

Markets, Challenges & Opportunities in Central America

presented by: Karl H. Kehr

- Introduction.
- The market of the big neighbor, USA.
- The Caribbean market.
- Challenges and Opportunities.

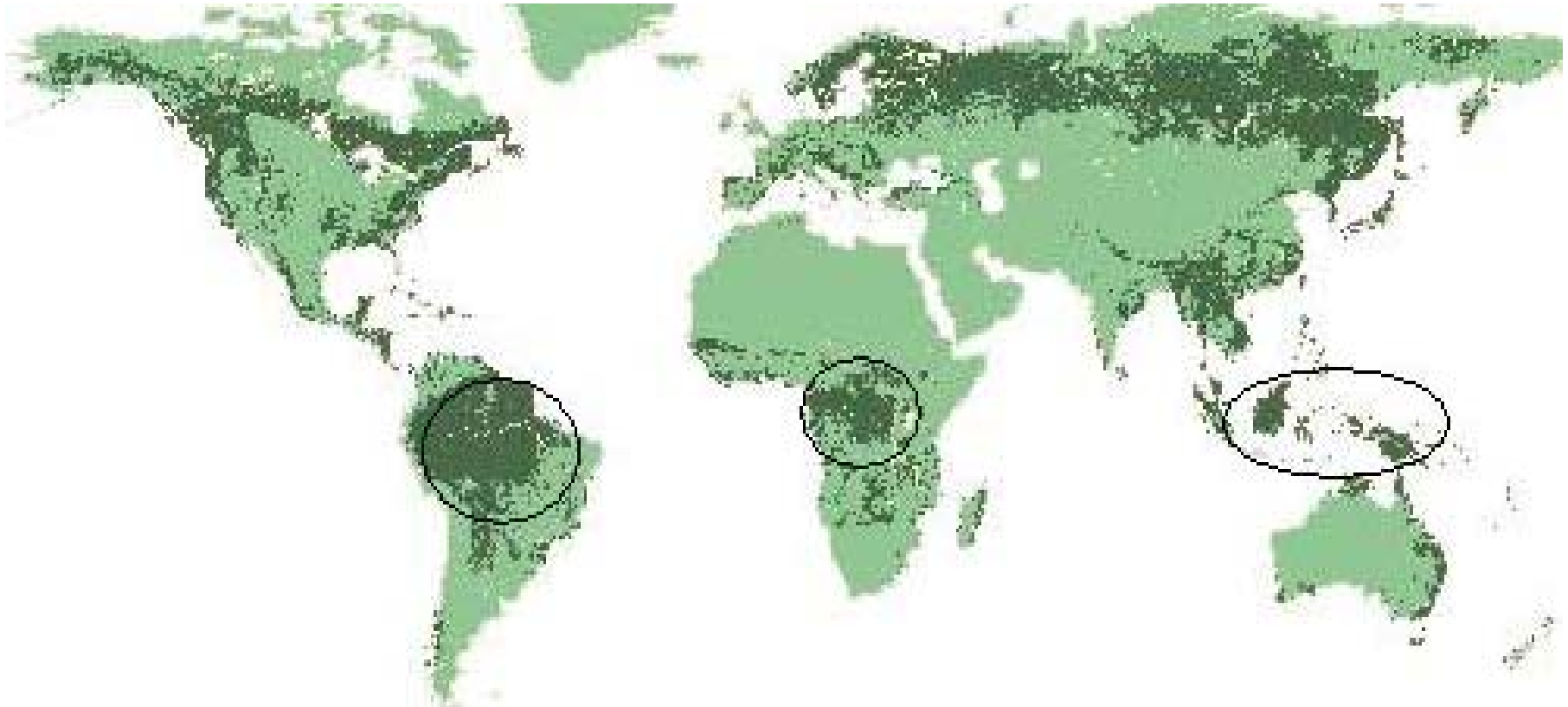
Note: The speaker produced this presentation of recent publications and presentations from official and semi official sources such as: USAID, WWF, Forest Trends, Cadefor, Metafore, etc. and private entities like: Exportimo S.A.C /Perú and Tropical Forest Trust /London



Introduction



THE FOREST WORLD



- **Tropical Forests**
 - **Amazon Basin (500 Million has)**
 - **Congo River Basin (250 Million has)**
 - **Archipelago of Indonesia (150 Million has)**



