ECONOMIC STABILITY BODES WELL FOR BRAZILIAN PULP AND PAPER PRODUCERS

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IN A COUNTRY WELL KNOWN FOR INFLATION AND THE RAIN FOREST, PULP AND PAPER INDUSTRY ANTICIPATES GROWTH IN PER CAPITA CONSUMPTION.

BRAZIL IS MORE THAN THE RAIN FOREST, THE AMAZON River, and carnival in Rio de Janeiro.

Brazil is the fifth largest country in the world in area (3.3 million square miles) and in population (more than 155 million). The nation ranks 7th in pulp production and 12th in paper production worldwide, according to Nilson Mendes Cardosa, marketing superintendent for Ripasa S.A. and director of foreign trade for Associação Nacional dos Fabricantes de Papel e Celulose (ANFPC).

Cardosa noted that Brazil ranks as the 10th largest paper market in the world, though annual per capita consumption in 1996 was only about 36 kg (compared to a world average of 55 kg and annual consumption in the United States of about 310 kg/person). He expects per capita consumption to grow rapidly over the next few years.

In economic terms, Brazil has been well known for inflation. Since being settled in 1500 by the Portuguese, frequent changes in governmental leaders and policies have contributed to a Brazilian economy marked by instability and rampant inflation.

It is also a country marked by socioeconomic extremes: 40% of Brazil's population lives in extreme poverty and 20% lives in extreme wealth. Environmental issues range from deforestation in the Amazon Basin; to pollution in the cities; to recurrent floods, frost, and drought in various regions of the country.

Workers tend eucalyptus seedings destined for Ripasa's plantations (Photo: Ripasa)

Yet Brazil has a large, well-developed economy that thrived even during years of hyperinflation. The country seems to be recovering from its economic stress and is a growing presence in the world economy. Its paper industry is well developed and it's the leading producer of bleached eucalyptus market pulp.

STABILITY

At the end of 1993, a TAPPI study group traveled to Brazil, with additional stops in Argentina and Chile (see the May and June 1994 issues of *Tappi Journal* for articles from that trip). One of the major changes to occur since that trip is the dramatic reduction in Brazil's rate of inflation due to the Real Plan.

The first stage of the economic stabilization program actually began in June 1993. The second stage, which lasted from March through June of 1994, created the "Real Unit of Value (URV)." The third stage, which began July 1, 1994, introduced Brazil's new currency, the "Real."

One of VCP's plantations (Photo: VCP)

The Ripasa I mill (Photo: Ripasa)

The relative stability of the Brazilian economy and low inflation, especially compared with rates topping 1000%, are a direct result of the "Real Plan," implemented by then-Prime Minister of Finance Henrique Cardoso (in 1995, he was elected president).

Under terms of the plan, Brazil's currency was changed to the dollar-backed crusado real, foreign trade regulations were liberalized, and privatization was encouraged. Average inflation according to the main price indices had reached a single-digit level in 1996, and inflation was expected to be even lower in 1997. Tight monetary policy instituted under the plan seems to have brought inflation under control and helped to maintain a 4.2% growth in the GDP.

The plan's evolution continues. According to the Ministry of Finance of Brazil, stability and sustained growth will be underpinned by three factors:

≥ The true foundations for stability will be reforms in the social security, tax, and administrative systems.

≥ The Brazilian Government will not wait until the final consolidation of stability to begin implementing social programs. Important initiatives, especially in education, are under way.

≥ The Cardoso Administration will put Brazil firmly on the road to stability, sustained growth, and social justice while enabling it to be competitive and dynamic in the global economy.

For some segments of Brazil's population, though, the reforms aren't happening fast enough. For example, the Landless Movement (MST) has pledged to relaunch "land invasions" in response to the federal government's failure to speed up its land reform program. During land invasions, groups of 200–300 peasant farmers set up tents and begin farming on large properties of land they claim are not being productively used by landowners. President Cardoso's claim that his government has settled more landless families than all previous Brazilian governments combined has not appeased the MST leaders.

