

# C I N T R A F O R

## Special Paper 37

### The Forest Sector in Brazil: With Special Emphasis on the Southern Pine Plantations

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#### Executive Summary

This paper describes the development path followed by the Brazilian forest sector. Special emphasis has been given to the southern region of Brazil (the States of Paraná, Santa Catarina, and Rio Grande do Sul) where there has been major southern yellow pine plantation establishment. This resource has been primarily the source of raw material for the domestic pulp and paper industry but has also provided inputs for export pulp and most recently the domestic sawmill sector and the furniture industry.

The stimulus of government incentives in the mid-1960's greatly accelerated softwood plantation establishment. The end of these same incentives in the mid-1980's greatly reduced the number of new plantations. Since the end of the incentives, the lack of investment in forest plantations by the private sector has raised questions about the future supply of raw material for sawnwood processing. As a result there is a strong possibility that there will be a shortage of wood, primarily for sawmilling, in the next decade. This could change the relative position of Brazil, moving from a net exporter of most forest products to a net importer of some wood products.

Considering the expected reduction in the supply of high-grade roundwood, the solidwood sector may face significant challenges and adjustments. Among them, one can consider a possible migration of sawmills to other regions where forest resources are still available at a competitive cost. Another probable outcome is the substitution of short rotation eucalyptus for pines just as the start of the incentive program saw the substitution of pines for native conifers (*Araucaria*).

Brazilian participation in the global market of forest products has been modest in comparison with its total domestic production. Although Brazil was the fifth largest roundwood producer in 1997, the country contributed less than 2% of worldwide exports of higher value-added forest products such as lumber, wood panels, and paper. This low rate of trade has been the result of a group of factors including high and growing domestic demand, a low level of technological sophistication in the solidwood sector, the existence of unregulated forests with raw material unsuitable for high value-added uses, underdeveloped marketing of new forest products and species, and the historical shortage of investment from the private sector (primarily in the solidwood industries). In addition, macroeconomic factors, starting with governmental policies toward the use of the resources, incentives and subsidies, trade barriers, forest and environmental policies since the 1960's, and more recently the successive economic plans have to varying extents played a role on shaping the position of the country in international markets.

Although there is an increasing trend toward exports of forest products, the domestic market has been, and is expected to continue to be, more important than the international market for most solidwood products. Besides the expectation of continued domestic economic and population growth, which alone would contribute to an increase in domestic demand for products, there are still niches that could be occupied by the lumber sector.

One example is the construction market where lumber has traditionally played a small role in comparison with many other countries.

The free trade bloc, Mercosul, shows signs of having a major impact on forest products trade over the southern half of the South American continent. As economies of the Mercosul members stabilize and grow there should be greater domestic demand that has the potential to open up markets among the member countries. In this new low barrier environment, Brazil is poised to be a major exporter to these countries unless future supply problems change the scenario.

Given Brazil's comparative advantage in terms of climate, land availability, and labor there is strong evidence to assume the continued development of the forest sector in Brazil. Whether government policy aids in that development or the extent to which private investment will stimulate continued growth of the forest sector will become more apparent over the first decade of the 21st century.

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