

BUSINESS OPPORTUNITIES IN THE MEXICAN FORESTRY SECTOR

SECTOR STUDY

2017

Mexico City



MEXICO : THE 2ND LARGEST ECONOMY IN LATIN AMERICA

Area: 1,964,375 sq km

Inhabitants: 123 million

Constitution: Federal presidential republic

Languages: Spanish and native languages

GDP (purchasing power parity): 2.307 trillion USD

Main exports: manufactured goods, oil and oil products, silver, fruits, vegetables, coffee, cotton

Main imports: metalworking machines, steel mill products, agricultural machinery, electrical equipment, automobile parts for assembly and repair, aircraft, aircraft parts

Swedish exports to Mexico: 1 003 MUSD

Swedish imports from Mexico: 157 MUSD

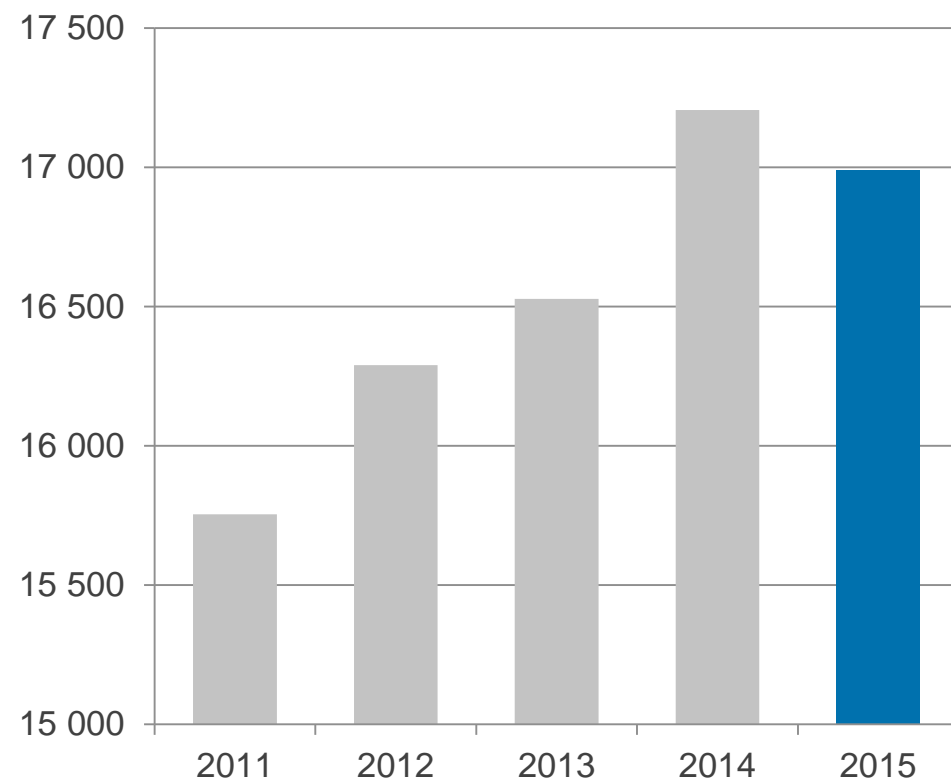
Mexico has free-trade agreements with 45 countries, including the members of the European Union, Japan, United States and several countries in Latin America

In the World Bank's "Ease of Doing Business" for 2017 Mexico is situated at number 47, placing it in the top in Latin America and ahead of European countries like Italy

