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IMPACT OF COVID-19 ON THE LATIN AMERICAN FOREST SECTOR AND RECOVERY

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ITTO ANNUAL MARKET DISCUSSION
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INTRODUCTION

- **COVID 19 CREATED A GLOBAL HEALTH, ECONOMIC, ENVIRONMENTAL AND SOCIAL CRISIS**
 - MORE THAN 250 MILLION CASES AND OVER 5 MILLION DEATHS
 - GLOBAL ECONOMIC DOWNTURN
 - REDUCTION OF CONSUMPTION AND PRICES OF COMMODITIES AND ENERGY
 - INCREASING FISCAL DEFICIT AND HIGHER WEIGHT OF GOVERNMENTS IN THE ECONOMY
 - CHANGES IN PRIVACY RIGHTS

- **LATIN AMERICA WAS SERIOUSLY AFFECTED**
 - ALMOST 20 % OF GLOBAL CASES
 - BRASIL ALONE: OVER 22 MILLION CASES AND 600 THOUSAND DEATHS
 - COLOMBIA, MEXICO AND PERU: 2- 5 MILLION CASES

MACRO ECONOMIC IMPACTS IN THE REGION AND PERSPECTIVES

- **2020**
 - **2nd QUARTER- GENERAL DROP IN GDP, INDUSTRIAL PRODUCTION, ENERGY CONSUMPTION, INTERNATIONAL TRADE**
 BRASIL : -9.7% GDP, -18.2% INDUSTRIAL PRODUCTION, - 10% INTERNATIONAL TRADE
 MEXICO: -18.7% GDP
 - **RECOVERY STARTED (IN MOST COUNTRIES) ALONG THE 3rd QUARTER**
 - **BUT IN SOME GDP CONTINUED TO DROP (PERU: -8.2% GDP)**
 - **OVERALL IMPACT IN THE REGION OVER THE YEAR: -6.8% GDP**
- **2021**
 - **CEPAL (ECONOMIC COMMISSION FOR LA/CAR): GDP PROJECTION FOR THE REGION: +5.9%**
 - **MOSTLY AS A RESULT OF THE INCREASE IN THE DEMAND AND PRICES OF COMMODITIES**
- **2022**
 - **GDP PROJECTION: +2.9%**
 - **STRUCTURAL PROBLEMS WILL CONTINUE TO IMPACT GROWTH**
 - **REGIONAL ECONOMIC PATH OF STAGNATION : AVERAGE GDP GROWTH 2014-2019 +0,3%**

IMPACTS ON THE REGIONAL FOREST SECTOR



- **NATIONAL AND LOCAL GOVERNMENT RESTRICTIONS AND MEASURES**
 - **GOVERNMENTS IMPOSED RESTRICTIONS TO MITIGATE IMPACT ON HEALTH**
 - **MEASURES VARIED FROM LONG LOCKDOWNS TO SOCIAL DISTANCING, IMPACTING COSTS, PRODUCTION AND LOGISTICS**
 - **IN MOST COUNTRIES FOREST SECTOR WAS CONSIDERED AS AN ESSENTIAL SECTOR BUT SHORT TIME RESTRICTIONS TO OPERATE IMPOSED BY SOME NATIONAL AND LOCAL GOVERNEMENTS (PERU AND ECUADOR IMPOSED MORE SEVERE NATIONAL RESTRICTIONS)**
 - **BESIDES INCREASING INVESTMENT IN THE NATIONAL HEALTH STRUCTURE AND SUPPORT TO STATE AND LOCAL GOVERNMENTS HEALTH PROGRAMS, GOVERNMENTS OF THE REGION IMPLEMENTED ACTIONS TO MITIGATE THE ECONOMIC AND SOCIAL IMPACTS, INCLUDING:**
 - i. **FLEXIBILIZATION OF WORK RELATIONSHIPS**
 - ii. **FINANCIAL AID TO UNEMPLOYED PERSONS**
 - iii. **INCREASED AVAILABILITY OF FINANCIAL RESOURCES AND FACILITATION TO CREDIT ACCESS TO MAINTAIN COMPANIES IN OPERATION**
 - iv. **POSTING OF TAX PAYMENTS, RENEGOTIATION OF PRIVATE SETOR AND STATE GOVERNMENTS LOANS, AND OTHERS**

IMPACTS ON THE FOREST SECTOR

- **NATIONAL AND INTERNATIONAL MARKETS**
 - **IMPACT ON MARKETS VARIED AMONG COUNTRIES, REGIONS AND INDUSTRY/PRODUCT**
 - **LATIN AMERICA FOREST SECTOR DEPENDS ON NATIONAL AND INTERNATIONAL MARKETS**
 - i. **AROUND 70% OF PULP AND PLYWOOD PRODUCTION OF THE REGION IS EXPORTED**
 - ii. **SOME COUNTRIES HAVE A LARGE NATIONAL MARKET OTHER ARE MAINLY DEPENDENT ON EXPORTS**
 - iii. **GENERALLY INTERNATIONAL MARKET IS CONCENTRATED (USA, CHINA, SOME EUROPEAN COUNTRIES)**
 - **DOMESTIC CONSUMPTION REDUCED SIGNIFICANTLY ALONG THE FIRST QUARTER 2020**
 - **EXPORTS SHOWN NO SIGNIFICANT CHANGE, BUT INTERNATIONAL MARKET PRICES OF SOLID WOOD PRODUCTS DECLINED IN APRIL/ MAY**