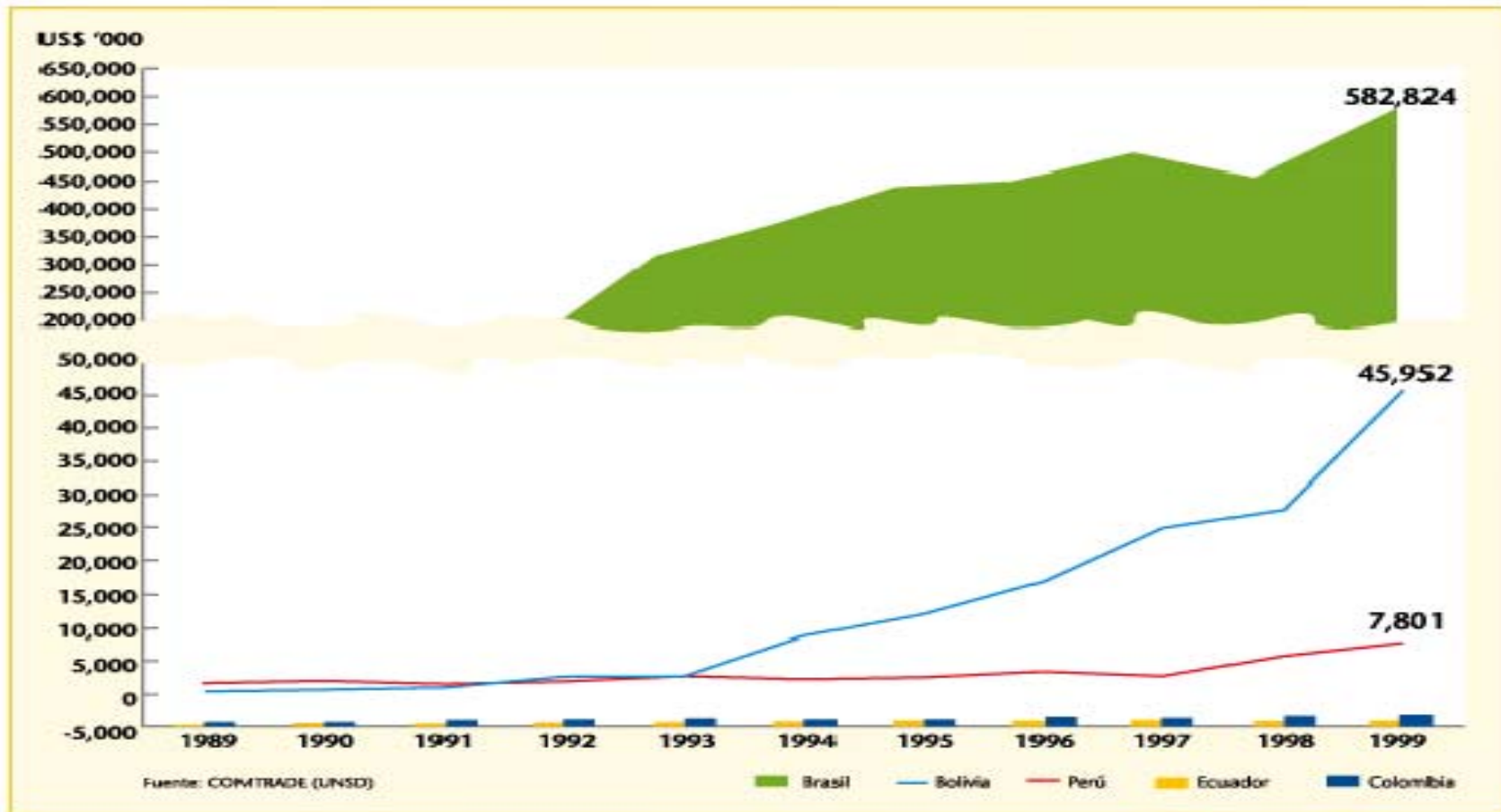
Conifer Forests



**More than 80% of world trade of wood is in Conifers.
The biggest producers are: US, Canada, Chile, México, Central Europe
and Russia.**

