NAFTA and Latin America: Implications for Southeastern Forestry

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Introduction

The North American Free Trade Agreement (NAFTA) is designed to open up trade flows between the U.S., Canada and Mexico. How is it doing? Latin America is being thought of as the next large marketplace for U. S. goods. What is happening with respect to forest products? These two issues are important in planning our strategies for the 21st century in the forest products community.

NAFTA

NAFTA, an international trade agreement between Canada, Mexico and the United States was implemented January 1, 1994. It is designed to stimulate growth and increase trade between these countries by eliminating tariffs over a ten year period. In essence, it was an extension of a Free Trade Agreement (FTA) between Canada and the U. S. established January 1, 1989. Since U.S. - Canadian and U. S. - Mexican relationships differ substantially, they will be discussed independently.

U.S. - Canada

No major changes in forest products trade were expected to result between Canada and the United States since an FTA was already in place. One major issue developed outside NAFTA, however. Canada has been able to increase its share of the U. S. softwood lumber construction market to 36% in 1995. The ability of Canadian producers to achieve this level has been in dispute since 1981 based on the U.S. claims that the Canadian government has been subsidizing its industry in the form of low stumpage prices. Since all forest lands in Canada are controlled under Crown Lands, stumpage is priced by the Canadian government at artificially low stumpage prices. Canadian producers, therefore, have much lower costs in their acquisition of raw material and hence, manufacturing of softwood lumber. This provided a greater cost advantage in the U. S. markets resulting in the large market share. These claims were backed by a threat of placing high tariffs on Canadian lumber by the U.S. government. This created the atmosphere for a five year agreement to be established between Canada and the U. S. designed to slow Canadian shipments. In this agreement, completed in April 1996, the four largest wood producing provinces, Ontario, Quebec, British Columbia and Alberta will reduce exports by more than 6% from their record level of 1.5 billion board feet per year in 1994-95. The U. S. in return agreed to not bring any additional lumber trade sanctions against Canada during this five year period.

The trade balance between the U. S. and Canada has decreased from a ratio of 8.5 to 1 comparing Canadian wood exports to the U. S. to U. S. exports to Canada in 1989 to a 4.0 to 1 ratio in 1997.

This considers all forest products which includes pulp, paper and paper products and wood products. In 1997, the greatest majority of imports from Canada consisted of solid wood imports ($9.43 billion), followed by paper and paper products ($8.25 billion) and pulp imports ($2.23 billion). U. S. exports to Canada were led by paper and paper products ($2.98 billion), followed by wood ($1.62 billion), followed by pulp ($0.33 billion). (STAT-USA, 1998)

Mexico

The trade agreement between the U. S. and Mexico was expected to bring about a number of activities. Is was expected that growth would be stimulated through the elimination of high Mexican tariffs on forest products. In addition, it was expected that in the near term, low grade lumber would be sold to Mexican producers and in the long term softwood dimension materials for timber frame houses would be imported from the U. S. By establishing an industry in wood frame housing in Mexico, diversification of other forest products in other industries could be accomplished. Due to the difference in labor costs, it was also expected that primary products such as logs, lumber and panels would be going to Mexico as U.S. exports and more value added products such as furniture, millwork and flooring would be coming into the U.S. from Mexico. To this effect, the agreement stipulated that softwood construction lumber would be reduced from a 10% to 15% tariff in Mexico to 0% starting in 1994. Tariffs on other softwood lumber would be phased out over a five year period. A 20% tariff on particleboard would be phased out over a 10 year period as would the tariffs on softwood, plywood and mechanical wood pulp. Other wood pulp would have tariffs eliminated immediately (1994) with newsprint and other paper and board products phased out over a period of 5 to 10 years depending on specific products.

