



Mariane Camargo is a Forestry Engineer in Brazil. She joined the World Forest Institute in 2007 for a one-year Fellowship from 2007-2008.



US Markets for Brazilian Softwood Moulding & Plywood



Mariane Bueno de Camargo, May 2008



World Forest Institute
4033 SW Canyon Road
Portland, OR 97221 USA
http://wfi.worldforestry.org

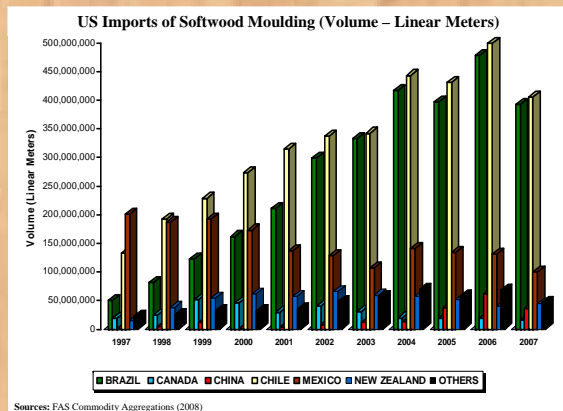
Introduction

Brazil, besides being the world's largest exporter of softwood plywood to the US, is also the second largest exporter of softwood moulding to the US, after Chile. A large percentage of Brazilian exports are sent to the United States, which is the world's largest wood importer. This study examined the main challenges for Brazilian exports of softwood moulding and softwood plywood to the US in the past 10 years, and also identified who the big industry players are and how composite products are affecting solid linear moulding, finger-joint moulding and plywood.

Softwood Moulding – Big Players

The demand for timber products in the United States is highly influenced by the state of the economy, monetary policies and international agreements.

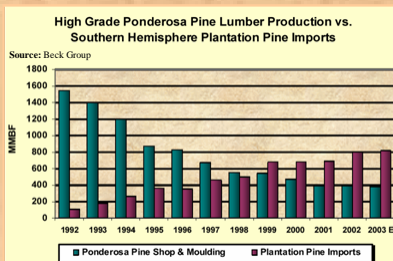
In 2007 the US imported almost US\$1 billion of mouldings; of this, softwood moulding accounted for US\$630 million and hardwood moulding accounted for US\$375 million. Brazil and Chile together supply about 68% of US softwood moulding imports.



The importation of softwood moulding has greatly increased in volume, growing nearly 700% from 1997 to 2006 at an average increase of 26% per year. The US received about 478 and 393 million linear meters from Brazil in 2006 and 2007, respectively, compared to 500 and 406 million linear meters from Chile.

The main countries that compete with Brazil in the American market are: Canada, Chile, China, Indonesia, Malaysia, Mexico and New Zealand. Three of these (Chile, Mexico and Malaysia) and Brazil are part of the GSP (General System of Preferences), which grants partial or complete reduction of import tariffs for certain products originating from these developing countries.

US Softwood Moulding Species



The traditional species used in the US market for softwood moulding was the native *Pinus ponderosa*, but scarcity has led to substitution of other species. Imports are generally plantation species. Chile produces *Pinus radiata* and Brazil produces *Pinus taeda* and *Pinus elliottii* moulding.

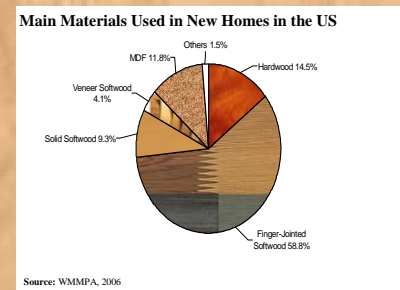
Moulding Market Competition

Composite products and alternate technologies are placing increased pressure on traditional manufacturers of softwood moulding. These products are:



Currently, finger joint materials are predominant in the American marketplace, mainly in the sector of primed moulding. The growth of MDF has remained constant, in spite of the rising cost of production and raw materials. According to some experts, MDF has increased its market share to 1/3 of the current US moulding market.