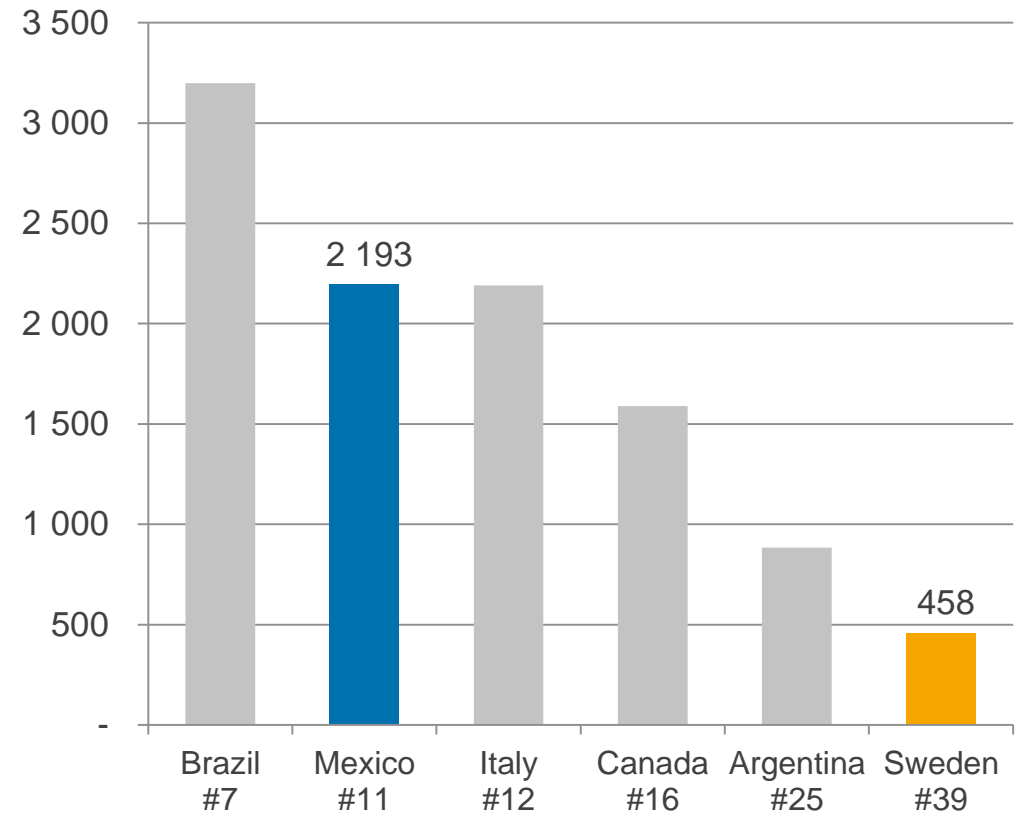


THE MEXICAN ECONOMY IS THE 11TH LARGEST IN THE WORLD, ALMOST 5 TIMES LARGER THAN SWEDEN'S

MEXICO GDP PER CAPITA, PPP
USD



GDP RANKING, PPP BASED 2015
BUSD



MEXICO IS THE 2ND LARGEST MARKET IN LATAM AND LARGER THAN COUNTRIES LIKE ITALY AND CANADA



MEXICO'S FORESTRY SECTOR REPRESENTS GREAT BUSINESS OPPORTUNITIES FOR SWEDISH COMPANIES

Opportunities for Swedish forestry companies

Increased export

- ▶ Sweden is a strong producer and exporter of paper, pulp and sawn timber - which Mexico imports the most
- ▶ So far the export share from Sweden to Mexico within forestry is low – here lies a lot of potential for Swedish companies that want to increase their international revenues

Sustainable forestry

- ▶ Due to the region's sensitivity to climate change effects, the Mexican government has set objectives to ensure a sustainable development within forestry and improve reforestation. The aim is to reduce greenhouse-gas emissions as well as to decrease the trade deficit
- ▶ Sustainable forestry has enormous economic potential, it is estimated that 15 million hectares of woodland meet the economic, social and infrastructure conditions for sustainable use, although only 7,5 million hectares are currently used for this purpose

Trade deficit and limited market

- ▶ Huge trade deficit of 6.19 BUSD in timber, pulp and paper products
- ▶ Limited culture of product quality among producers, traders and users of wood products
- ▶ Forestry communities are situated in Protected Natural Areas, where exploitation is prohibited
- ▶ The wooded area with potential for sustainable commercial timber production is huge, but the actual area used for this purpose is very limited
- ▶ No economic incentive to stop illegal loggers

Climate change, lack of knowledge & resources

- ▶ One of the worst deforestation rates in the world
- ▶ The annual average number of fires during 2007-2012 was 8,434, with an average annual affected area of 348,000 hectares
- ▶ Issues with forest management, utilization and industrialization systems, productive organization and property regulations, as well as institutional constraints make timber forest activity less efficient

Challenges in the Mexican Forestry sector

THE MEXICAN FORESTRY SECTOR HAS AN INCREASING DEMAND FOR SUSTAINABLE FORESTRY

MEXICO, THE WORLD'S 11TH LARGEST COUNTRY WITH FOREST AREAS

Rank	Country	Thousand hectares
1.	Russia	814,931
2.	Brazil	493,538
3.	Canada	347,069
4.	U.S.	310,095
5.	China	208,321
6.	Congo	152,578
7.	Australia	124,751
8.	Indonesia	91,010
9.	Peru	73,973
10.	India	70,682
11.	México	66,040
12.	Colombia	58,502

