

Market Opportunities for US Forest Products in Central America

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Introduction

Current
Situation

Demand
analysis

Competitor
analysis

Market
Opportunit
y

Strategy

Logistics

Conclusions

Future

Objectives

- To quantify wood products imports for Central American countries
- To quantify US wood products to Central America
 - North American Industry Classification System (NAICS)
 - NAICS 321: 3311 (lumber, sawmill, millwork), 3312 (veneer, engineered wood, trusses, plywood) 3219 (pallets, mobile homes)
 - NAICS 337: 3371 (wood kitchen cabinet, wood household, wood institutional furniture), 3372 office furniture, 3379 related products
- Partial results to identify market opportunities in Central American countries for Wood Products
- To determine main strategies to export US wood products to Central America

Research Methodology*

- Secondary sources
 - Databases
 - USDA-FAS
 - ITA
 - World Bank
 - FAO
 - Newspapers
 - National Banking Systems
- Interviews
 - Government agencies
 - WP importers
- Market analysis
 - Current forest situation
 - Demand analysis
 - Competitor analysis
 - Market Opportunity
 - Strategy
 - Logistics

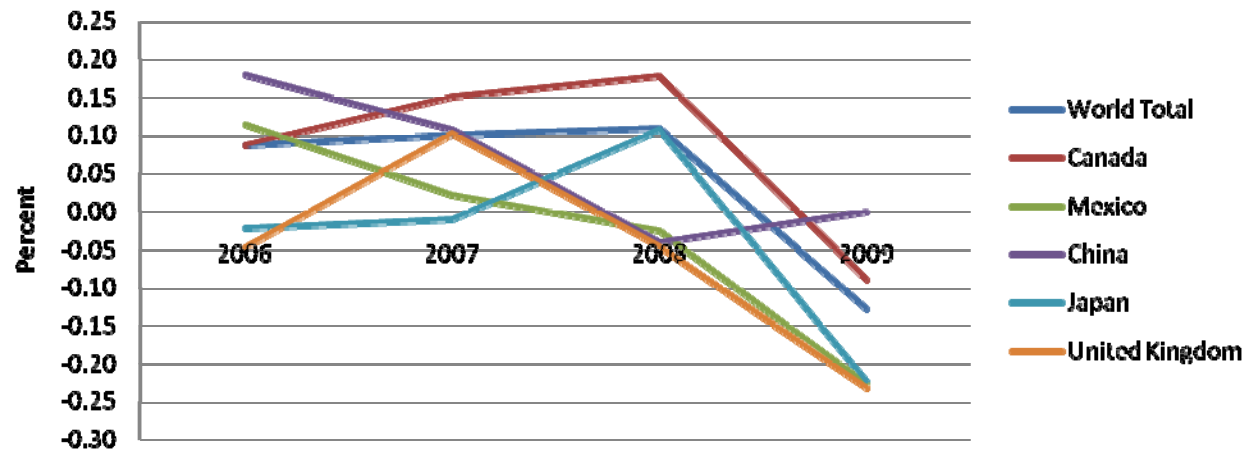


*Smith, Miller and Parhizkar (2008) Quesada (2008)