The images below represent the main products used in the American construction market.



The main advantage of finger joint moulding is that it is less susceptible to moisture problems than MDF and is more cost effective in smaller dimensions. On the other hand, MDF uses wood more efficiently and is an inexpensive alternative for larger dimensions.

Other products such as plastics and vinyl also have a share in the market, but are much more commonly used in non-residential construction.

Materials Used	Wood *	Plastic	Others **
Moulding	78.7%	7.2%	14.2%
Stair work	50.1%	1.2%	48.6%
Other cuts	60.1%	26.3%	13.6%

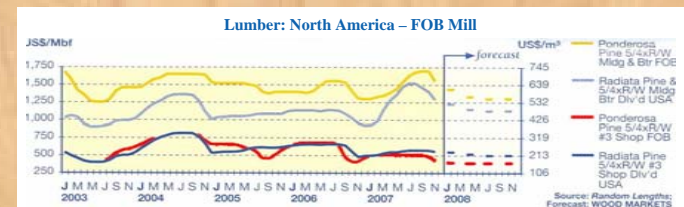
* Only Solid Wood and Finger Joint
** MDF and other non wood materials
Source: Freedonia, 2005

Prices



Prices for clear blocks and blanks remain stable in the US even with weak demand. The average prices from Brazil for blocks are US\$ 830/Mbf and blanks are around US\$ 865/Mbf (Crow's, 2008).

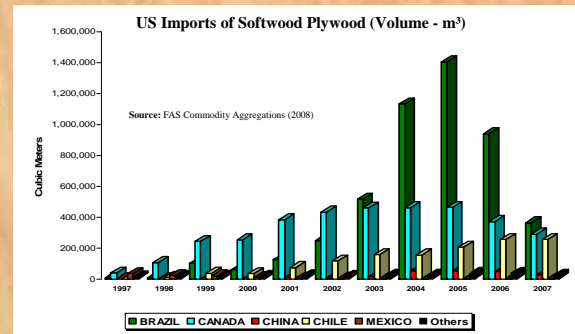
There is strong competition between domestic and offshore markets in relation to prices. The price difference is likely to continue to decrease in the future.



Softwood Plywood – Big Players

Softwood plywood represents 70% of total plywood production in Brazil, where it is predominantly produced for export to the European Union (31%) and the United States (50%).

In 2007, the US imported more than US\$2 billion of plywood. Of this, softwood accounted for US\$301 million and hardwood accounted for US\$1.7 billion. The main countries that compete with Brazil in the American market are: Canada, China, Chile and Mexico.



Historically, Canada has been a leader in softwood plywood exports to the US. However, in 2003 Brazil became the global leader, consistently exporting the most to the US, until 2007. Brazilian softwood plywood exports to the US peaked in 2005 at 1.4 million m³. Canada and Chile were the next largest exporters.

Chile has become a potential competitor since 2002 with the new free market agreement between Chile and the US. China is becoming increasingly competitive, mainly with its competing hardwood plywood product. The 8% US import tax for Brazilian softwood plywood and Brazil's currency appreciation were the major causes of a 16.6% decline in Brazilian production and a 61% decline in exports to the US in 2007. Exports were only 362,000 m³ in 2007.

Panel Composites Compete

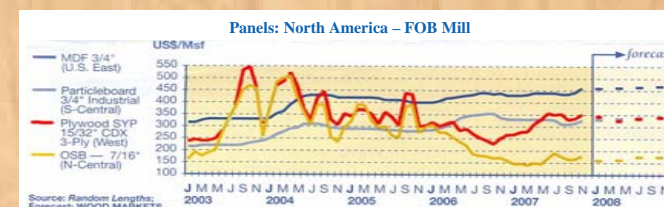
Composite products are placing increasing pressure on traditional manufacturers of softwood plywood. The major composite structural product is oriented strand board (OSB).

