

# CREATING A NEW BUSINESS MODEL FOR FOREST INVESTMENTS

Ivan Tomaselli  
[stcp@stcp.com.br](mailto:stcp@stcp.com.br)



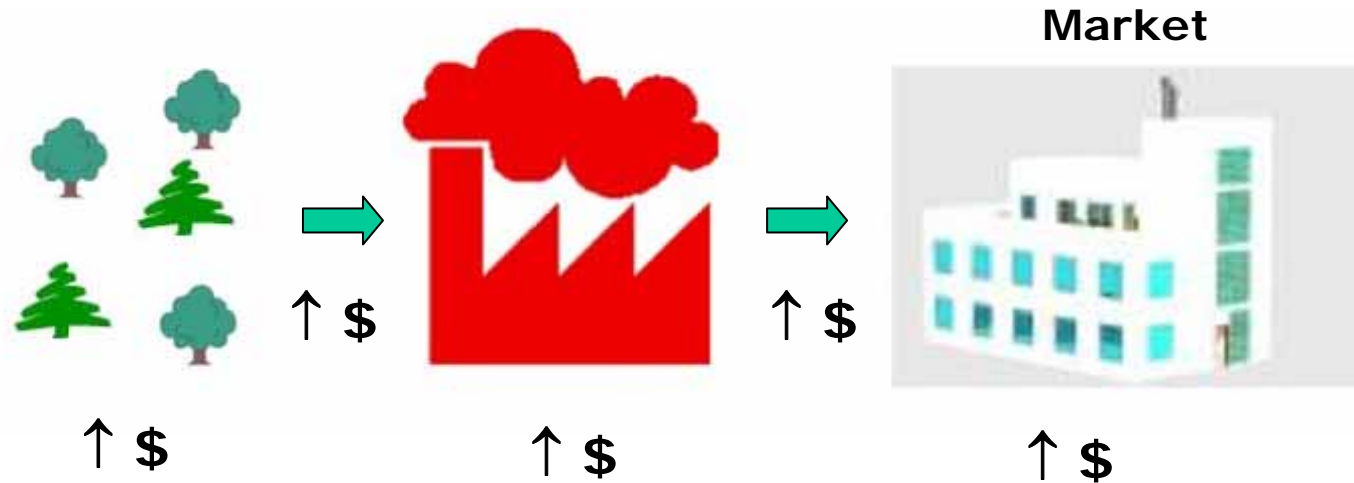
CANCUN – MEXICO  
APRIL / 2006

**MOSTLY BASED IN OUR EXPERIENCE IN DEALING WITH  
FOREST INVESTMENTS IN LATIN AMERICA, AFRICA AND  
ASIA. INCLUDES:**

- **BASIC STUDIES**
- **PROJECT FINANCING**
- **ENGINEERING**
- **MANAGEMENT OF OPERATIONS**

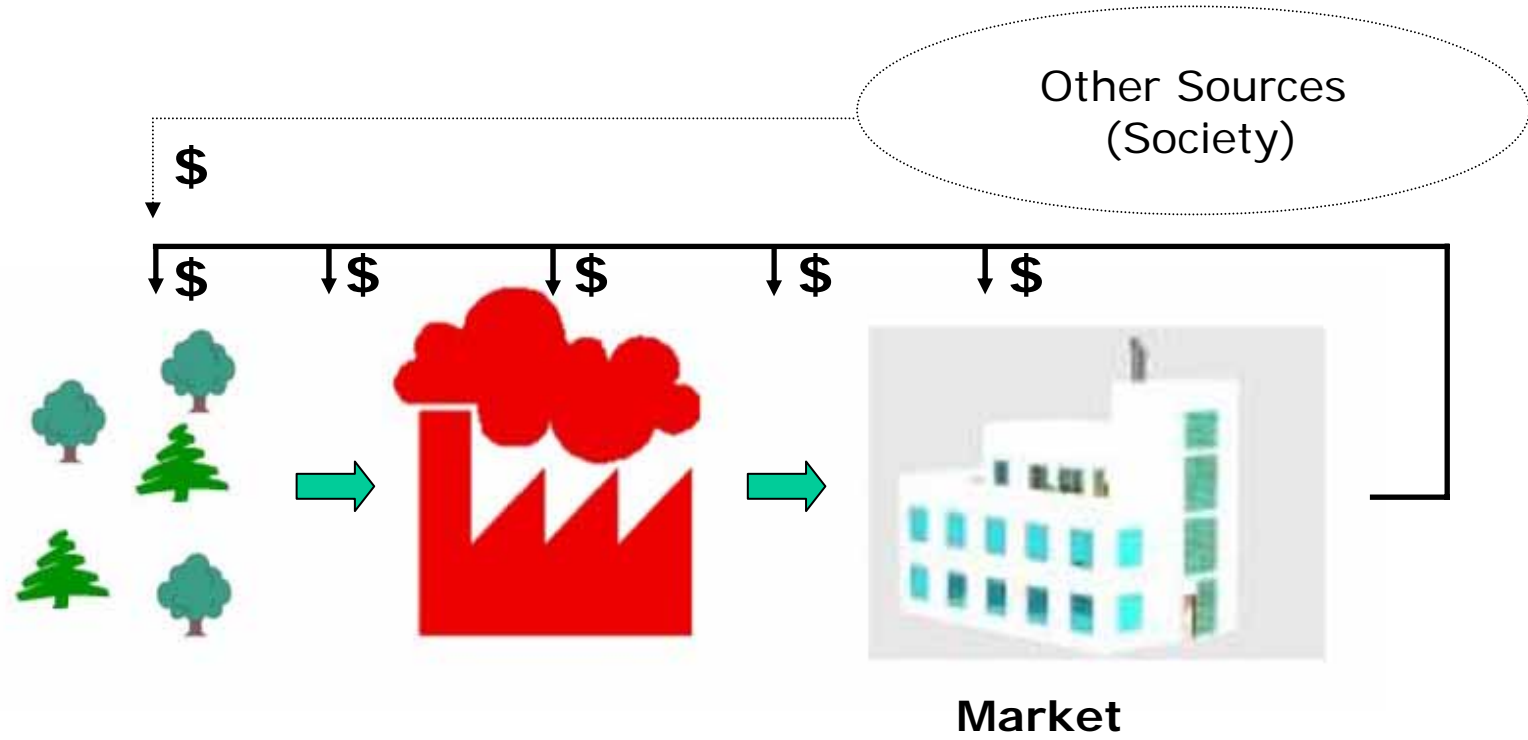


✓ **WHERE ARE THE INVESTMENTS?**



- **FIXED ASSETS**
- **WORKING CAPITAL**

✓ **WHO PAYS FOR THE CAPITAL INVESTED?**



✓ **SOME QUESTIONS**

- **HOW REVENUE GENERATED IN THE MARKET IS DISTRIBUTED?**
- **WHO HAS POWER TO CONTROL/ INTERFERE IN THE DISTRIBUTION ?**
- **IS THERE SUFFICIENT REINVESTMENTS TO SUSTAIN THE PROCESS?**



**IN A PERFECT WORLD**

- **MARKET FORCES WILL DEFINE WINNERS AND LOOSERS**

**IN A FREE MARKET**

**TO BE COMPETITIVE IS A PRIMARY REQUIREMENT TO BE IN THE MARKET**





**QUESTION:**

- **ARE WE DEALING WITH A TRUE FREE MARKET?**

**“ THE TRADITIONAL THEORY OF TRADE BASED ON  
COMPARATIVE ADVANTAGE HAS BEEN REPLACED, AND  
TO SOME EXTEND SUPPLEMENTED, BY A NEW  
THEORETICAL VIEW IN WHICH INCREASING RETURNS  
ARE A MAJOR INDEPENDENT SOURCE OF TRADE”**

**(Helpman and Krugman)**



**WHAT IS HAPPENING?**

**“ MORE THAN HALF OF THE WORLD TRADE IS IN  
MANUFACTURED GOODS, WHERE MARKETS ARE OFTEN  
OLIGOPOLISTIC RATHER THAN COMPETITIVE”**