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US Wood Products Exports

Percent of Change for Exports of NIACS 321



Yearly Exports in \$ Millions

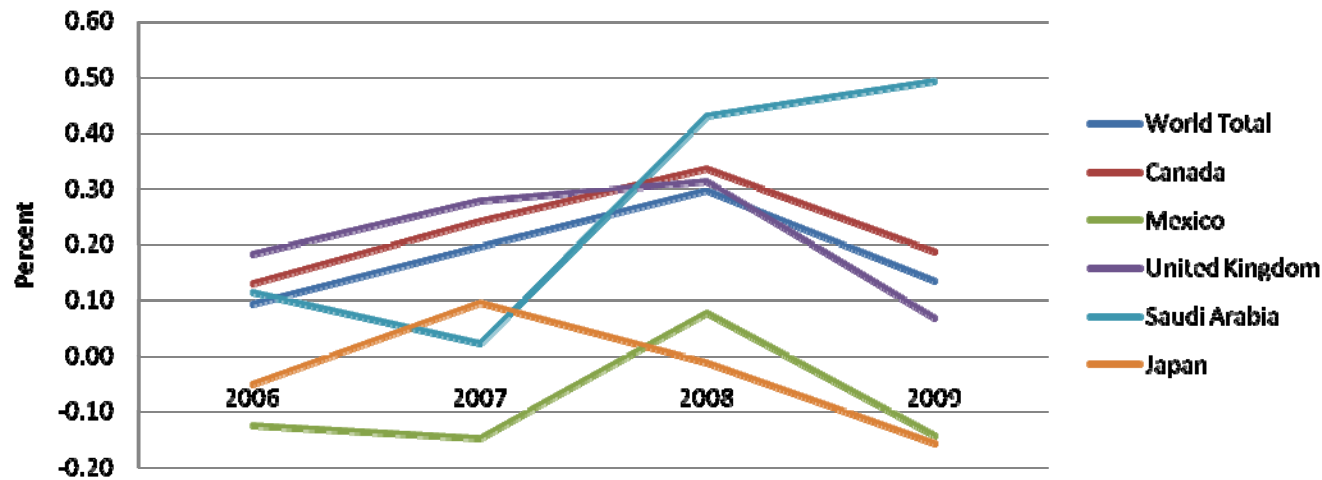
| Destination | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------|-------|-------|-------|-------|-------|
| World Total | 4,734 | 5,181 | 5,260 | 5,311 | 4,195 |
| Canada | 1,766 | 1,935 | 2,082 | 2,148 | 1,620 |
| Mexico | 550 | 621 | 562 | 536 | 448 |
| China | 315 | 385 | 354 | 304 | 316 |
| Japan | 273 | 268 | 271 | 306 | 223 |
| United Kingdom | 197 | 188 | 219 | 188 | 160 |
| Italy | 145 | 159 | 165 | 136 | 102 |
| Germany | 128 | 136 | 131 | 128 | 94 |

US Department of Commerce. Trade Stats Express (2010)

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US Wood Products Exports

Percent Change for Exports of NIACS 337



Yearly Exports in \$ Millions

| Destination | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------|-------|-------|-------|-------|-------|
| World Total | 3,458 | 3,816 | 4,303 | 4,921 | 3,994 |
| Canada | 1,680 | 1,931 | 2,219 | 2,534 | 2,065 |
| Mexico | 428 | 381 | 373 | 464 | 375 |
| United Kingdom | 137 | 168 | 190 | 200 | 147 |
| Saudi Arabia | 54 | 61 | 55 | 95 | 107 |
| Japan | 123 | 117 | 136 | 121 | 106 |
| China | 52 | 83 | 105 | 113 | 70 |
| Germany | 41 | 52 | 57 | 59 | 58 |

US Department of Commerce. Trade Stats Express (2010)

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Update on US Wood Products Exports*

- Why the decrease?
 - Unstable financial markets
 - Tighter credit
 - Inflation
 - Higher freight rates
 - Soft housing markets
 - Rising labor...production cost in China
 - Future flow of capital spending: inland China, Vietnam and Indonesia

*Virginia Forest Products Export News letter (Fall 08)