- ▶ The Food and Agriculture Organization of the United Nations, FAO, locates Mexico as the 11th largest country with forest areas (66 million hectares, representing 33% of the national territory)
- ▶ The current Mexican National Strategy seeks to promote sustainable use of forest ecosystems reaching a potential annual domestic production of 20.9 million m³r, without jeopardizing national biodiversity

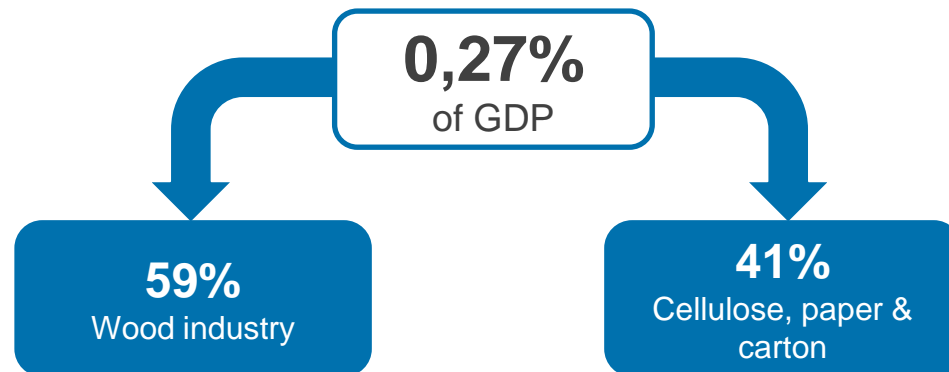
ENVIRONMENTAL ASPECTS OF SUSTAINABLE FORESTRY

Net carbon sink	Captures and infiltrates water
Protects water bodies and water infrastructure	Prevent and mitigate natural disasters (landslides and floods)
Key to developing actions for mitigation and adaptation to climate change	

SOURCE: FAO; NATIONAL FORESTRY PROGRAM 2014-2018

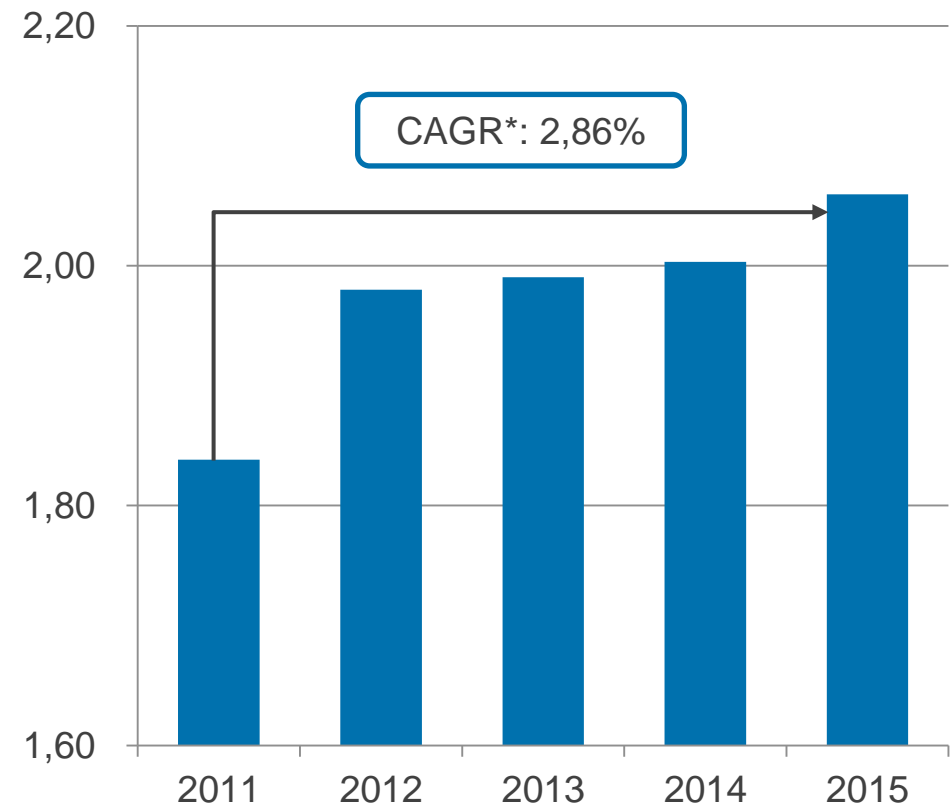
IN THE LAST FIVE YEARS THE FORESTRY SECTOR HAS SHOWN AN ANNUAL GROWTH RATE OF 2,86%