**(Helpman and Krugman)**



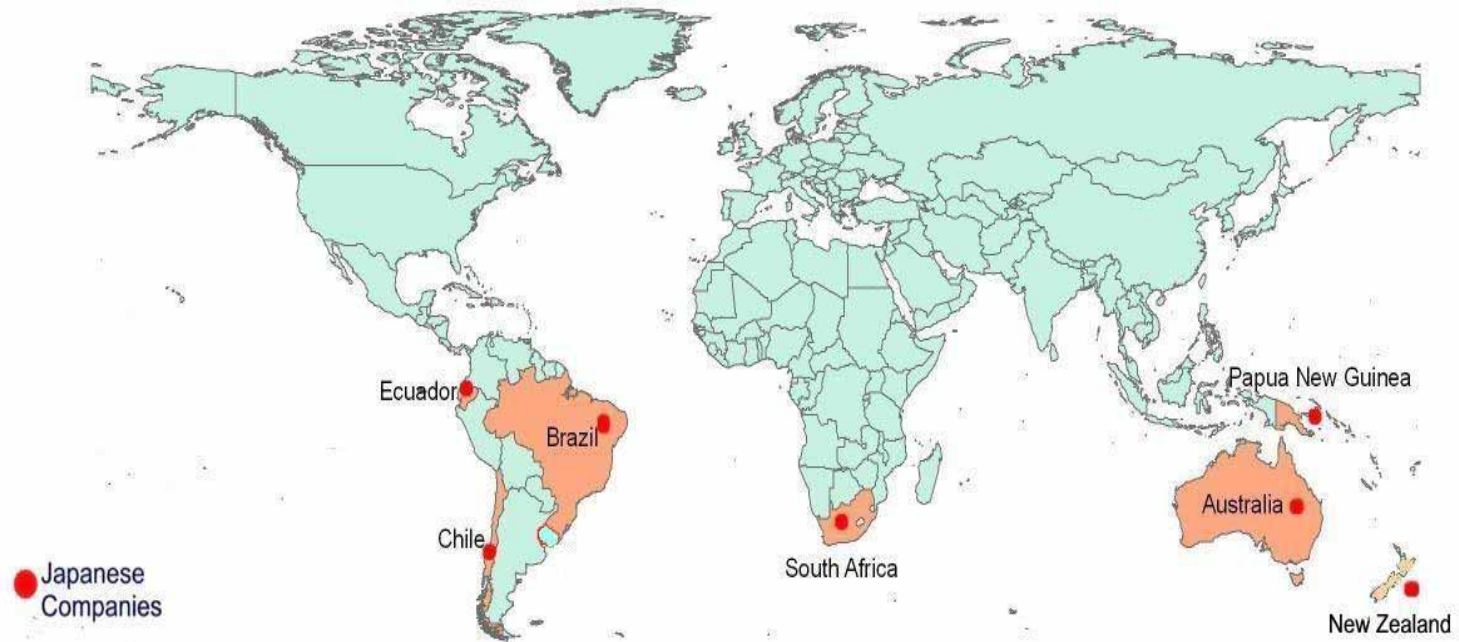


**WE CAN CONCLUDE THAT:**

- **IMPERFECT COMPETITION HAS NOW REACHED CERTAIN MATURITY AND ACCEPTANCE, AND THIS OPENS THE DOOR FOR A VARIETY OF ARGUMENTS FOR GOVERNMENT INTERVENTION.**