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Current forest situation

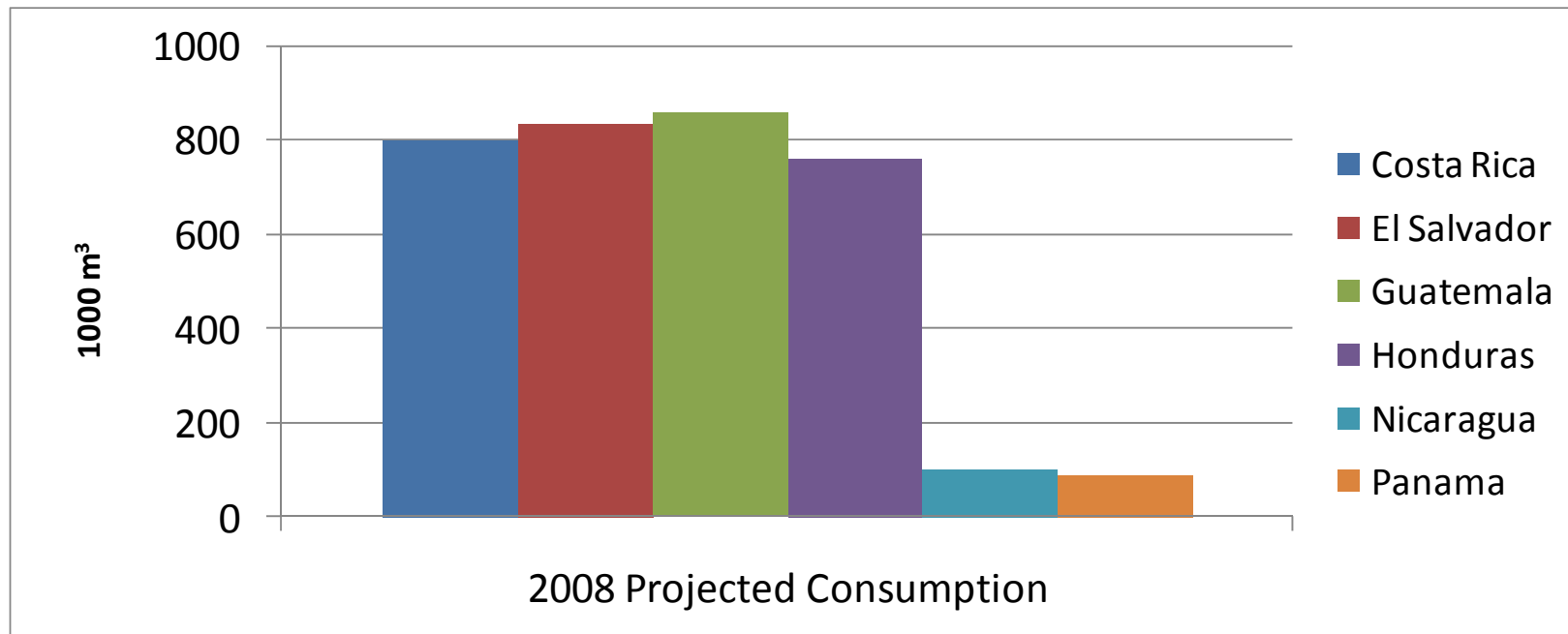
- Forest situation

| Item | Country | | | | | |
|---|--------------------|-------------|---------------------|--------------------|--------------------|--------------------|
| | Costa Rica | El Salvador | Guatemala | Honduras | Nicaragua | Panama |
| Protected forest (ha million) | 1.15 | Na | 2.39 ¹ | 2.95 ² | 2.16 | 2.50 ⁴ |
| Deforestation rates (ha thousand) | 15.00 | Na | 53.70 ¹ | 102.20 | 70.00 ³ | 50.00 ⁵ |
| Plantation size (ha thousands) | 54.00 ⁷ | 6.60 | 121.00 ¹ | 48.00 | 58.04 ³ | 60.00 ⁶ |
| Forest Stewardship Council Certified (FSC) (ha thousands) | 36.71 ⁸ | Na | 2.24 ⁸ | 13.86 ⁸ | Na | 8.38 ⁸ |

1 Revolorio (2004), 2 Mairena and Hernandez (2005), 4 ANAM (2006), 5 Alfaro (2004), 3 Guevara (2004), 6 Muñoz (2007), 7 Arce and Barrantes (2004) 8. Earthtrends (2003)