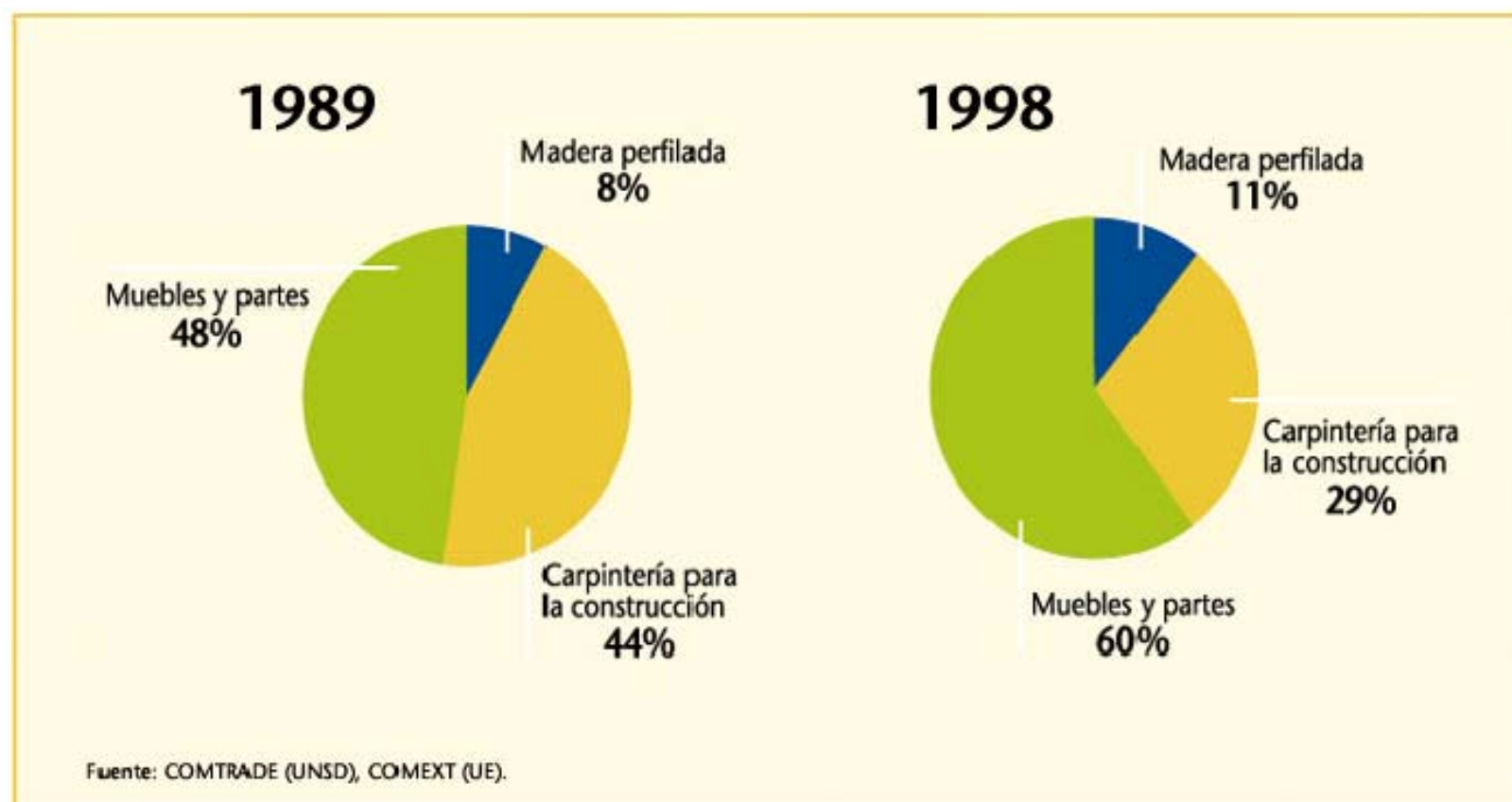


Exportation of wood products of highest added value





Changes in the structure of exportation in Latin America and the Caribbean





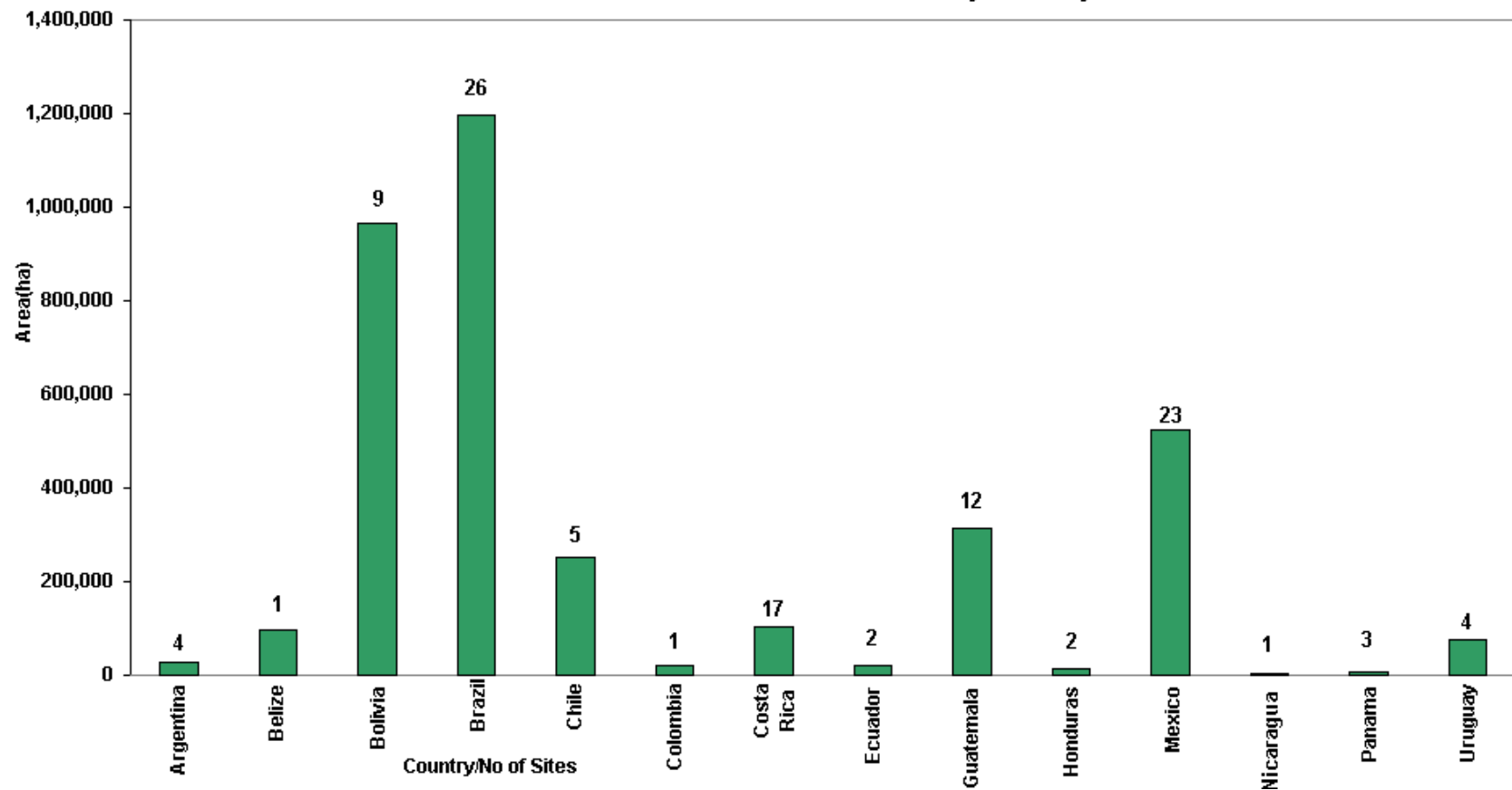
Example of global forest production (2002) in millions de cubic meters

Country (forest area)	Production in rolls m ³ (r)	Production of sawmill wood m ³ (s)
Brazil (543 million hectares)	102,6	23,1
United States (226 million hectares)	404,7	89,1
Chile (15.5 million hectares)	25,6	5,9
México (55 million hectares)	7,4	3,4
Central America (0,7 million hectares)	0,275 volume from the four main regions: MPR/Guatemala, Atlántida/Hondúras, Quintana Roo/México, ANAR/Nicaragua	0,110 dito