- ✓ **PRODUCTION AND TRADE OF WOOD CHIPS**
  - **JAPANESE COMPANIES (OVER 80% OF THE GLOBAL VOLUMES)**



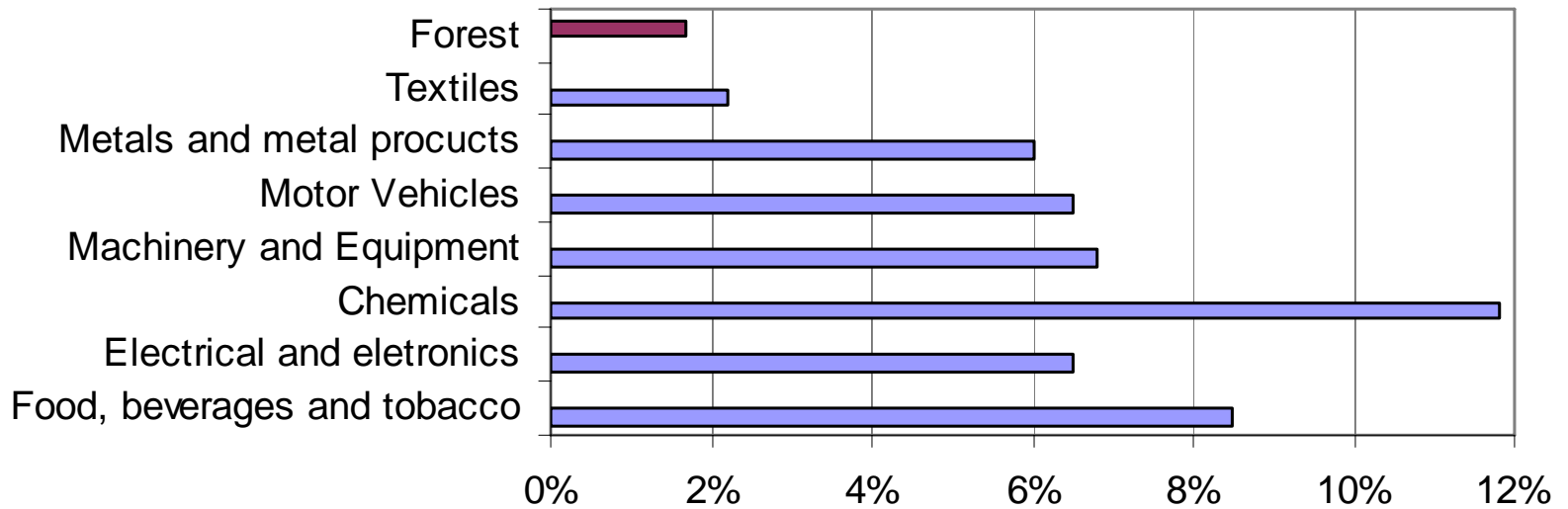
**FOREST SECTOR**

✓ **INVESTMENTS DATA**

- **MOSTLY PRIVATE (93%)**
- **TOTAL DI - US\$ 63 BILLION (2004)**
- **REPRESENTS: 1.5% OF GLOBAL DI**
- **MOSTLY DDI (OVER 90%)**



**FDI BY INDUSTRIAL SEGMENTS**



Source: UNCTAD, 2005

## INVESTMENTS TRENDS:

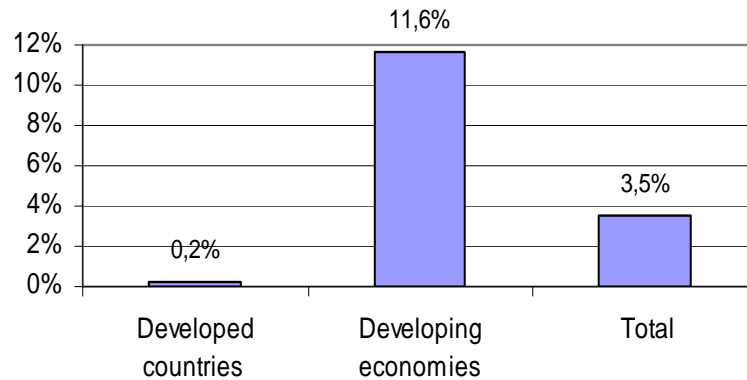
- DI INCREASED IN THE LAST FEW YEARS
- MAIN DRIVING FORCES:
  - ❖ SEARCH FOR INCREASING COMPETITIVENESS
  - ❖ IDENTIFICATION OF NEW MARKETS
  - ❖ SEARCH FOR PRODUCTION CAPACITY
  - ❖ IMPROVE FOREST PRODUCTIVITY (PLANTATIONS)
  - ❖ LIBERALISATION OF TRADE
- LARGELY ASSOCIATED TO PLANTATIONS AND PULP AND PAPER PRODUCTION