These expectations were changed with the severe economic crisis in Mexico in 1994. The peso was devalued by 40% and Mexico went into a severe recession in 1995. This in effect increased their exports beyond expectations due to their low peso value and drastically decreased imports. The overall trade balance between the U. S. and Mexico in forest products ($2.33 billion vs $0.81 billion) is positive with respect to the United States, due to the pulp, paper and paper products sectors. With respect to the solid wood products areas, however, exports to Mexico have dropped dramatically since1993. The value of U.S. exports fell below Mexican exports to the U.S. in 1995 and reached a low in 1996 ($0.250 billion). A slight increase in exports to Mexico occurred in 1997 ($0.294 billion). In 1997, exports to Mexico for the wood products sector, were comprised of panel products (32%), valued added products (27%), hardwood lumber (24%), softwood and treated lumber (14%), and logs and chips (2.5%). Imports from Mexico, however, were relatively stable until 1995 but have been increasing since. Imports from Mexico in 1997 ($0.440 billion) were comprised primarily of value added products such as furniture, flooring and millwork (66%), followed by softwood and treated products (23%), panel products (10%) and logs, chips and hardwood lumber (1%). (FAS, 1998)

Mexico also has non-tariff barriers which are of concern to the U.S. industry. Two examples of these are softwood construction lumber restrictions and the tariff rate quota (TRQ) system. Softwood construction lumber is slated to have 0 tariffs, however, it has been bogged down with Mexican paperwork and red tape from the beginning. The Mexican government claimed that it needed full control over softwood lumber since it could be used either for construction or other uses. They, therefore, instituted a program in which extensive registration and proof of compliance was required. This consisted in part of documenting material origins and a complete trail of ownership. This created excess paperwork and complexities for many of the U. S. shippers. As much as a 3 to 5 month delay in a shipment of product was common. Within the last year there has been some relief with less paperwork to allow better product flow. It is still being worked on.

The Tariff Rate Quota (TRQ) is a system that allows a certain quantity of product to be shipped tariff free to Mexico after which a tariff will be applied. The problem with this system is that the Mexican government has put into effect an archaic auction process to determine which companies can import the duty free material. This allowed approximately 30 construction companies to reign over the import of the tariff free material to the detriment of many shippers. There have been promises of developing a better process.

Overall, NAFTA is viewed as having a positive effect on trade relations between the three countries. Trade is expected to expand and increase as specific issues are worked out between these countries as mentioned and as the economy of Mexico recovers. This is expected to develop within the next two to four years. Still open to question is the quality of value added products being shipped from Mexico. This will be important to the total quantity of exports achieved by Mexican producers. If their quality is not increased their exports to the U. S. will not reach full potential.

Latin America

The U.S. is looking at the potential of Latin American as an emerging market. Currently it has not been as good as expected, but is expected to change.

Wood products exports to Latin America excluding pulp and paper declined from $0.716 billion in 1993 to $0.527 billion in 1996 with a slight increase in 1997 ($0.623 billion) (FAS, 1998). Much of this is due to the Mexican market since 79% of our Latin American exports go into Mexico, followed by 3% to Venezuela, 3% to Brazil and 2.5% to Chile. Imports from Latin America, however, are increasing. Imports ($1.262 billion) almost double U. S. exports and are comprised of material from South America (61%), Mexico (35%), Central America (3.6%) and the Carribean Islands (.2%). Eighty-one percent of imports from South America are from Brazil (50%) and Chile (31%). Solid wood imports from Latin America are primarily value added wood products consisting of furniture, flooring, millwork, followed by softwood and treated lumber and panel products. It is expected that the increase of imported products from this region will continue.

Southern Forest Products International Trade Center (SOUTHPIC)

A trade center for Southern forest products producers is being requested to develop better information in international trade issues and help increase competitiveness in foreign markets.

A Planning Grant from the Fund for Rural America was obtained by the Louisiana Forest Products Laboratory, School of Forestry, Wildlife and Fisheries, LSU Agricultural Center; the Mississippi Forest Products Laboratory, Mississippi State University; and the Forest Products Development Center, Auburn University. This planning grant was used to develop a Center proposal to establish a Southern Center for international trade emphasizing value added forest products. A Center proposal was written and submitted March 20, 1998 to the USDA, CSREES Fund for Rural America (FRA). It is currently in review and competing with 35 other Center proposals in various areas of agriculture and forestry. It is estimated by FRA that 8 to 12 Centers will be established.