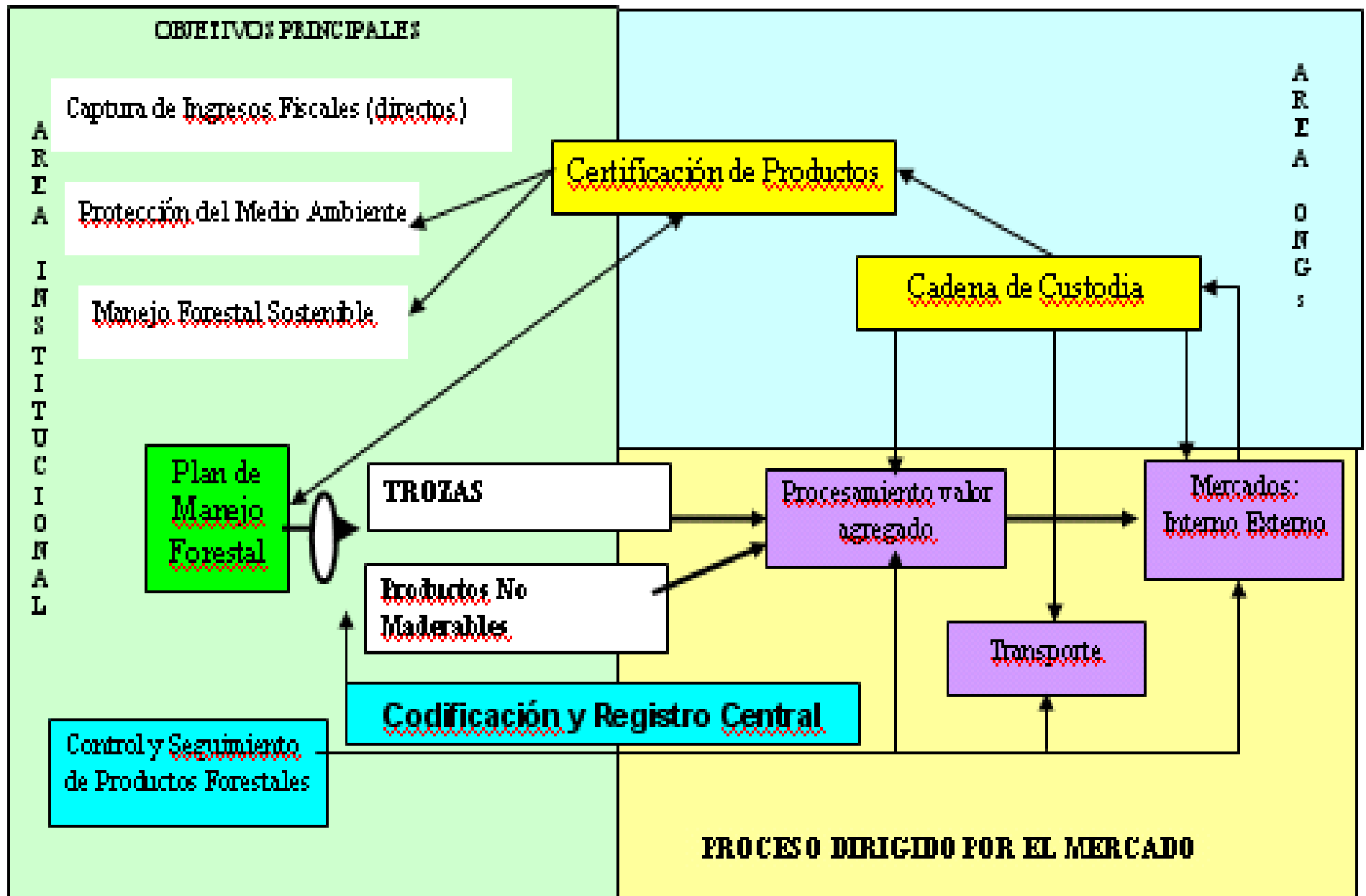
Latin American countries with certified forests

Statistical Information for Certified Sites Endorsed by FSC in Latin America (30/08/02)