PARTICIPATION OF THE FORESTRY SECTOR IN THE NATIONAL ECONOMY



- ▶ In the last five years the average GDP of the forestry sector was 1,97 BUSD
- ▶ In 2015 the sector reached 2,06 BUSD, showing an increase of 2.8% compared to 2014

GDP OF THE MEXICAN FORESTRY SECTOR BUSD

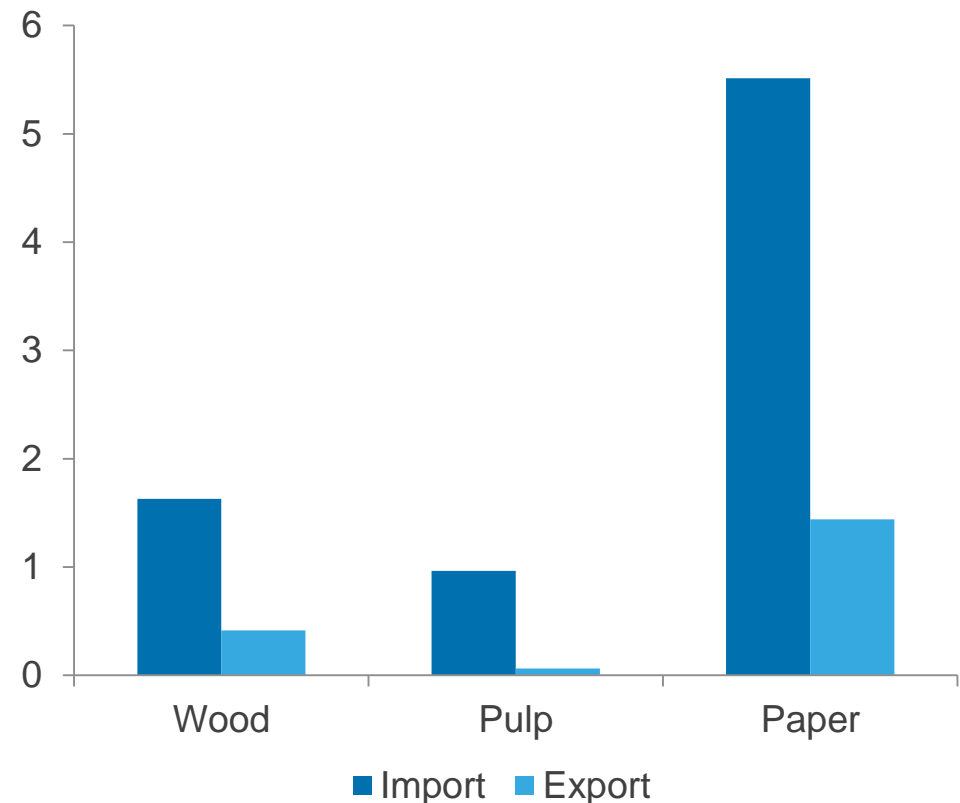


WOOD INDUSTRY ACCOUNTS FOR 59% OF THE SECTORS SHARE, AND CELLULOSE, PAPER & CARTON 41%

IN 2015 MEXICO HAD A DEFICIT OF 6.19 BUSD IN TIMBER, PULP & PAPER PRODUCTS : IMPORTS ARE NEEDED

- ▶ The majority of virgin fiber inputs are imported from American and European markets
- ▶ Around 99% of pulp and paper is consumed domestically with small volumes of exports destined principally to markets in the Americas
- ▶ The pulp and paper industry in Mexico has been growing and is attracting foreign investment in the sector as demand increases