The Southern Forest Products International Trade Center (SOUTHPIC) is designed to enhance development of Southern rural wood based economies and increase employment opportunities without creating additional demand on harvesting forest resources. This will be done by enhancing the competitiveness of rural forest products firms in international markets with respect to value added products produced from logs and lumber currently being exported. Programs in research, extension and education will collect and disseminate current and new information on international trade in forest products. This will include foreign market analyses and issues in adding value to wood products during manufacturing and distribution. A major effort will be to match the Southern producers manufacturing capabilities with foreign market opportunities. A Center for the South will increase the number and availability of experts in this field as well as provide a focus on issues pertaining to Southern species, manufacturers and potentially viable markets. A total of $3,998,464 over four years is being requested. This will be used to fund projects with collaborators across the South and across disciplines.

Included initially are industry representatives from the Wood Components Manufacturing Association, National Oak Flooring Manufacturers Association, Southern Forest Products Association, and Louisiana Furnishings Industry Association. Researchers, extension personnel and educators are involved from the Louisiana State University, Tuskegee University, Mississippi State University, Auburn University, Texas A&M University, Virginia Tech University, Cooperative Extension Service, USDA Forest Service Southern Research Station, USDA Forest Service Northeastern Forest Sciences Laboratory, and the USDA Foreign Agricultural Service. The Center will be administered through the Louisiana Forest Products Laboratory, School of Forestry, Wildlife and Fisheries, LSU Agricultural Center. An advisory board of key collaborators from groups listed above will be an integral part of the decision process to assure efficient and dynamic activities are undertaken.

Conclusions

In conclusion, international trade in forest products for the South and Southeast will continue to grow in both exports and imports. It is felt that imports will become more important with the increase of material availability especially from Chile and Brazil. With the NAFTA agreement in place and tariffs being reduced in Mexico, a greater flow of exports will be seen from our producers, however, this will definitely be countered by increases into the larger U. S. markets for finished goods. The amount of exports to the Mexican markets will definitely be heavily influenced by their economic recovery and stability. We will also see a strong influence with Canadian softwood products in our U. S. markets which will be mitigated to some degree at least until 2001 when the agreement is termed to end.

References

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STAT-USA 1998. Statistical Database. U.S. Dept. of Commerce, website sunny.stat-usa.gov

NAFTA and Latin America:

Implications for Southeastern Forestry

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NAFTA

- Agreement between Canada, Mexico & US
- Implemented January 1, 1994
- Extended US-Canadian Free Trade Agreement (FTA) established in January 1, 1989
- Designed to increase trade by eliminating tariffs over 0 to 10 years

NAFTA - Canada

- No major effects expected since FTA already in place
- Major issue is Canada's penetration in US softwood lumber construction market : 36% in 1995

NAFTA - Canada

- Softwood lumber dispute
  - Began in 1981
  - Based on stumpage subsidy by Canadian government

NAFTA - Canada

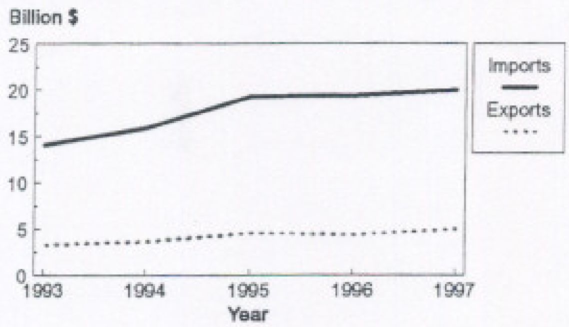
- 5 year agreement made in April 1996 to slow Canadian shipments
- Ontario, Quebec, British Columbia & Alberta will reduce exports by >6% from record levels of '94-'95 (1.5 billion BF/yr)
- US will not bring lumber trade actions against Canada

NAFTA - Canada

- Trade balance in Forest Products (Value)