Distribution of Certified FSC Sites by Country



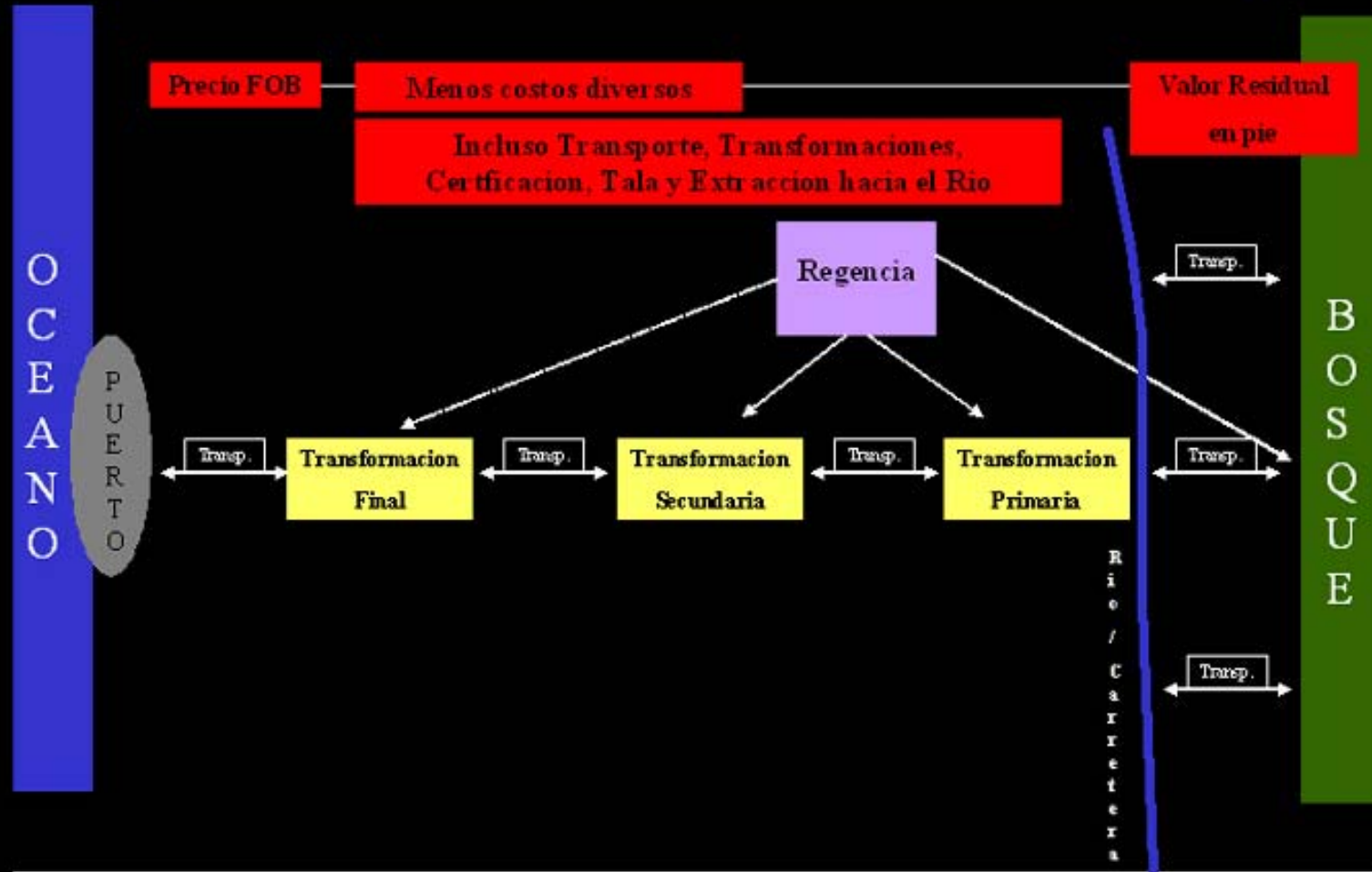
CADENA FORESTAL/MADERERO EN EL SEGUIMIENTO DE PRODUCTOS FORESTALES



VALOR RESIDUAL EN PIE (\$/m³r)

1e1r 2002

Cadena Forestal Economica





Market of the big neighbor, USA



Macro market of the USA

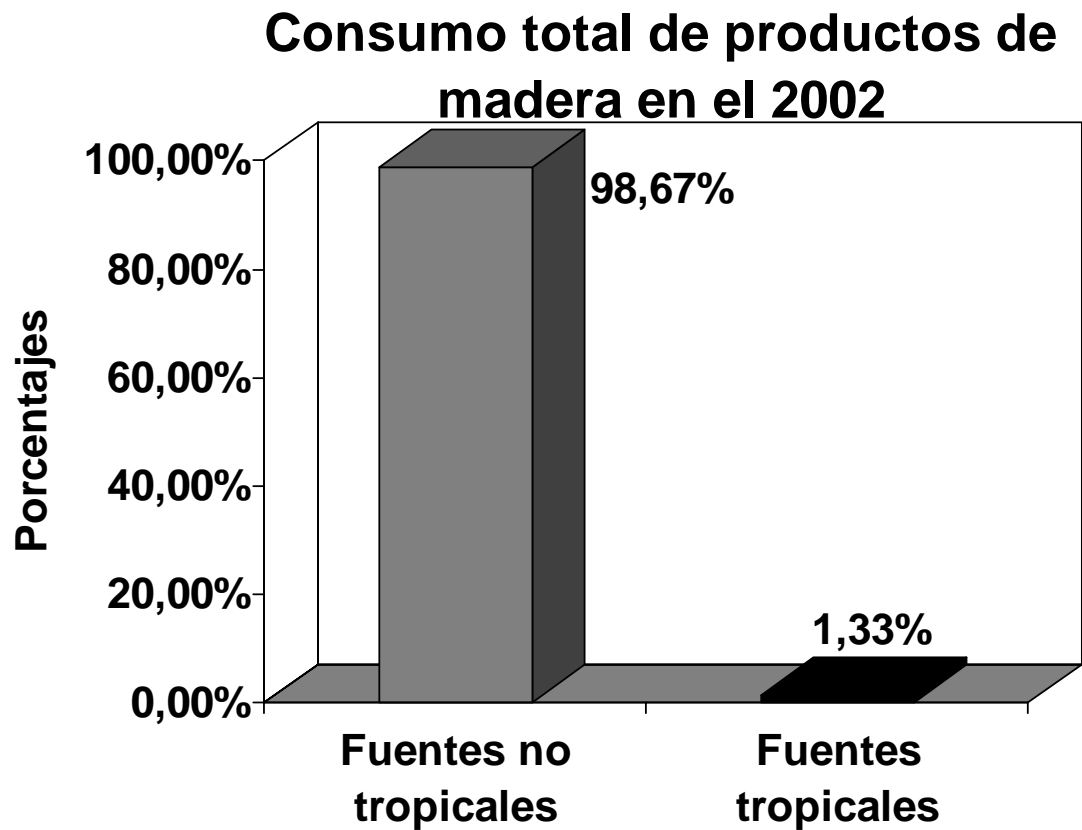
- **Represents 23% of the world market**
- **In 2000 \$53,600 million were spent on furniture**
- **43% of the consumption of furniture is in solid wood**
- **30% of consumption is imported**
- **40% of the consumption is done by people with incomes larger than 70 thousand dollars a year**



Source: Instituto de Comercio Exterior de España (ICEX)