# FOREST SECTOR



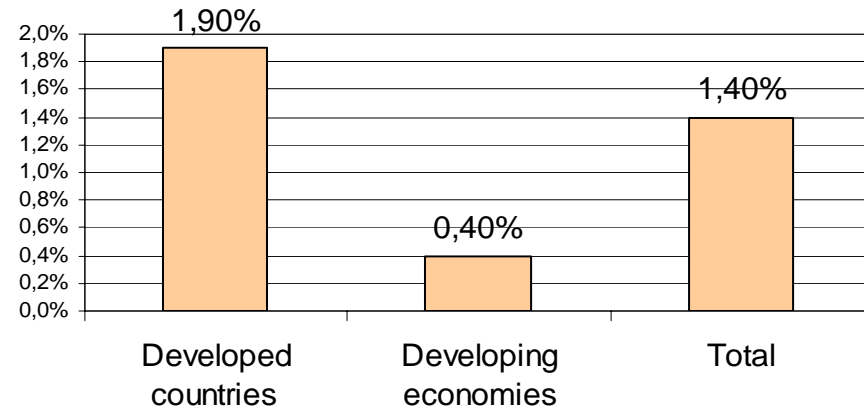
✓ **FDI IN FORESTRY/AGRICULTURE/HUNTING/FISHING (% OF PRIMARY SECTOR)**



– HIGH CONCENTRATION IN DEVELOPING COUNTRIES

Source: UNCTAD -2005

✓ **FDI IN FOREST INDUSTRY (% OF SECONDARY SECTOR)**



– HIGH CONCENTRATION IN DEVELOPED COUNTRIES

Source: UNCTAD -2005

✓ **MAIN PLAYERS AND INVESTMENTS**



<i><b>SECTOR</b></i>	<i><b>MAIN DOMINANT PLAYERS</b></i>	<i><b>INVESTMENT</b></i>	
		<i><b>CAPACITY</b></i>	<i><b>PRIORITY</b></i>
<b>PRIMARY (RESOURCES)</b>	<b>GOVERNMENTS</b>	<b>VARIABLE</b>	<b>ENVIRONMENT SOCIAL</b>
	<b>COMMUNITIES</b>	<b>LOW</b>	<b>TERRITORY MAINTENANCE</b>
	<b>DOMESTIC PRIVATE SECTOR</b>	<b>LOW/MEDIUM</b>	<b>PRODUCTION / REVENUE</b>
<b>SECONDARY (PROCESSING)</b>	<b>DOMESTIC PRIVATE SECTOR</b>	<b>LOW/MEDIUM</b>	<b>PRODUCTIVITY / REVENUE</b>
<b>TERCIARY (TRADE)</b>	<b>INTERNATIONAL COMPANIES</b>	<b>HIGH</b>	<b>MARKET POWER</b>



**MAJOR CHALLENGES FOR TT PRODUCERS:**

- BUSINESS BASED ON NATURAL FOREST
    - ❖ COSTS AND RISKS INCREASING
    - ❖ LOSING COMPETITIVENESS
  - NWFP AND SERVICES
    - ❖ SUPPLY AND MARKET LIMITED
    - ❖ LOW VALUE
    - ❖ OUTSIDERS COMPETING FOR FUNDS
  - MARKET
    - ❖ DIFFICULTIES TO DEAL IN AN IMPERFECT MARKET
    - ❖ ALTERNATIVE TIMBERS AND MATERIALS
- RESULTS:
- INVESTMENT CAPACITY OF PLAYERS IS REDUCING
  - FUNDING ALTERNATIVES ARE DISAPPEARING



**FINDINGS:**

- THERE IS A STRONG LINK BETWEEN TRADE AND INVESTMENTS
- GLOBAL TRADE OF TFP IS MOVING TOWARDS AN IMPERFECT COMPETITION MARKET MODEL
- MAIN PLAYERS IN TRADE FOCUS ON MARKET POWER: ACTIONS ARE NOT PROFITABLE VIEWED IN ISOLATION, BUT TO ALTER THE TERMS OF SUBSEQUENT COMPETITION TO THEIR BENEFIT