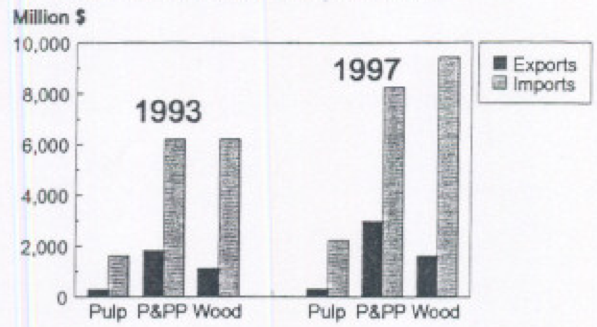
1989	8.5 to 1
1993	4.3 to 1
1995	4.2 to 1
1997	4.0 to 1

NAFTA - Canada



NAFTA - Canada

- Trade Breakdown by Sector



NAFTA - Mexico

- Expected
  - Stimulate growth through elimination of high tariffs
  - Near term - low grade lumber
  - Mid & long term
    - timber frame houses
    - diversification in other industries

NAFTA - Mexico

- Expected
  - Primary products to Mexico (logs, lumber and panels, etc.)
  - Value added products to US (furniture, millwork and flooring, etc.)

NAFTA - Mexico

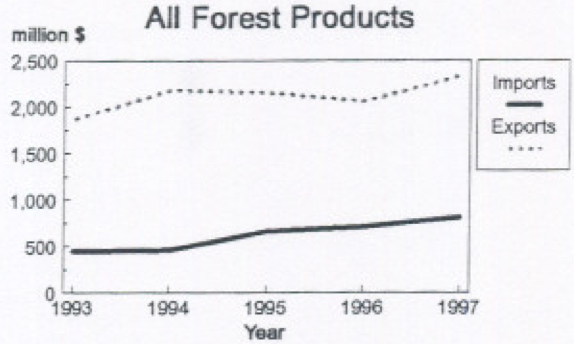
Commodity	Pre-NAFTA	Post-NAFTA
Softwood Const. Lumber	10-15%	0
Other Softwood Lumber	10-15%	5 years
Particleboard	20%	10 years
Softwood Plywood	15%	10 years
Mechanical wood Pulp	5%	10 years
Other wood pulp	0-5%	0
Newsprint	15%	5-6 years
Other Paper and Board Products	10%	0-10 years

NAFTA - Mexico

- 1994 severe economic crisis
  - peso devalued by 40%
  - severe recession in 1995
  - increased exports
  - decreased imports