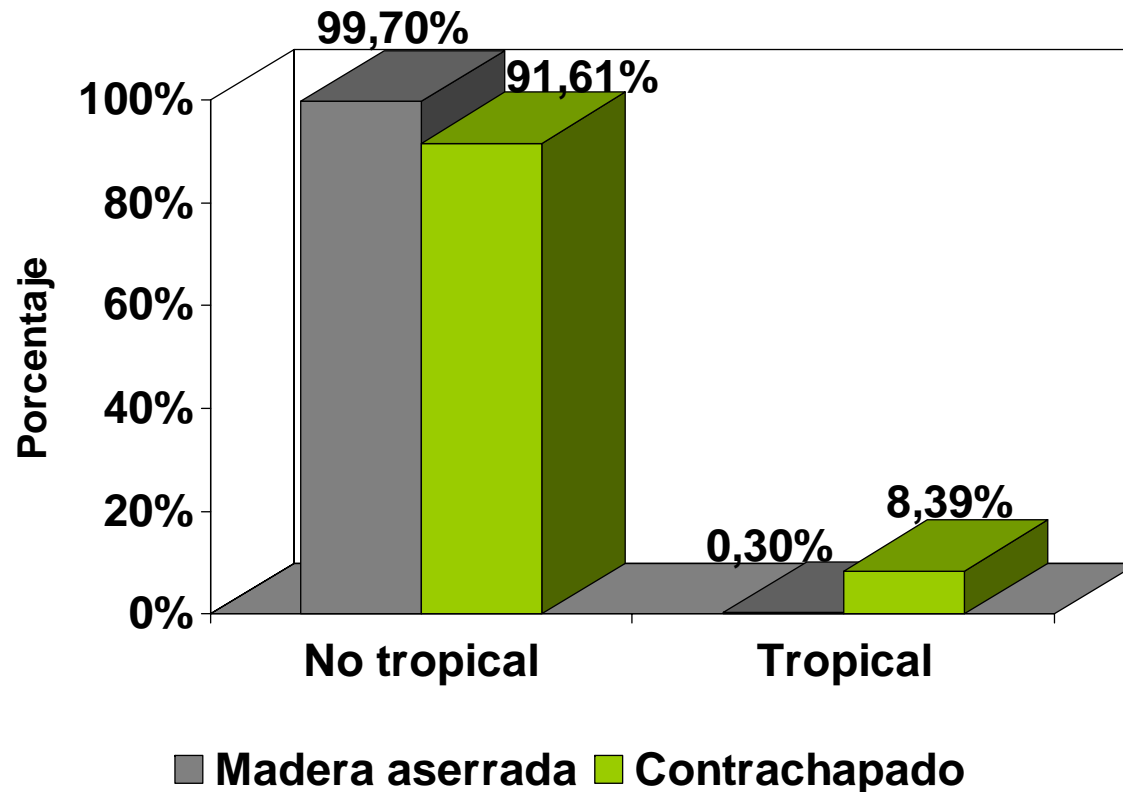
Profile of the market in USA





Market for sawmill wood and plywood

Madera aserrada y contrachapado

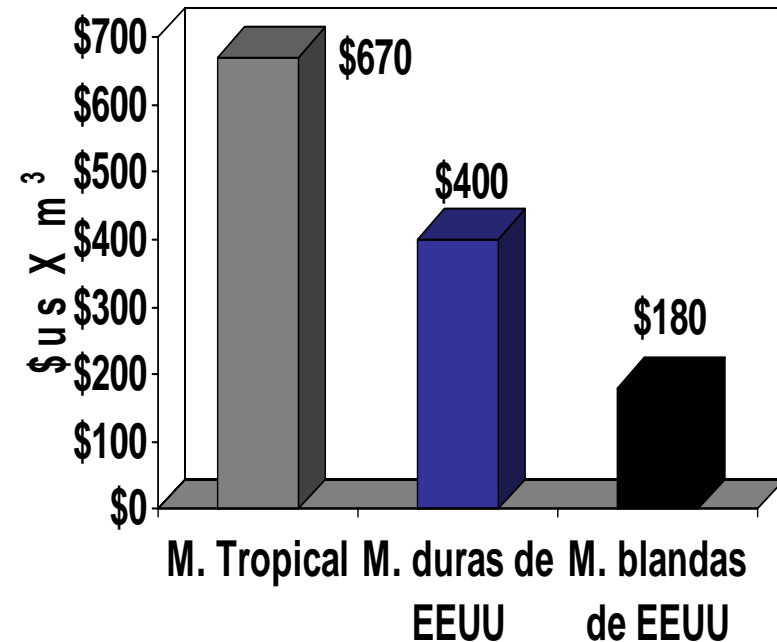




Principal uses of tropical wood

- Wood from USA – emphasis on structural ownership
- Tropical Wood – emphasis on:
 - Resistance to the elements
 - Hardness for floors
 - Aesthetics in appearance
- Three main uses of tropical wood:
 - Hard sawmill wood
 - Plywood
 - Products with added value (furniture, parquet, etc)

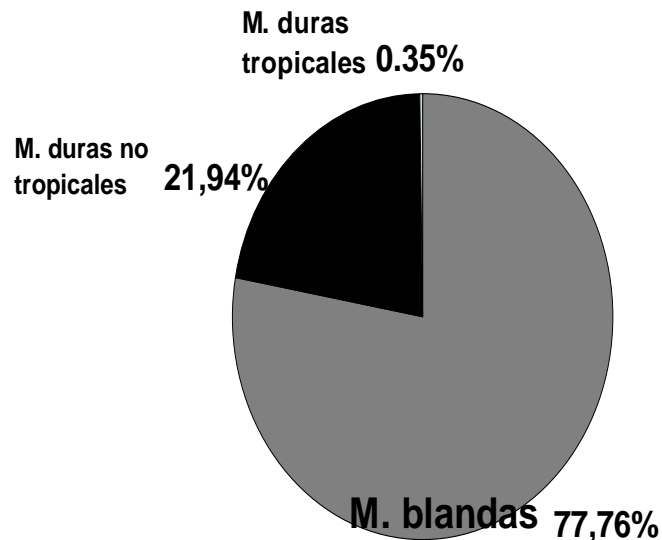
Precios promedios de los productos de madera