Demand Analysis

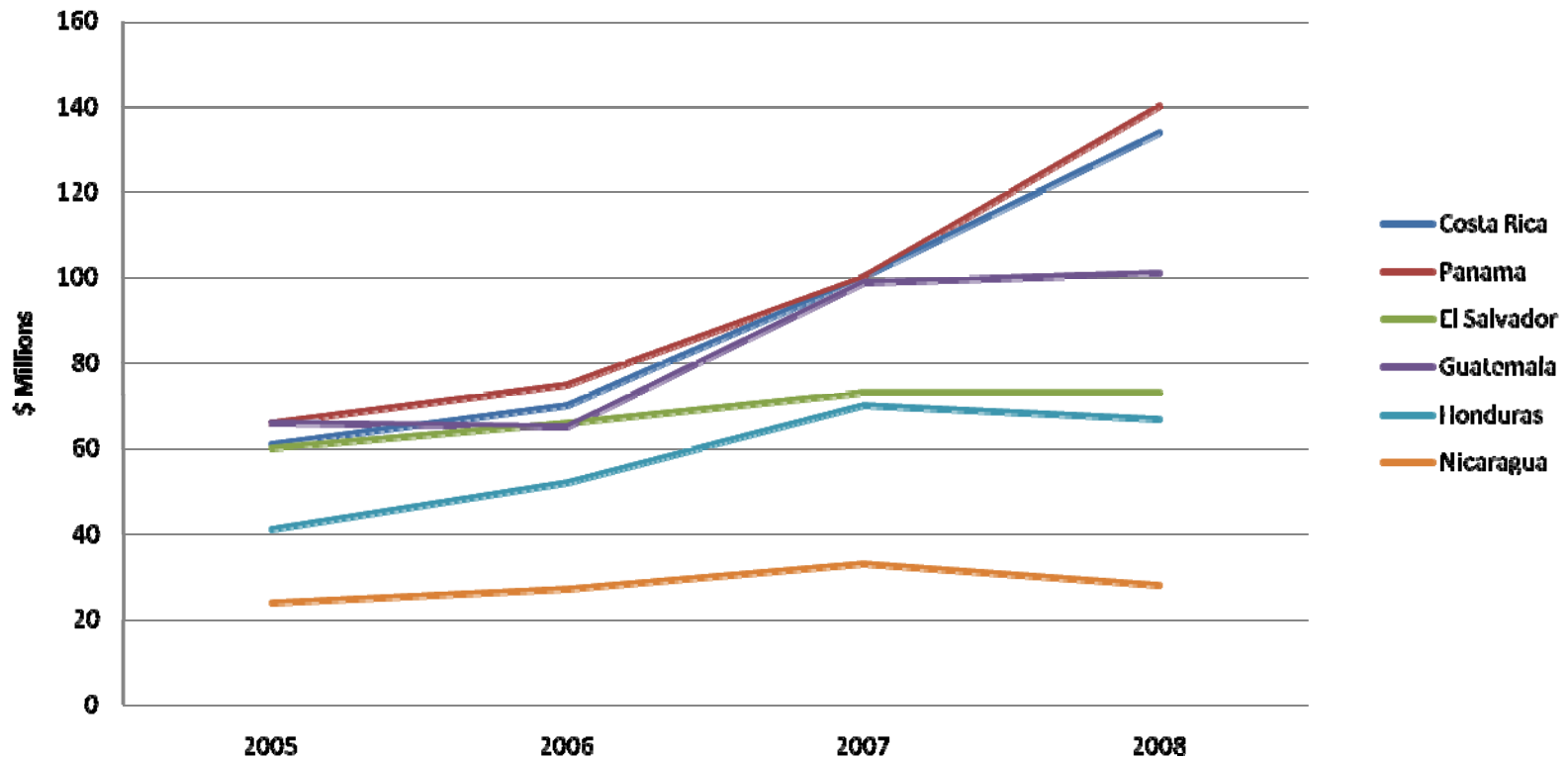
- Wood consumption: does not include firewood



Loiza (2008), Cuellar (2004), Revolorio (2004), Guevara (2004), Alfaro (2004), Quesada (2008)