**THEREFORE:**

- AS DDI IS PREDOMINANT, AND PLAYERS HAVE LIMITATIONS, DO NOT EXPECT SIGNIFICANT INVESTMENTS IN TROPICAL FORESTS AND TROPICAL TIMBER INDUSTRY

**WHAT CAN BE DONE:**

- RECOGNIZE THE IMPORTANCE OF THE LINKAGES BETWEEN TRADE AND INVESTMENTS
  - MODEL OF TRADE POLICY NEEDS TO BE ADJUSTED TO THE NEW SCENARIO WHERE " FIRMS DO NOT TAKE PRICES AS GIVEN"
  - BASIC ISSUES TO BE CONSIDERED
    - ❖ THE EFFECTS OF TRADE POLICY ON MARKET POWER
    - ❖ THE STRATEGIC EFFECT OF TRADE POLICY ON COMPETITION
    - ❖ THE EFFECT OF TRADE POLICY ON CONSUMERS CHOICE
- **ITTO: HAS AN OUTSTANDING ROLE IN DEVELOPING NEW TRADE POLICIES TO ENHANCE INVESTMENTS**



✓ **WORKING AT COMPANY LEVEL**

- **IT WILL NOT SOLVE THE PROBLEM BUT IS PART OF THE SOLUTION**

✓ **PRINCIPLES**

- **COMBINE: CONSERVATION AND PRESERVATION FOR GOODS AND SERVICES**
- **MAXIMIZE: PRODUCTION OF GOODS CONSIDERING ALL MARKET OPTIONS**



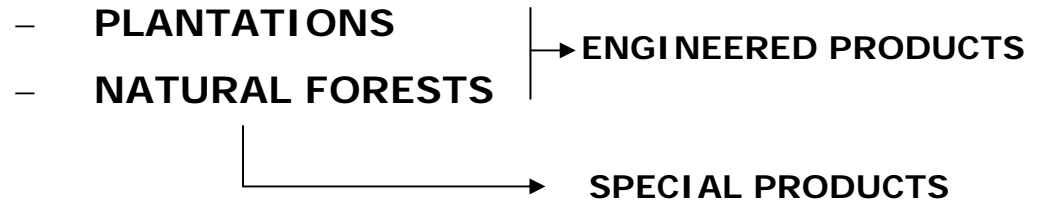
✓ **MAXIMIZING PRODUCTION OF GOODS**



**FOREST LANDS**

**MAIN OPERATION**

➤ **TIMBER**



**COMPLEMENTARY**





**TT PLANTATIONS EFFECTS:**

- PRODUCTIVITY OF PLANTATIONS IS HIGHER AND TIMBER PRODUCTION COSTS ARE LOWER
- INDUSTRIAL TECHNOLOGY DEVELOPMENTS ALLOW PERFECT COMBINATION OF PLANTATION AND NATURAL FOREST TIMBERS (ENGINEERED PRODUCTS)
- USE OF TROPICAL TIMBERS FROM NATURAL FOREST (EXPENSIVE RAW MATERIAL) IS MAXIMIZED
- COMPETITIVENESS IS INCREASED