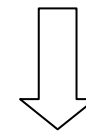
Market for sawmill wood

M. tropical aserrada consumida en
EEUU el 2002



Average cost of sawmill
wood:

- Wood from the USA-
\$us 400 m³
- Tropical wood - \$us
670 m³

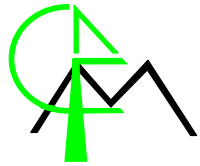


Competition



Imported Species

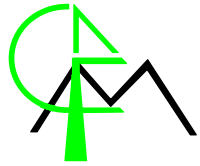
- 217 species of tropical wood
- The most common:
 - Mahogany, etc. – 50% of all imported sawmill wood.
 - Resistance to alternative species.
 - Low cost species that have potential and that replace traditional species.
 - The „CITES “ Factor
 - Andiroba, (Carapa spp.), African Mahogany (Khaya), Asian (Meranti)
 - „new“ species
 - Massaranduba (Manilkara spp.) , Cabreuva (Myrocarpus spp.)



Tendencies and Opportunities for sawmill wood

- **Market growing slowly.**
- **Very high costs of major transformation in market countries.**
- **More niches for products with added value.**
- **Continuation in the preference for traditional species.**





Conditions for the sale of sawmill wood in the USA market

- Adapt the production to the classification system of the USA
- Have certain drying process
- Uniform Processing (standardization of products)
- Efficiency in transportation and delivery.



Challenges and Opportunities

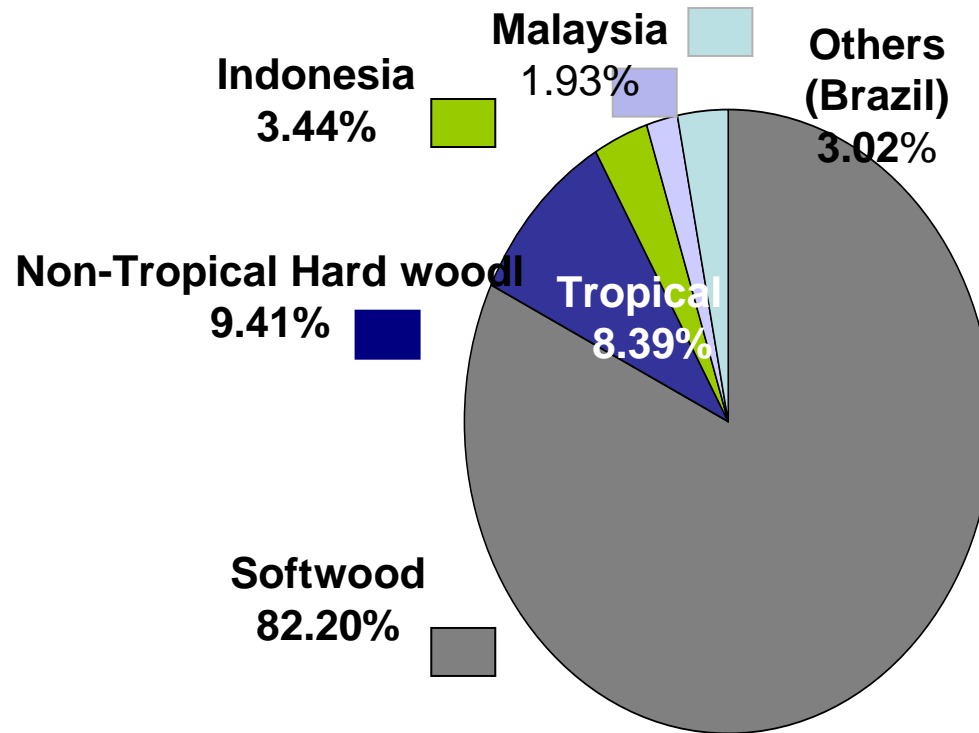
Adaptation of market products:

- **Sawmill wood – classification system, consistency between placing the order and delivery, drying, logistics**
- **Plywood – Quality and cost**
- **Products with added value**
 - **Furniture and its parts & pieces**
 - **Floors**
 - **Decking - platforms**





Plywood – Positioned better than sawmill wood



Similar price to American plywood



Considerations for exporting to the USA

- Comply with American norms
- Have complete documentation before entering the USA
- Understand American sale practices

* Many exporters turn to intermediaries to facilitate the process.



- Don't try to sell only what you can produce
- Try to produce what you can sell





Caribbean Market



Major Characteristics

- Large consumption and little production of wood products.
- Lower quality requirement.
- Lower shipping costs.
- More interest in green markets and by European capital is invested mostly in tourism projects.
- Similar negotiation practices.

It's working like this

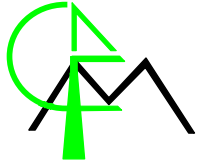
Joint Ventures in Nicaragua
between
indigenous Communities and private producers

➤ **Layasiksa – Prada S.A (plywood and sawmill wood)**

- Harvest 1.600 m³ (r) of lesser used species (EMU) in 200 hectares to sell to Prada.
- Negotiation price of US\$ 51 m³ delivered to the sawmill vs. standrad price US\$6/m³ for the price of wood in feet.
- Now there is a market in the Caribbean for species that didn't have a market before.
- Las Crucetas – Hermanos Ubeda (sawmill wood)
 - Harvest 8.000 m³ of Caribea Pine in 163 hectares
- US\$ 0,23/pt carried on cargo pontoons in a very remote area, from a very economically disadvantaged community.
- Pines have very little value in Nicaragua but sell very well in the Caribbean and in Tennessee.

