

Market Insights

An Overview of Brazil's Wood Fiber Market

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Brazilian wood costs on the rise, driven by pulp mill investments and competition for wood and land from agriculture and other sectors.

Brazil has almost 10 million hectares of forest plantations providing logs and wood fiber to industries ranging from pulp and paper to solid wood products. Eucalyptus accounts for 7.6 million hectares, about 76% of planted area in Brazil, while pine accounts for 1.9 million hectares or 19% of planted area, according to the 2023 annual report of Brazilian industry group Iba.

Eucalyptus plantations are mainly found in the Southeast (Minas Gerais, São Paulo) and Mato Grosso do Sul. The Southern region has about 89% of the total pine plantations. About 36% of Brazil's plantation forests are dedicated to the pulp and paper sector, according to Iba, with Suzano, Klabin, Eldorado, Cenibra, and Bracell being major players. Independent producers control 29% and timberland investors (TIMOs) 10%.

Suzano manages 1.6 million hectares, Klabin 719,000 hectares, Eldorado about 393,000 hectares (including 249,000 hectares of productive eucalyptus forest), Cenibra about 254,000 hectares, and Bracell 234,000 hectares for pulp and paper production.

Suzano also manages 40% of native forests for conservation in the Amazon, Atlantic Forest, and Cerrado. Klabin has 363,000 hectares of preserved land; Cenibra has 103,000 hectares dedicated to permanent preservation area, legal reserve, and native vegetation; and Bracell has 83,000 hectares of

preserved land. Eldorado maintains 117,000 hectares of protected areas.

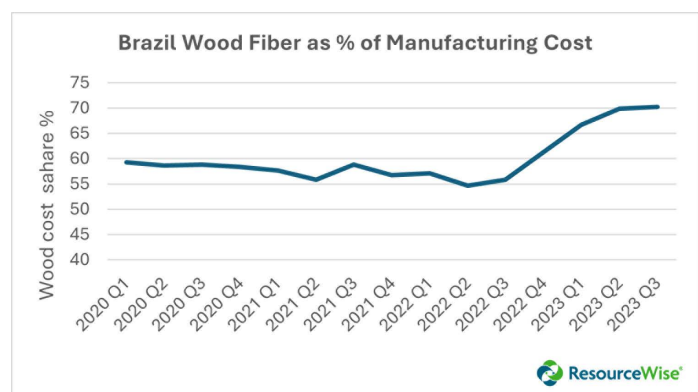
Latin America accounts for 31% of global production of market kraft pulp. Brazil makes up 73% of that production, ResourceWise VP Marcello Collares noted in a recent article on the Brazilian pulp market.

Recently, the country's forest products sector has invested heavily in both new production facilities and the forest resources needed to support them. Major current capital investment pulp projects include Suzano's Cerrado Project in Mato Grosso do Sul state, which is expected to produce 2.55 million tons of eucalyptus pulp a year. In 2023, Arauco announced plans for a new \$3-billion hardwood pulp mill with similar capacity and located in the same Brazilian state.

Two notable timberland transactions in late 2023 were likely influenced by these projects. Klabin announced on December 20 that it was acquiring Arauco's forestry operation in Paraná for \$1.16 billion, obtaining 85,000 hectares of productive forest areas and 31.5 million tons of standing wood. On December 24, Reuters reported that Suzano's acquisition of 70,000 hectares of land in Mato Grosso do Sul from two BTG Pactual Timberland Investment-managed special-purpose firms in a \$376M deal.

Klabin benefits from its forestland acquisition by reaching its 75% wood self-sufficiency goal in Paraná early, leading to gains in operational synergies through expanded land. Meanwhile, Arauco, a subsidiary of Chile's Empresas Copec, can now focus its forestry efforts on Mato Grosso do Sul, preparing to bring its new hardwood pulp mill online by 2028.

Both Klabin and Suzano aim to reduce operational cash costs through these transactions. WoodMarket Prices data shows that the wood fiber share of manufacturing cash costs in Brazil exceeded 70% in the second half of 2023, compared to less than 55% in 2Q 2022. Industry CEOs anticipate a rise in Brazilian wood costs due to increased pulp mills and growing demand for wood from other sectors, as discussed during an industry conference in Sao Paulo in August 2023.



This newly planned pulp production has certainly been a key driver of rising log prices in Brazil over the past five years. In 4Q 2023, the hardwood log price was \$101 per bone dried metric ton (BDMT), up from \$65 per BDMT in 4Q 2018 and up from a low in 3Q 2020 of \$44 per BDMT. The softwood log price in Brazil in 4Q 2023 was \$88 per BDMT, up from a low in 3Q 2020 of \$40 per BDMT.

As reported by ResourceWise in June 2023, Brazilian wood fiber prices have fluctuated more

and increased faster than the Global Hardwood Fiber Index (HFPI) over the past two decades. While the HFPI has increased about 40% since 2000, eucalyptus log prices in Brazil have increased almost 200% over the same period.

The recent timberland deals among major Brazilian pulp producers await statutory approvals. It will take time before any potential impact would reflect in the country's already bullish pulp log prices or indeed on rising softwood sawlog prices. However, in a Bloomberg interview on January 24, Suzano's CEO Walter Schalka noted the surge in land prices in Brazil, driven by competition from other agricultural producers. Suzano's data reveals a 62% increase in land prices over the past five years, elevating wood costs. Schalka expects this trend will contribute to a rise in pulp prices in the next decade.

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