Demand Analysis

Central American Imports of NAICS 321 & 337 Globally by Country

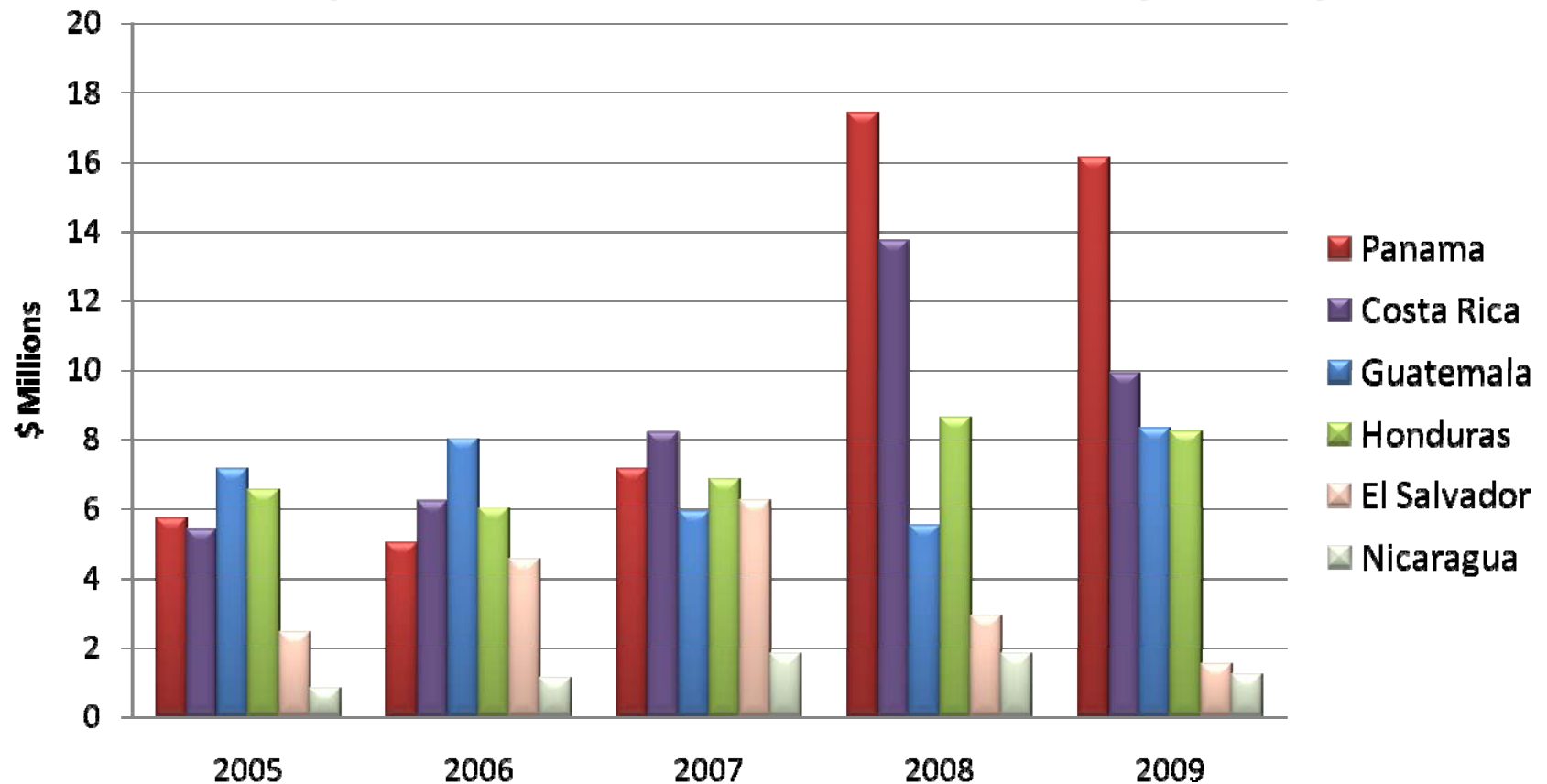


International Trade Centre (2010)