➤ **Sangnilaya – Amerinica (sawmill wood)**

- Harvest 1.300 m³ of EMU in 150 hectares
- Negotiated at US\$ 12,50 per m³ vs. US\$ 11 per m³ for wood by foot
- The Caribbean market prefers red wood (Mahogany) but it can't pay current prices due to economic problems and high prices, thus lesser used species are welcomed.

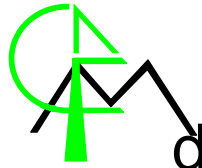


Challenges and Opportunities



Central America: Pioneers in FSC Tropical Forest Certification (WWF)

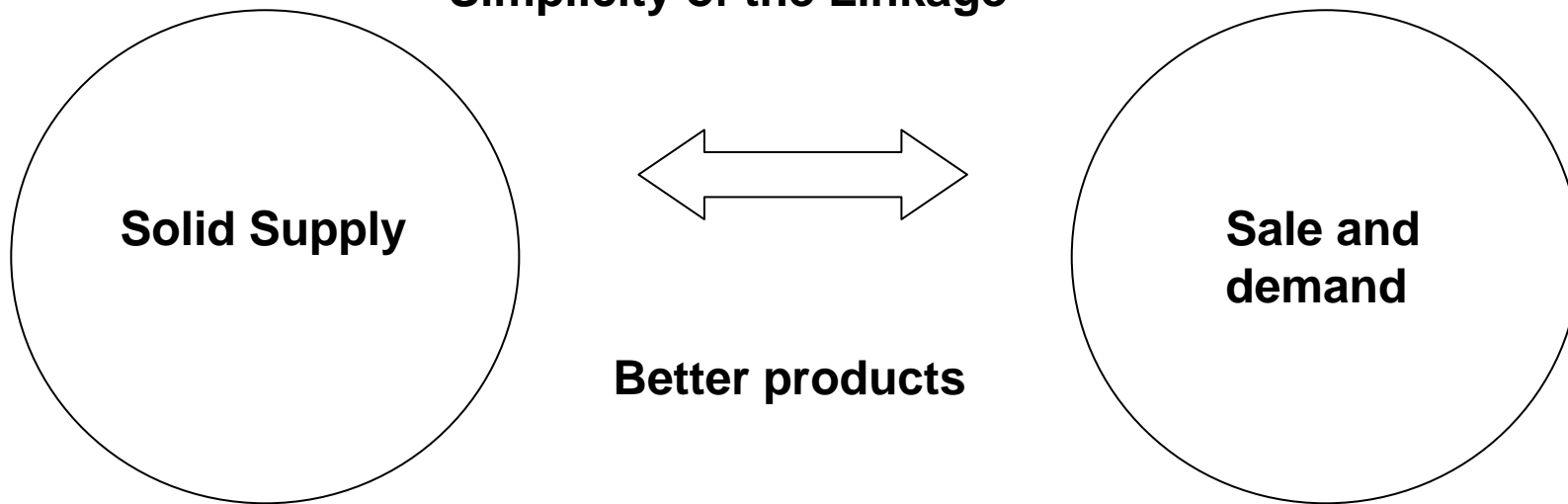
- 700,000 hectares of certified natural forests and plantations
- First industrial certification of operations in the tropics: Portico in Costa Rica (now called: *Masonite* of Costa Rica); doors made with *Carapa guianensis* (Andiroba)
- First region to provide certified products for „Home Depot“: (doors from Guatemala and Costa Rica)
- Certification of the management of industrial forests for *companies* and communities, with proven conservation strategies (Guatemala: *Maya Biosphere Reserve*, Honduras: *Plátano River Biosphere Reserve*, Belize: *Bravo River*, etc.)
- Principal (only one for many years) source of certified *mahogany* (Guatemala, Belize, Honduras...México)



WWF strategies to promote LKS/EMU to reduce the dependence on Mahogany and to provide more benefits for all certified operations in Central America.

Make it as easy as possible for the buyer!

Simplicity of the Linkage



**Good supply + Increase of demand
+ Quality of products + Linkage = Sales (and conservation)**



Supplies of LKS/EMU:

Solid Information from trustworthy sources

WWF recommends:

- **Establish a solid supply, based on good inventory and management plans** (nobody wants to invest in new species if the supply isn't interesting in terms of ensured volume and availability)
- **Define the base value of real costs of production** (nobody wants to invest in species if their costs are higher than the usual)
- **Promote information about the types** (Bucida, Lonchocarpus, Calophyllum, etc.) **presented to potential buyers at fairs and buyers round-tables** in Guatemala, Atlanta, California, Portland, Maderalia, Costa Rica, etc.



Build demands for LKS/EMU in Central America: High profile projects

- WWF worked with 8 companies to comply with the formal commitments of a responsible purchases policy (Holiday Inn: furniture, construction, other hotels)
- WWF worked proactively the Tortuga Hotel (Costa Rica) with potential suppliers to determine the best supply with the best LKS/EMU and products utilized for beds, doors and window frames.
- WWF focused mostly on:
 - **which lesser used specie could serve the buyer best, and**
 - **what is a unique characteristic of the wood, for example: the Exchange Model in Nicaragua.**



Building demands for LKS/EMU in Central America: Big wood consumers

Public works in Costa Rica and Transportation Department (MOPT)

- **Initially stipulated the minimum price of EMUs (without reference to legality, sustainable management of forests, etc.)**
- **WWF trained buying officials in characteristics of LKS/EMU, processed by manufacturers of Costa Rica**
- **Focused on the attention and the necessity of construction vs traditional species (as in: „Which wood do I need to make a product, and which specie should I use?“ instead of „Let’s use the same wood we always use“)**
- **We have mostly improved/modified the sales language.**
- **Increase in sales of certified manufacturers of Costa Rica in relation to the Gmelina sp Specie in industrial applications in which the species haven’t been used before.**

Don't Forget: Know your Buyer



This is the global market

The buyer is always right

How does the buyer operate?