TRADE BALANCE OF FOREST PRODUCTS IN MEXICO
2015 – BUSD

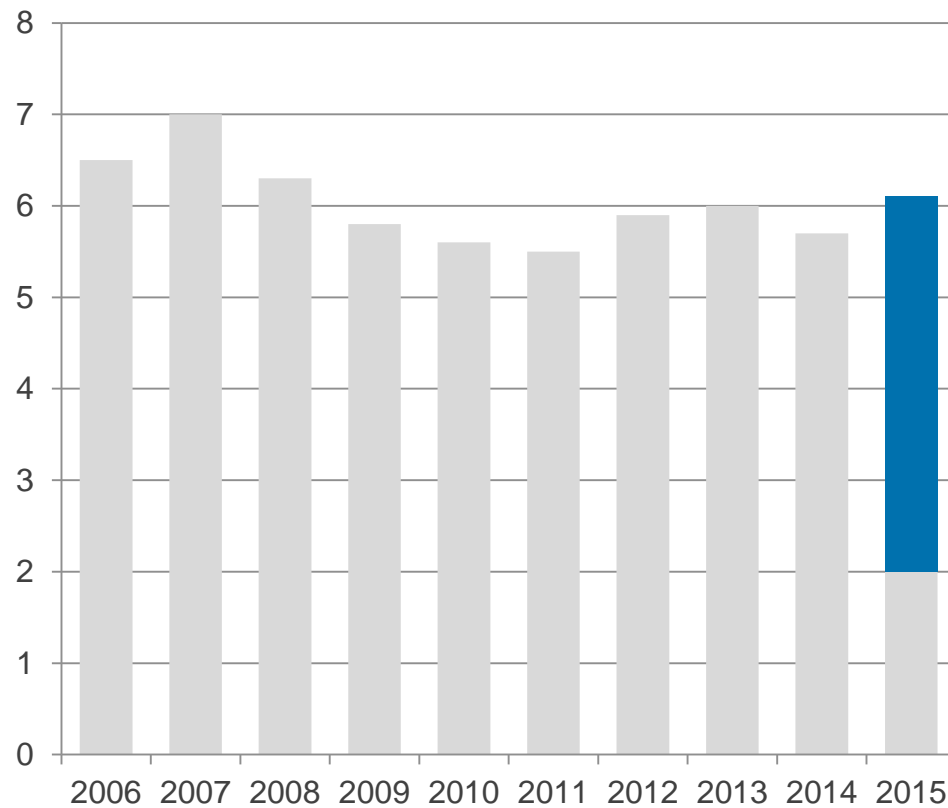


MULTINATIONAL PAPER COMPANIES OPERATING IN MEXICO	
International Paper	Kimberly-Clark
CMPC	SCA
COPAMEX*	Grupo Durango*
Smurfit Kappa	Bio-PAPPEL*

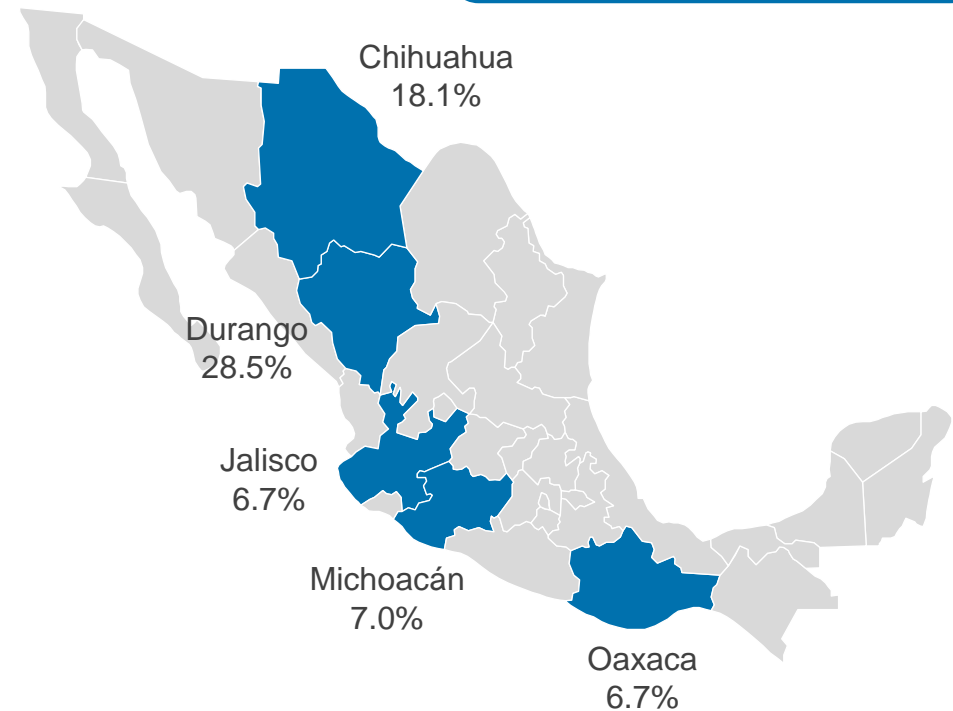
PAPER PRODUCTS ACCOUNT FOR THE LARGEST DEFICIT OF FOREST PRODUCTS

FOREST PRODUCTION IN MEXICO HAS FLUCTUATED IN RECENT YEARS, WITHOUT SUSTAINABLE GROWTH

FORESTRY PRODUCTION 2006-2015
MILLION M³R



5 states accounted for 67% of the total production (4.1 million m³r)