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Competitor Analysis

US Exports of NAICS 321 to Central America by Country

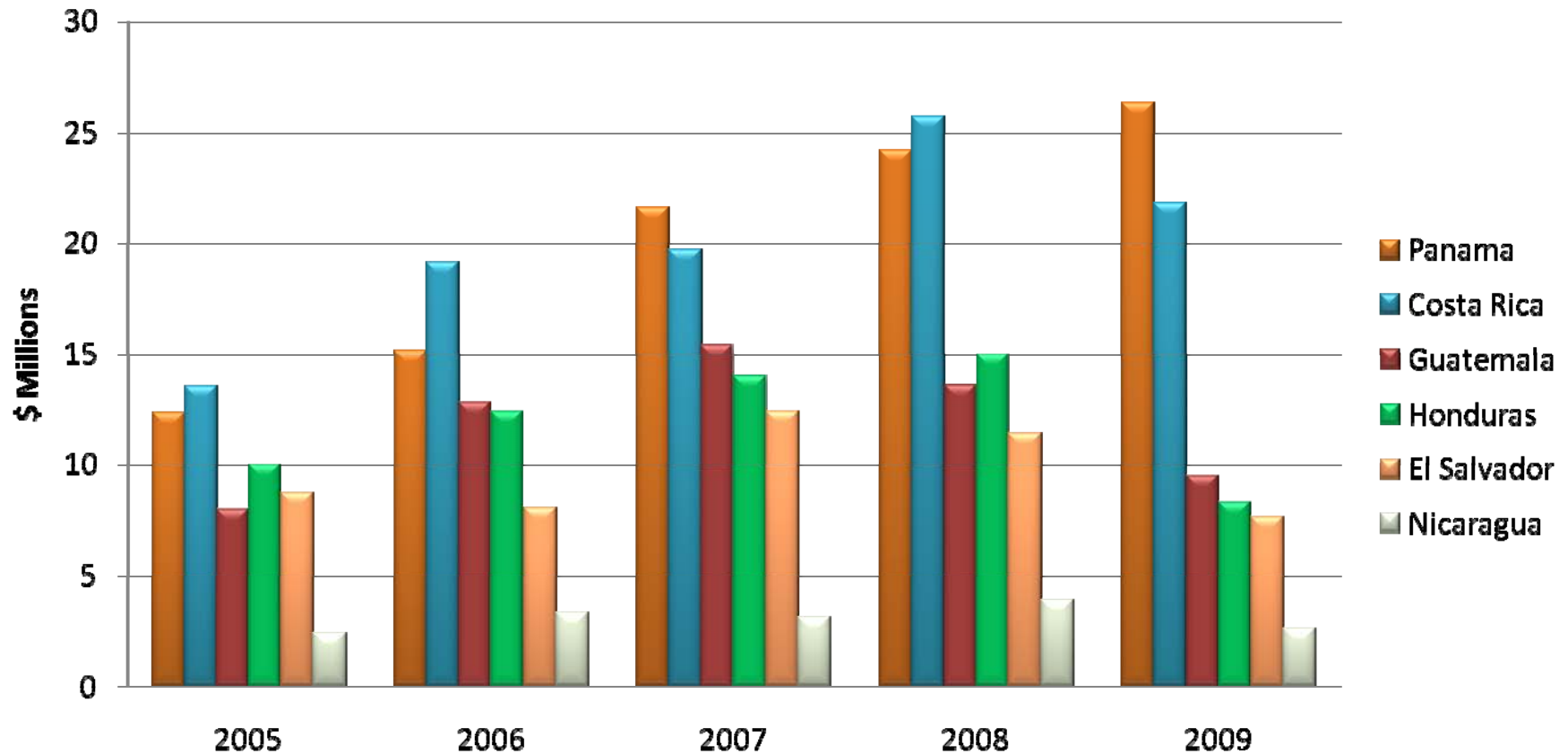


US Department of Commerce. Trade Stats Express (2010)

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Competitor Analysis

US Exports of NAICS 337 to Central America by Country

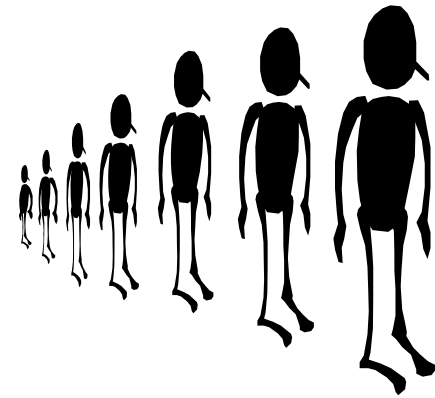


US Department of Commerce. Trade Stats Express (2010)