Trends and consumption

Two movements were at work in the pulp and paper sector in 1996. On the one hand, continued stability in the economy strengthened the domestic paper consumption market. On the other hand, the successive drops in the international pulp and paper prices, seen since mid-1995, squeezed domestic prices.

Brazil is responsible for 46% of Latin America's paper and board production and 61% of its pulp production. The country exports about one-third of the pulp produced, mainly to Western Europe. Low pulp prices have halted most plans for expansion, and Indonesia has taken over Brazil's No. 1 position of low-cost pulp producer.

ABTCP

The Associação Brasileira Téchnica de Celulose e Papel (ABTCP), based in São Paulo, is a technical association aiding in the development of the pulp and paper sector through training, the development of standards, and providing information to the industry. It sponsors and annual pulp and paper congress and exposition and conducts several courses, seminars and workshops throughout the year. ABTCP also publishes a monthly magazine, *O Papel*, which was established more than 50 years ago.

According to Gastão Estevão Campanaro, ABTCP's president, Brazil presently manages about 1.2 million hectares of forest plantations, of which more than two-thirds is planted with eucalypts. Of the total, about 30% are preserved forests and plantings of native trees. The biotechnical aspects are done together with Brazilian universities. Campanaro said the plantations were established on previously farmed land; replanting some as natural forest and other parts as eucalypt plantations.

Campanaro emphasizes that Brazil's pulp and paper producers do not use wood from the Amazon rain forests. Plantations are the source of the Brazil's vast virgin fiber supplies. He further notes that most of Brazil's mills and planted forests are located within São Paulo State, almost five hours from the Amazon. "We hear some comments especially when I travel, 'You guys there burn

Ripasa's Voith machine (Photo:Ripasa)

VCP's Jacarei pulp and paper complex (Photo:VCP)

the Amazon trees to make paper.' And this is complete nonsense, but they say it is our fault."

The areas planted for pulp and paper has decreased about 0.4% annually for the past 10–12 years, according to Campanaro. In 1995, 1.5 million ha were planted, 37% pine and 61% eucalyptus. Brazil will need 1.3 million more hectares by the year 2010, just for its own use. Chili, Malaysia, and South Africa have made big investments in planted areas, Campanaro said; in Brazil, a US$ 13.5 billion investment is needed to sustain its needs.

According to an analysis by Thompson Avant International[1], large-scale planting of seedlings on an additional 1.2 million ha in Brazil by the year 2004 are expected to comprise 874,000 ha of eucalypts and 335,000 ha of pine. After 2004, 1.73 million ha of eucalypts and 837,000 ha of pine will be under cultivation.

Trying to understand what customers need is not easy, Campanaro said, because most of the time the answers are already known--good prices and good service. "But sometimes there are things we can come up with that the guy did not realize, that perhaps was in the back of his mind but [he] could not come to the conclusion that 'this is very good, this is what I like, this is what is going to make my business more profitable.'" So what ABTCP tries to do is identify the hidden needs of customers.

ABCTP hosts its 30th Congress this month, during which 90 industries will be represented and about 100 technical papers will be presented. Whereas the last Congress emphasized technologies such as chemithermomechanical pulping, this one was designed to cover a greater range of topics, Campanaro said.

Recycling

Brazil is a major consumer of recycled fiber, although it doesn't have the "recycling mentality" that Germany and other countries have, according to Campanaro. An abundance of recycled fiber is available from the sprawling metropolitan areas such as São Paulo and Rio de Janeiro. In 1996, approximately 1.8 million tons of recycled fiber were consumed by the paper and paperboard industry, much of it for the wrapping, packaging, and board industries. Approximately 90% of the recycled fiber is consumed in São Paulo, Parana, Santa Caterina, Rio de Janeiro, and Minas Gerais States.

Recycled fiber recovery rates tend to fall within the mid-to low-30% range. Because the market is so large, an increase to 40% would generate an additional 360,000 tons/year. Brazil has an ample supply of virgin fiber, so recovered fiber consumption as a percentage of total fiber demand is about 30%.