TOGETHER DURANGO AND CHIHUAHUA ACCOUNT FOR ALMOST HALF OF THE TOTAL PRODUCTION

SOURCE: ANUARIO ESTADÍSTICO DE LA PRODUCCIÓN FORESTAL 2015

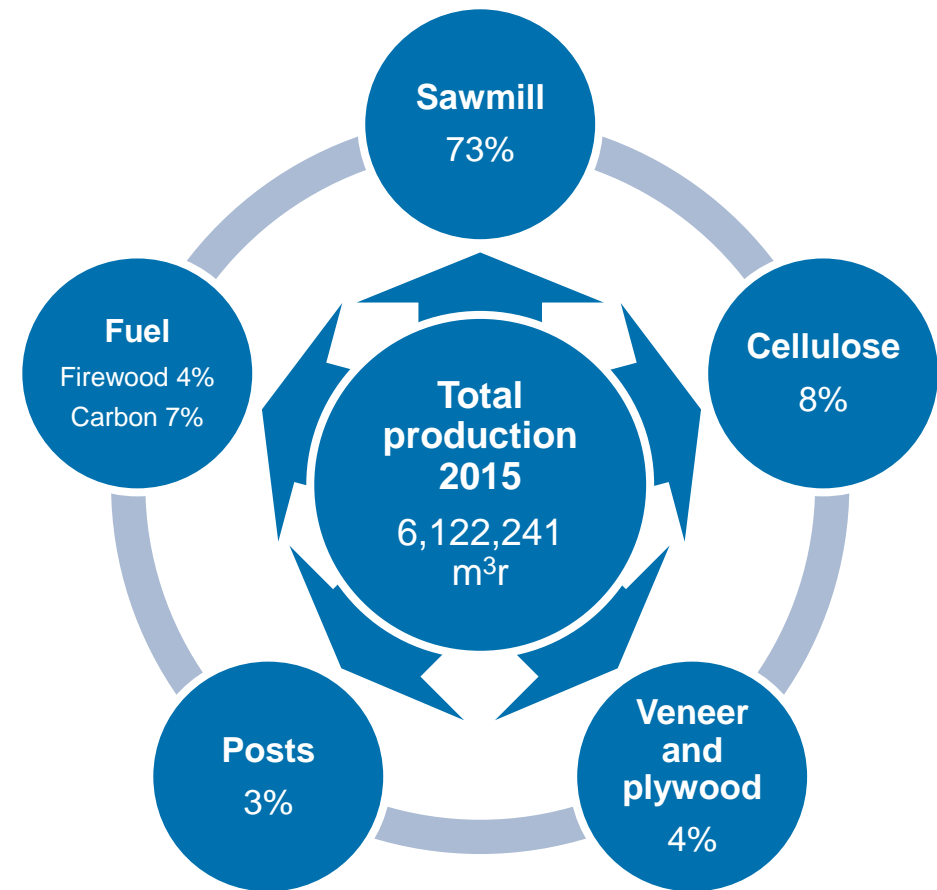


PINE IS THE MOST EXPLOITED SPECIES IN MEXICO, WITH 70% OF THE TOTAL PRODUCTION

FORESTRY PRODUCTION BY PRODUCT

FORESTRY PRODUCTION BY SPECIES/GROUP

Species	m ³ r (2015)
Pine	4,577,679
Holm oak	660,948
Other deciduous trees	270,282
Common tropical trees	336,064
Sacred fir (Oyamel)	220,824
Other conifers	43,067
Precious trees	13,378
Total	6,122,241



73% OF FORESTRY OUTPUT, 3.34 MILLION M3R, WAS DESTINED FOR SAWMILLS



CONAFOR IS THE AGENCY IN CHARGE OF MODERNIZING THE MEXICAN FORESTRY SECTOR



The **National Forestry Commission, CONAFOR**, founded in 2001 as a presidential initiative