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Market Opportunity

- **Population Explosion**
 - 11 million (1950) to 40 million (2008)
 - Improvements in Health Care
 - Sanitation
 - Education
 - Economy and Political Stability
 - Shortage of Homes



Fox (1990), Saxe (1999), World Bank (2010)

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Market Opportunity

- **Deforestation**
 - Illegal Logging
 - Decrease of Reforestation
 - Removal of Law No. 7 in Panama
 - Guatemala loses 54,000ha annually
 - Replants 10,000 ha
 - Costa Rica natural forest depleted
 - Planting Coffee, Sugarcane, Cotton
 - Pasture Expansion



Munoz (2007), Hurtarte (2006), Montagnini (2003), Cruz (1999), Kaimowitz (1996), Cevallos (2009)

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Market Opportunity

- **Tourism**
 - Shortage of Hotel Rooms
 - 19% Increase in 2005
 - Ecotourism
 - Expansion of the Panama Canal
 - 11.2 %
 - Royal Caribbean Home Port
 - Inexpensive Cost of Living
 - Retired Americans



Fallas (2008), Schieber (2009), Aparicio (2008), Kristof (2010)

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Market Opportunities

- **Forest Products Industry**
 - Limited source of local supply
 - Local industry shrinking
 - Lacks governmental support
 - Small amount of plantations
 - Climate conditions



La Nacion (2006, 2007 and 2008), Costa Rica Central Bank (2008), Salamone (2000), FAO (2008), Siglo XXI (2006, 2007, and 2008), Quesada (2008) , La Prensa (2006, 2007, and 2008),

Market Opportunities

- US wood products have not put enough effort
- Natural forest/Plantations
- Lack Gov Support
- Poor wood industry
- Pine
 - Importing from SA
 - Furniture
- Hardwoods
 - Dark colors
- Specialized Wood Products