VOTORANTIM

Votorantim Celulose e Papel (VCP) is the third largest pulp and paper producer in Brazil. Current bleached eucalyptus kraft pulp capacity is 800,000 metric tons. The 1994 takeover of 48% of the shareholding and full voting control of Papel Simao S.A. added industrial capability of 220,000 tons of pulp and 250,000 tons of paper per year. In 1993, VPC had acquired Industrial de Papel Simao, a major player in the thermal paper, coated paper, and continuous business paper markets. During 1996, uncoated printing and writing grades accounted for 42% of VCP's net sales during 1996; specialty papers accounted for 29%, and pulp 6%.

Votorantim maintains 155,000 hectares of forest, 70% of which is planted with eucalypts and 30% of which is preserved for native species. Its plantations are located in the Jacarei, Ribeirão Preto, and Itapetininga regions of Brazil.

VCP operates five production complexes: Celpav/Luis Antonio, Jacarei, Piracicaba, Salto, and Mogi das Cruzes.

During 1996, VCP invested US$ 130 million in an expansion and modernization of the Jacarei pulp mill. Another US$ 24 million was spent on improvements to the Luis Antonio pulp mill. New coaters were installed at the Jacarei and Piracicaba mills and 75,000 tons/year

[1]Swann, C. E., Recovered Paper Fiber Supply in Latin America, *Latin American Perspective for the Pulp and Paper Industry*, Thompson Avant International, 1997.

One of VCP's pulp machines (Photo: VCP)

capacity for art paper was added to the Jacarei mill. The company increased the Piracicaba mill's capacity to produce coated papers (including thermal and carbonless papers) by 25,000 tons/year.

Mogi das Cruzes produces diazo base paper, check paper, MG poster paper for flexible packaging, and offset and bond papers. Industrias de Papel el Celulose de Salto S.A. (Salto) specializes in high-quality fiduciary papers and other specialty grades; the unit claims to be the only producer of banknote paper in the Southern Hemisphere.

The Papel Simao R&D Center specializes in coated and chemical papers. Simao and the Japanese pulp and papermaker Kanzaki have a technology agreement for the production of thermal papers; the company expects to begin exporting thermal papers to other Latin American countries.

Its plants generate nearly 80% of their electrical consumption. As a result of its investments in production lines, VCP has begun producing pulp for export. And during 1997, VCP planned to introduce elemental chlorine free (ECF) and totally chlorine free (TCF) pulps to its market.

RIPASA

Ripasa, based in São Paulo, dates back to 1958 when the Zarzur, Derani, and Zogbi families joined together to take control of Limeira S.A. Industria de Papel e Cartolina, a small manufacturer of cardboard based in the city of Limeira. Subsequent expansion and acquisitions have made the Ripasa Group a large-scale pulp and paper enterprise.

Pulp and paper production in Brazil for 1996 totaled 12.1 million metric tons, according to Ripasa. The company itself produced 271,896 metric tons of pulp during 1996, a 2% increase from the previous year. Ripasa and its subsidiary companies produced 263,021 metric tons of paper during 1996 and 86,989 metric tons of card.

Ripasa Group maintains seven forest parks totaling 175,000 acres (about 71,000 ha) in São Paulo and Parana States. Of that, it preserves 35,000 acres (about 14,000 ha) as native forest land. In Brazil, forests are being planted in areas where the land is not rich enough to support some kind of agriculture or for capital, Cardosa said. "We have been using areas that are in very poor condition."

Tending the machine (Photo: Ripasa)

Ripasa I, the company's largest complex, can produce 300,000 tons of pulp per year. Its two paper machines can produce 252,000 tons of paper/year, of which 150,000 is converted to cut-size. The mill expects to begin 50,000 tons/year production of coated paper in December of 1997.

The three machines at Ripasa's Santista mill produce 54,000 tons of paper annually. The one machine at the company's Ripasa II mill produces 48,000 tons/year of board, while the three board machines at the Limeira mill have a combined capacity of 60,000 tons/year.