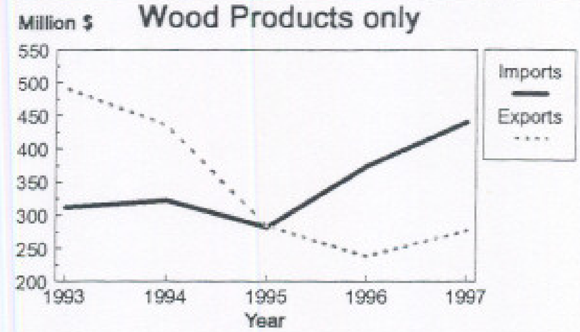
NAFTA - Mexico

All Forest Products



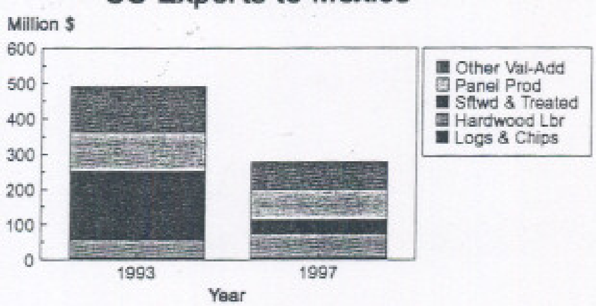
NAFTA - Mexico

Wood Products only



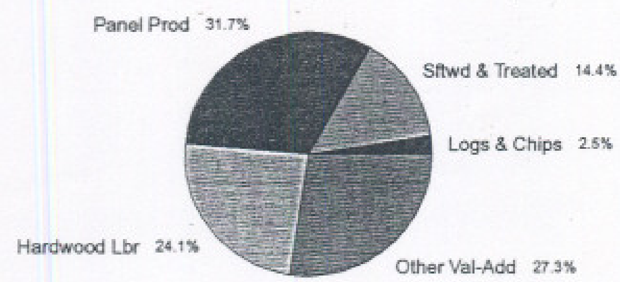
NAFTA - Mexico

US Exports to Mexico



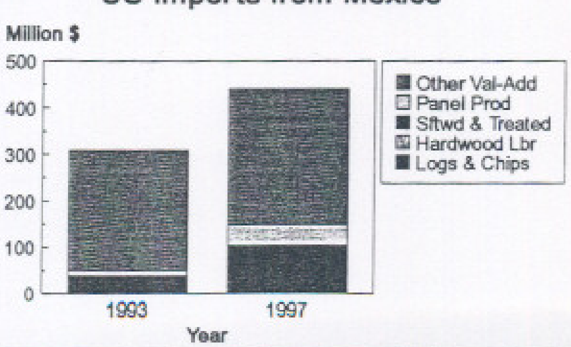
NAFTA - Mexico

1997 Exports to Mexico - Wood Products only



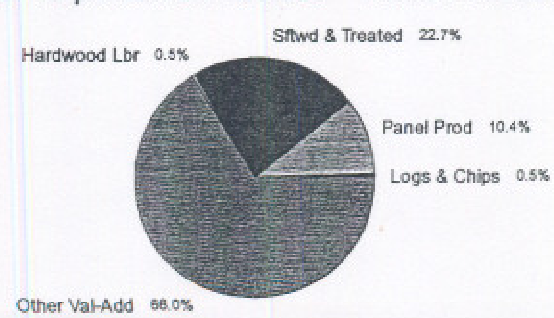
NAFTA - Mexico

US Imports from Mexico



NAFTA - Mexico

1997 Imports from Mexico - Wood Products o



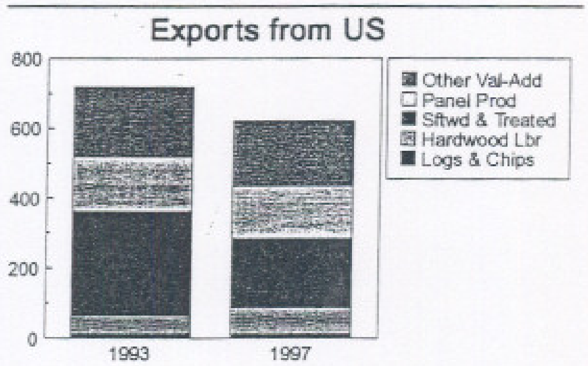
NAFTA - Mexico

- Non-tariff barriers
  - Softwood construction lumber
    - registration and compliance program
    - red tape and excess paperwork
    - "some" relief now

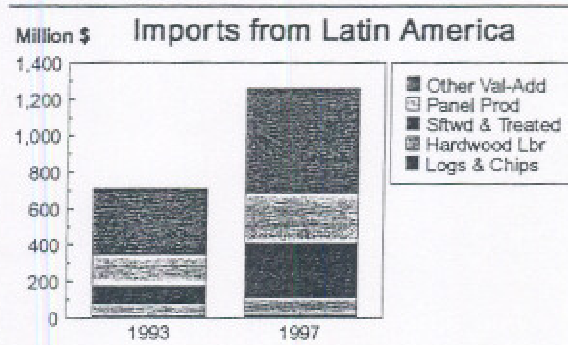
NAFTA - Mexico

- Non-Tariff Barriers
  - Tariff Rate Quota (TRQ)
  - Archaic auction process
    - inefficient
    - ineffective
  - 7 products

Latin America



Latin America



NAFTA - Future

- Overall a positive effect
- Mexican recovery expected in next 2 to 4 years
- Mexican quality still a question

Conclusions

- International trade for the South and Southeast will continue to grow
- Imports will be important
- NAFTA will help to even out trade inequities
- Final trade levels will be influenced by macoeconomic and political events