RECOVERY OF THE FOREST SECTOR

- **PERSPECTIVES ALONG FIRST SEMESTER OF 2020**
 - GOVERNMENT SUPPORT TO PEOPLE AND COMPANIES MIGHT WORK AND MITIGATE THE SOCIAL AND ECONOMIC IMPACT
 - CONSUMERS CONFIDENCE AND BEHAVIOR CHANGED AND TIME WILL BE NEED TO ACHIEVE A NEW NORMAL
 - PULP INDUSTRY WOULD BE LESS AFFECTED BUT A REDUCTION OF DEMAND/PRICES OF SOLID WOOD PRODUCTS, BETWEEN 20-40%, WAS EXPECTED
 - SMALL AND MEDIUM SIZE INDUSTRY WILL BE MORE AFFECTED, AND RECOVERY WOULD TAKE TWO YEARS OR MORE
 - IMPACT WILL BE STRONGER FOR EXPORTING COMPANIES SPECIALLY FOR THOSE WITH MARKET CONCENTRATION IN USA AND EUROPE
 - FULL ECONOMIC RECOVERY OF THE FOREST SECTOR WOULD DEPEND ON THE DOMESTIC AND INTERNATIONAL MARKETS, AND WILL TAKE TIME. THE REGION FOREST SECTOR RECOVERY WILL DEPEND, LARGELY, ON THE GLOBAL ECONOMIC RECOVERY.

RECOVERY OF THE FOREST SECTOR

- **DEVELOPMENTS IN LATIN AMERICA ALONG 2021**

- COVID 19 HAD AFFECTED COUNTRIES OF THE REGION, BUT TIMBER INDUSTRY WAS GENERALLY LITTLE AFFECTED, PRODUCTION CONTINUED AND EXPORTS INCREASED
- ALONG 2021 GLOBAL DEMAND AND PRICES OF COMMODITIES INCREASED AND HAD A POSITIVE ECONOMIC AND SOCIAL IMPACT
- DEMAND AND PRICES OF FOREST PRODUCTS INCREASED SIGNIFICANTLY

BRASIL FOREST PRODUCTS EXPORTS (1,000 M3)

PRODUCT	2019	2020	CHANGE (19-20)	PROJ. 2021	CHANGE (20-21)
- TROPICAL PLYWOOD	89	102	+ 15%	120	+19%
- TROPICAL SAWNWOOD	532	450	- 15%	460	+ 2%
- PINE PLYWOOD	2,060	2,460	+ 19%	2,550	+ 4%
- PINE SAWNWOOD	2,460	3,030	+ 23%	3,200	+ 6%

- ECONOMIC DEVELOPMENT PERSPECTIVES ARE POSITIVE IN MOST COUNTRIES OF THE REGION
- BUT INTERNATIONAL DEMAND AND PRICES OF FOREST PRODUCTS STARTED TO DECLINE IN THE LAST QUARTER

RECOVERY OF THE FOREST SECTOR



- **SHORT TERM PERSPECTIVES 2022-2025**
 - i. **COVID 19 IS STILL CONSIDERED AS A PROBLEM**
 - ✓ SLOW VACINATION IN SOME COUNTRIES
 - ✓ LACK ON CONFIDENCE
 - ii. **INTERNATIONAL PRICES AND DEMAND ARE EXPECTED CONTINUE TO DECLINE**
 - iii. **THE REGION HAVE POLITICAL AND STRUCTURAL LIMITATIONS**
 - ✓ LACK OF CONFIDENCE ON THE ECONOMIC POLICY
 - ✓ LACK OF INOVATION
 - ✓ INADEQUATE INFRA STRUCTURE
 - iv. **LOGISTCS IS THE MAJOR PROBLEM**
 - ✓ LIMITATION OF CONTAINERS
 - ✓ PRICES ARE VERY HIGH (IN SOME CASES 10 TIMES HIGHER)
 - ✓ COMPANIES ARE STACKING PRODUCTS AT PORTS, FACTORY AND OTHER PLACES
 - ✓ ORDERS HAVE BEEN CANCELLED AS CLIENTS ARE NOT WILLING TO WAIT AND/OR PAY FOR HIGHER LOGISTCS COSTS
 - ✓ REDUCTION OF SALES AND INCREASE IN THE DEMAND OF WORKING CAPITAL
 - ✓ SOME FACTORIES HAVE ALREADY REDUCE THE PRODUCTION
 - ✓ IMPROVEMENTS IN LOGISTICS ARE EXPECTED ONLY AT THE END 2022

Thank You



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