Nilson Mendes Cardosa is marketing superintendent for Ripasa and exterior commercial vice president for the Associação Nacional dos Fabricantes de Papel e Celulose (ANFPC). The ANFPC, which congregates Brazilian pulp and paper producers, is Brazil's counterpart to the American Forest and Paper Association. Cardosa discussed some ideas about the future of Brazil's pulp and paper industry.

"The first role in this business is to grow or to die," said Cardosa. Ripasa's production volume is significant but does not compare with some leading U.S. companies. On the other hand, he said, growth through merger to make things bigger has been discussed "but I think that this is not the way we should go.

"We should grow the existing companies to prepare for the future, but I do not think that the best solution would be to have two or three big paper companies," he said.

Cardosa said some announcements are expected early next year regarding investments in Brazil's pulp and paper sector, particularly since the recovery in the pulp market has begun.

Brazil will continue to be an importer of long fiber, new capacities will be announced for short fibers, and the country will continue to be an importer of newsprint, according to Cardosa. For printing and writing grades, Brazil has a capacity of 1.6 million lb and an internal consumption of about 900,000 lb. "We are an extended supplier," said Cardosa. "Our paper was recognized as good quality paper and certainly we're going to keep on exporting. But if we consider that in general consumption we're going to face interesting growth, we're going to have to reduce the amount designated for export," he said.

Import rates are low, about 12% for paper and board, Cardosa said. Newsprint and coated papers for magazines and books are duty free and can thus be imported with zero import tax. "We have created a price here in the domestic market that's over supply and demand and forces have created a price that's almost in balance with the international prices," he said.

Some changes in the economy or in government regulations have affected the industry, said Cardosa. Tax incentives for the forest industry were abolished at the end of the 1980s, and the industry is trying to convince the government that Brazil's pulp and paper industry should receive some benefit comparable to conditions in Chili and Canada. There, the companies receive the land from the province government to explore, care for, and plant; the company does not have to buy the land. In Brazil, the company has to buy the land and wait seven years before it can harvest eucalypts and 15 years for pine--a long time, considering the financial cost of 2% per month, he said.

Brazil has enormous potential for growth of forest activities, said Cardosa, and there will probably be some movement to expand the forest expertise to some other avenues.

There were five or six different plans to halt inflation "and they all had a lot of mistakes," said Cardosa. The Real Plan had some advantage. "Our reserves are about US$ 50 billion, which can guarantee that we can survive with some deficit for some years. We can run with some deficits on trade balancing and we will continue to be safe on our economic situation.

"That's why I believe that now we have eliminated inflation and we are going to have to make some adjustments on the Real Plan. We are on the right track to 5%, 6%, or 7% economic growth in the coming years," he said. "By the turn of the century, Brazil will experience a growth rate with better distribution in income. We had 155 million inhabitants but the consumption was restricted to 40 million people; now we are considering that the consumption markets will be 85 million," Cardosa said.

According to Campanaro, significant per-capita consumption will grow mainly in printing and high-quality writing papers. Also, the opening of imports is bringing some modernization to the printing sector and giving access to mill printing technology, said Cardosa. "I strongly believe that we are going to be a very important market for paper as well," Cardosa said. **TJ**

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INFORMATION RESOURCES FOR BRAZIL

Additional information on the pulp and paper industry of Brazil, as well as doing business and travelling there, is available on the Internet. Some sites of possible interest include the following:

http://www.brasil.emb.nw.dc.us---The web site for the Embassy of Brazil in Washington, D.C.

http://www.embaixada-americana.org.br--Web site for the U.S. Embassy, Consular Section, Brasilia, Brazil.

http://www.ita.doc.gov—The International Trade Associations area within the U.S. Department of Commerce web site (http://doc.gov).

http://www.fao.org—Home page for the Food and Agriculture Organization of the United Nations (for issues dealing with forestry).

http://www.klabin.com.br—The web site for Kalbin Papel e Celulose S.A.

http://www.suzano.com.br—Main page for Cia. Suzano de Papel e Celulose

http://www.aracruz.com.br—Home page for Aracruz Celulose S.A.

http://psg.com/~walter/brasil.html—Excellent site for travel and cultural information about Brazil and links.