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A GOOD YEAR FOR EXPORTS

The recovery in export revenues in the pulp and paper sector was one of the most important facts in 2013, as it turned around a trend of diminishing margins that the sector was facing due to the international crisis. This improvement occurred partly because of the increase in the US dollar exchange rate in relation to the Brazilian real as well as the slight increase in product prices in the international market. In addition to these factors, we saw an increase in pulp and paper production volume in Brazil and a weak export performance in Europe and United States, allowing the sector to project a 7.5% increase in export volume for 2013.

Pulp sales to China, the second biggest market for the Brazilian product, increased throughout the year and totaled US\$1.4 billion through November – a 23.7% increase for the year. For Brazil's main market, Europe, revenues dropped 0.7% in the period, totaling US\$1.9 billion.

Overall, pulp and paper exports are expected to total US\$7.1 billion in 2013, representing a 6.6% increase in relation to 2012. With the decreasing trend in product imports over the last few months, the sector's trade balance should exceed US\$5.2 billion, roughly 10% more than last year.

In face of the prolonged stagnation in the main consumer markets throughout the world, Brazil performed quite well by maintaining a balance between production and sales in both the internal and external markets. Brazil's industry maintained its high investments towards expanding and modernizing its sector. Among producing countries, Brazil was the only nation in which the sector did not retract. In view of projected results, the decisions of companies were quite correct toward this end.

In terms of pulp, production is expected to have increased 7.3% in relation to 2012, totaling roughly 15 million tons – compared to 13.9 million tons last year. Pulp export volume is expected to total 9.3 million tons, which amounts to 9.2% more than the 8.5 million tons registered in 2012.

In relation to paper, production is estimated at 10.4 million tons for 2013, representing a 1.4% increase over 2012, when the country produced 10.2 million tons. For the year, domestic paper sales should close at a volume slightly higher than last year: increasing from 5.5 to 5.6 million tons.

In spite of this positive trajectory, rising inflation in the country is a concerning factor. According to Pöyry, in the last three years, inflation

in the forestry sector increased an average 9.9% compared to the 6.1% official inflation rate for Brazil. In 2013, the sector's inflation is expected to total 6.1%, while the IPCA annual inflation rate is expected to be 5.8%.

Tax-exempt paper –Throughout the year, one of the most compelling actions of the sector was to combat the illegal use of tax-exempt paper. The most recent initiative was creation of the website www.papelimune.org.br, with the participation of Bracelpa, Afeigraf, Andipa and Abigraf, to divulge the Awareness Campaign against the improper use of this product.

It is important to point out that paper is exclusively tax exempt when used to produce books, newspapers and periodicals. Roughly 50 companies associated to these entities have already signed a Term of Commitment, affirming the legality of their operations with tax-exempt paper.

In addition to documents, the website also divulges actions of entities aimed at promoting this awareness campaign regarding the correct use of tax-exempt paper and provides information so that other companies and entities can participate in the campaign, support the initiatives and, voluntarily, sign the Term of Commitment to combat the illegal use of paper. The objective is to inform what tax-exempt paper is and what is its purpose, providing transparency to the actions of companies that work in accordance with legislation that governs tax exemption.

To provide an idea of the damage caused by the illegal use of tax-exempt paper, according to estimates, between 2007 and 2012 roughly 3.2 million tons of paper was used for other purposes. Additionally, last year alone, the government lost out on collecting R\$500 million in taxes. For the paper production chain, consequences of the illegal use surface in commercial distortions caused to the domestic market. Continuity of this unfair competition has caused irreparable damages to Brazil's paper industry.

With the series of actions by private initiative and government, which includes the need to label tax-exempt paper, already in effect, and start-up of the *RECOPI Nacional*, effective January 1, 2014, for registering companies that operate with tax-exempt paper in various states, the sector expects to see a significant reduction in illegal operations with this product. ■