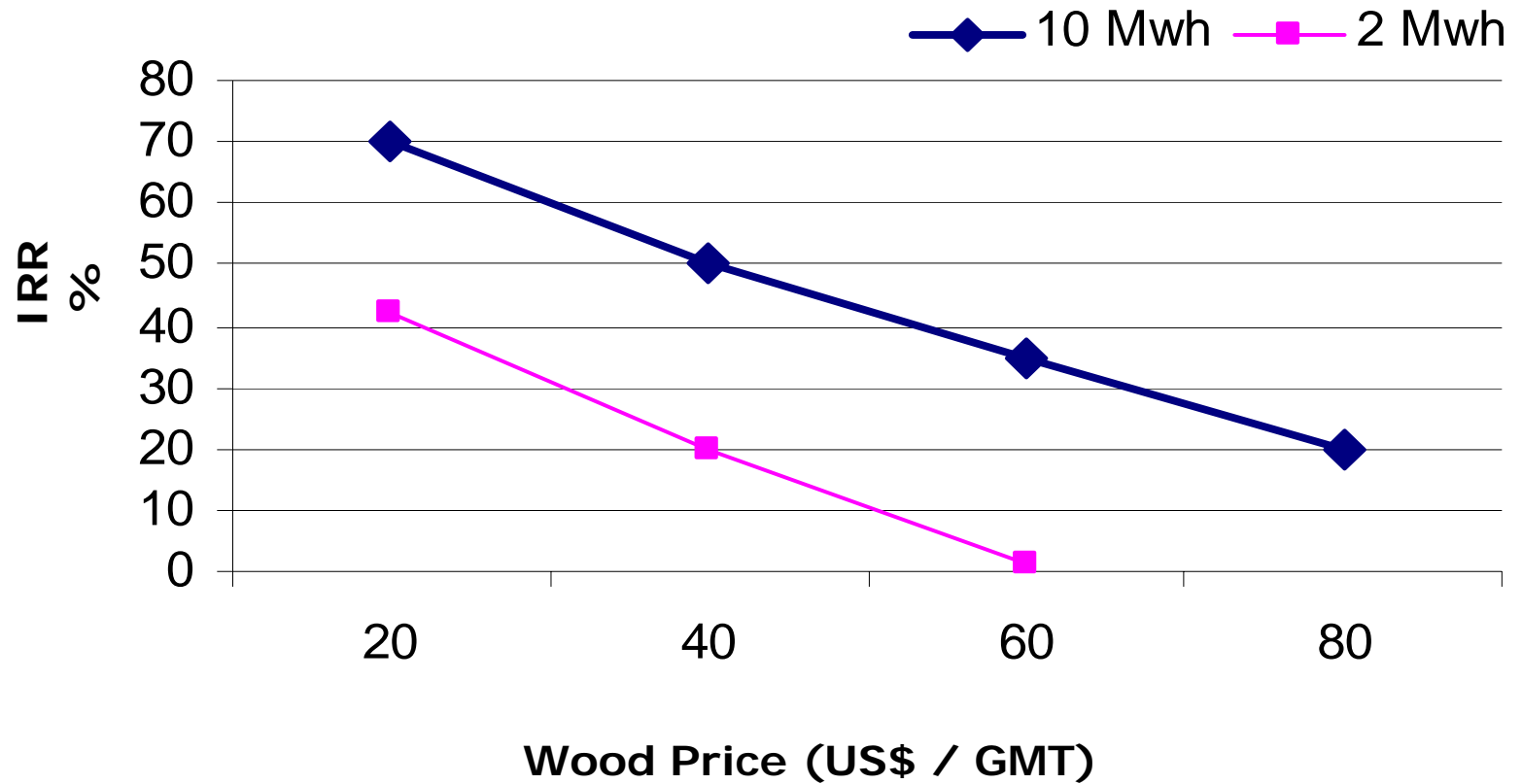
## ENERGY GENERATION CONTRIBUTION:

- REMUNERATIVE USED FOR SPECIES/ WOODS WITH NO MARKET
- REDUCTION OF HARVESTING COSTS (\$/M<sup>3</sup>)
- SOLUTION FOR WASTE DISPOSAL AT THE MILL
- COMPETITIVE SOURCE OF ENERGY
- SIGNIFICANT CASH GENERATION
- POTENTIAL SOURCE OF CO<sub>2</sub> CREDITS



✓ **WOOD BASED POWER PLANT**

**Acre – Brazil**



Source Itto Project PD 61/99 – Rev. 4 (2005)



- **INDUSTRY HAS OPTIONS**
- **INVESTMENT ARE NOT LOW AND THIS IS A LIMITATION TO MOST PLAYERS**
- **FINANCING MECHANISMS ARE NEEDED**
- **INDUSTRY INVESTMENT IS A SHORT TERM/ TEMPORARY SOLUTION**
- **PERMANENT SOLUTION WILL REQUIRE STRUCTURAL CHANGES INCLUDING:**
  - **INVESTMENT CLIMATE IMPROVEMENTS (COUNTRY LEVEL)**
  - **NEW TRADE POLICY MODEL**







**THANKS !**  
[www.stcp.com.br](http://www.stcp.com.br)