End Use	Construction (million m³)			Market Share (%)
	Softwood Plywood	OSB Total	Market	
Residential Construction (a)				
New	4.5	11.9	16.4	49
Repair & Remodel	3.7	1.2	4.9	14
Total Residential	8.2	13.1	21.3	63
Nonresidential construction (b)				
New & Additions	1.3	0.3	1.6	5
Alterations	0.4	0.1	0.5	1
Total nonresidential	1.6	0.4	2	6
Total buildings	9.8	13.4	23.3	69
Total all other (c)	4	6.5	10.5	31
TOTAL	13.8	19.9	33.8	100

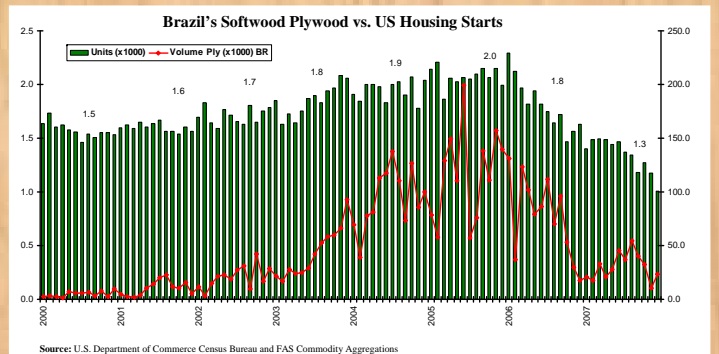
(a) Excludes manufactured housing
(b) Low-rises structures of four or fewer stories only
(c) Includes industrial packaging and shipping, and miscellaneous uses
Source: Adair, 2004

The use of OSB in housing is projected to continue growing at a steady rate.

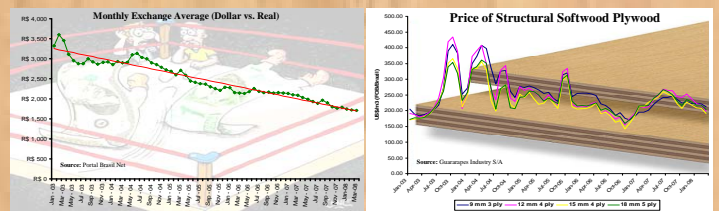
Since 2006, OSB prices have been cheaper than alternative panels. This cost difference is likely to continue growing in the future.



Other Challenges



From 2000 to 2006, Brazilian exports of panels increased steadily relative to US housing starts. Beginning in 2006, Brazilian exports dropped significantly due to a decline in housing starts, fears of a recession, the weak US dollar, high oil prices, and other factors. The weak dollar makes US exports cheaper and US imports more expensive. The impact of this has been very negative for Brazil's export-dependent wood industry.



The wood products market behaves like a commodities market. Price fluctuations are strongly affected by currency exchange rates. The strengthening Brazilian Real against the US Dollar presents challenges for exporters from Brazil.

In order to remain competitive and survive in this market downturn, producers must redefine their products and services. Key factors are: greater durability, superior quality, new applications and process improvements, all combined with aggressive pricing.

Conclusions



The evolution of products on the market usually is described in terms of life cycle, where it outlines a path of growth, maturation and possible decline. The Brazilian timber products export market is influenced by a combination of US housing starts and gross domestic product. A global vision is essential to meeting the changes and challenges facing the wood products industry.

The wood products market is critical to Brazil's economy and environment. This will become more significant in the future as Brazil relies more on sustainable softwood plantation forests.

Even during difficult economic times, it is important to "keep your eyes on the prize" and continue developing trade relationships. Many forecasts predict good news in the medium term, but the current economic downturn is a reminder that one must plan for both good and bad times. Diversification of key markets would help to mitigate declines in specific markets.

Sponsored by:

