4418.30.01	Parquet panels.	EX	N/A	20.00	N/A	EX
4418.40.01	Formwork (shuttering) for concrete constructional work.	EX	N/A	20.00	N/A	EX
4418.50.01	Shingles and shakes.	EX	N/A	20.00	N/A	EX
4418.90.01	Other	EX	N/A	20.00	N/A	EX
4418.90.99	Other.	EX	N/A	20.00	N/A	EX
4419	Tableware and kitchenware, of wood.					
4419.00.01	Tableware and kitchenware, of wood.	EX	N/A	20.00	N/A	EX

FOREST PRODUCT TARIFFS AND TAXES (percent)						
Country: Mexico Report Year: 2006		Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees ①	Total Cost of Import	Export Tax
H.T.S.	Product Description					
4420	Wood marquetry and inlaid wood; caskets and cases for jewelry or cutlery and similar articles, of wood; statuettes and other ornaments, of wood; wooden articles of furniture not falling within chapter 94					
4420.10.01	Statuettes and other ornaments, of wood.	EX	N/A	20.00	N/A	EX
4420.90.99	Other.	EX	N/A	20.00	N/A	EX
4421	Other articles of wood.					
4421.10.01	Clothes hangers.	EX	N/A	20.00	N/A	EX
4421.90.01	Other.	EX	N/A	15.00	N/A	EX
4421.90.02	Other.	EX	N/A	15.00	N/A	EX
4421.90.03	Other.	EX	N/A	20.00	N/A	EX
4421.90.04	Other.	EX	N/A	15.00	N/A	EX
4421.90.99	Other.	EX	N/A	20.00	N/A	EX
4422		N/A	N/A	N/A	N/A	N/A
4423		N/A	N/A	N/A	N/A	N/A
4424		N/A	N/A	N/A	N/A	N/A
4425		N/A	N/A	N/A	N/A	N/A
Pre-fabricated Houses, a subsection under chapter 96		N/A	N/A	N/A	N/A	N/A

①Tariff rates applicable during 2005 to imported commodities from countries, which Mexico has not signed any Free Trade Agreement, under the MOST FAVORED NATION (MFN) duty as published in the Mexican Diario Oficial (Federal Register) on January 18, 2002 and modified on December 30, 2004.