Supports the implementation of projects for **production, industrialization and commercialization** of forest products

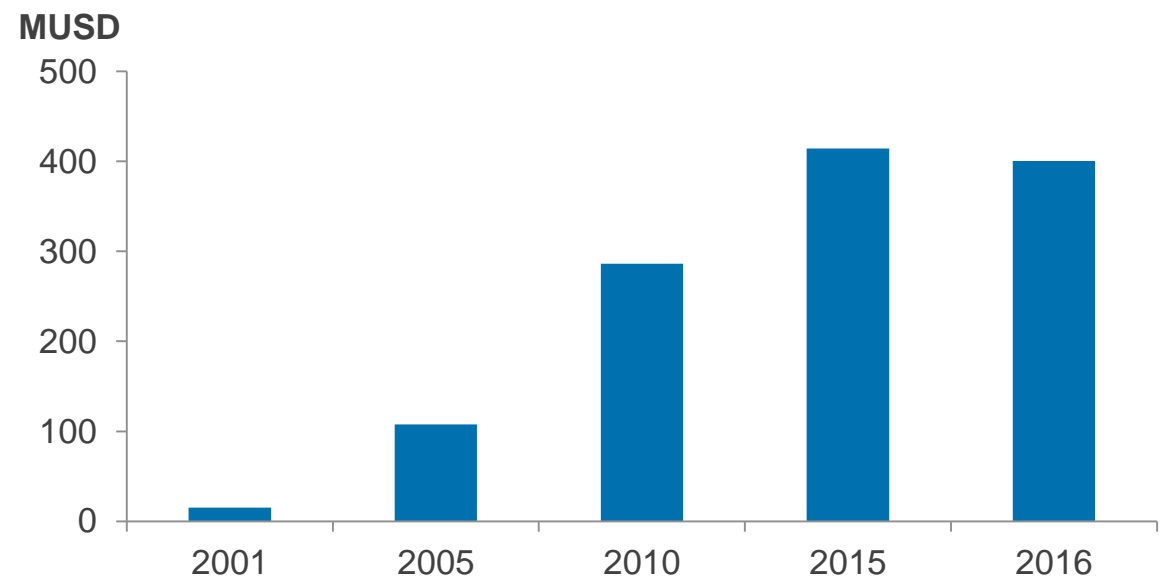
Participates in the **formulation of plans, programs**, and in the **implementation of sustainable forest** development policy

Supports the use of **technology** to **reduce greenhouse gas emissions, water and electricity consumption**

Responsible for the **execution of regional projects** that include **studies or installations** of industries

Decentralized public organism with the objective to **develop, favor and promote productive forestry activities, conservation and restoration**

CONAFOR'S BUDGET 2001-2016





MEXICO'S GOVERNMENT HAS A FULL AGENDA FOCUSING ON PREVENTING CLIMATE CHANGE

Mexico has ratified the **UNFCCC** (1993) and the **Kyoto Protocol** (2000), and has submitted five **Nationally Determined Contributions** (NDC) to the **United Nations Framework Convention** on Climate Change, UNFCCC

Mexico's vision for REDD+ was presented at COP16 in Cancun. It includes goals for **zero net emissions** related to land use change and important reductions in degradation rates by **2020**

In Paris in 2015, Mexico established an unconditional goal to **reduce carbon emissions** by 22 percent by 2030 and black carbon by 51 percent, over a baseline representing a business-as-usual growth trajectory

Mexico also reaffirmed the goal of generating 35 percent of its electricity from clean energy sources by 2024

OBJECTIVES AND TARGETS MEXICO HAS COMMITTED TO:

UNITED NATIONS FORUM ON CLIMATE CHANGE FORESTS	BIODIVERSITY	DESERTIFICATION
SUSTAINABLE DEVELOPMENT OBJECTIVES (UN)	PRIORITIES IN THE NATIONAL DEVELOPMENT PLAN	ACHIEVE THE AICHI BIODIVERSITY TARGETS



MEXICO HAS SEVERAL INTERNATIONAL OBLIGATIONS AND TARGETS TO ACHIEVE

SOURCE: "THE IMPORTANCE OF THE FORESTRY SECTOR – CHALLENGES AND OPPORTUNITIES" BY THE MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES (SEMARNAT) AND CONAFOR

OUR 'VALUE ADD' IS ORIGINATING FROM OUR CUSTOMERS' CHALLENGES





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