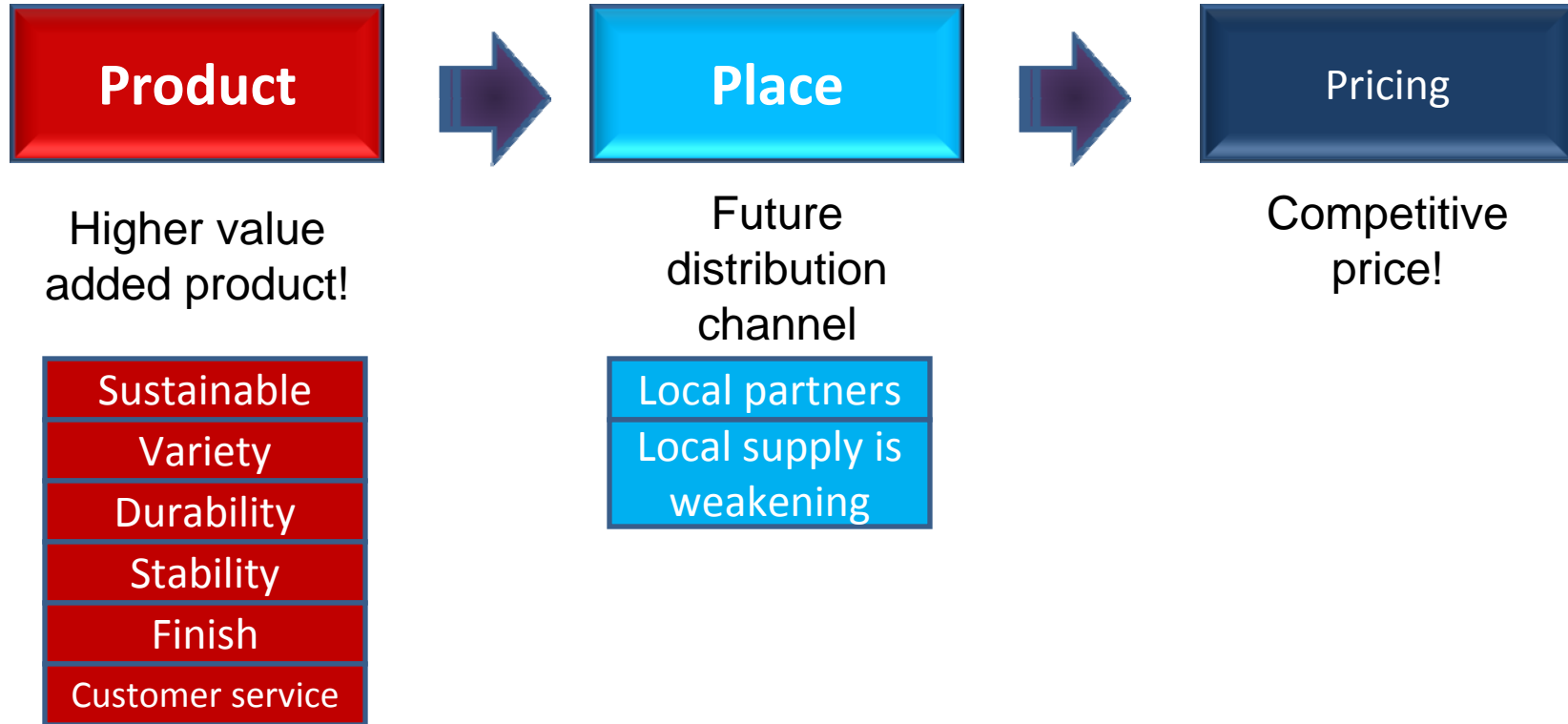
Logistics

- CAFTA-DR impact on Wood Products trade between USA and CA*:
 - Export/Import from CA to USA of the majority of wood products will be progressively tax free
 - Custom clearance to simplify the custom process
- Main Ports
 - Panama: Panama City
 - Costa Rica: Caldera Port, Puntarenas & Port of Limón
- Payment Terms
 - 30-90 days

*MFIC (2005), Quesada (2008)

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Strategy



La Nacion (2008), La Prensa (2008), La Prensa Grafica (2008), El Diario de Hoy (2008), Siglo XXI (2008), FAO (2008), Quesada (2008)

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Conclusions

- Annual consumption of wood products is more than 4 million m³ per year
- Only 20% of consumption is met with imports
- Environmental pressures hurting local industry
- Local supply is weakening.

Quesada (2008)

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Conclusions

- USA, Chile, and Brazil: high quality
- Potential strategies for US wood products companies are:
 - To partner with local wholesalers
 - Teach companies
 - Offer higher value added
 - Keep prices similar or slighted superior
- CAFTA-DR will increase trade of wood products between USA and CA

Quesada (2008)

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Future of wood products in CA

- Only large wood products facility will survive:
 - Yodeko (Honduras)
 - Maderas Cultivadas, Buen Precio, Portico Panamerican Woods, Flora y Fauna (Costa Rica)
 - Gibor, Procinsa (Guatemala).
 - Limi-Nawah, Teknisa, PRADA, Exchange, El Portal (Nicaragua)
- SMEs are fated to disappear (Honduras, El Salvador and Nicaragua)
- Customer perceptions
 - Shifting to higher value added products
 - More educated
 - Leaning towards environmental friendly products
 - Durability, stability are important concepts now

La Nacion (2008), La Prensa (2008), La Prensa Grafica (2008), El Diario de Hoy (2008), Siglo XXI (2008), FAO (2008) Quesada (2008)

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Future of wood products in CA

- Marketing study on primary sources
 - Identification of exports barriers for exporting to Central America
 - Specific customer preferences
 - Develop of an exporting manual for US wood products companies to Central America
 - Partnerships, logistic specifications, regulations

Funded By

- Federal-State Marketing Improvement Program (FSMIP)



Thank you!

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