

The Chairmen

Brazil looks for help from its neighbors in conquering the world's furniture market.

KENNETH RAPOZA • BENTO GONÇALVES, BRAZIL

Todeschini, a US\$73 million furniture company in Rio Grande do Sul, owns an 11,000-hectare forest. Thanks to fast-growing pine and eucalyptus trees, which generate raw material at lower-than-market price for the furniture plant, Todeschini also has built a \$400,000 export facility, gunning for Mercosul and overseas markets. Todeschini pumps out 8,000 pieces of furniture a day, making it one of the biggest plants in Brazil.

"It's our raw material investment we made over 20 years ago that makes this possible," says Niri Basso, industrial manager at the company. Todeschini projects \$17 million in exports by 2010. It's starting from almost zero.

The Mercosul trade bloc has a long way to go before it can consider itself a player in the world furniture market, but if

EXPORTING

Brazil's trade ministry is to be believed, Mercosul will surpass either Italy or China—the global No.1 and No. 2 in furniture trade—by 2034.

Brazil's furniture exports averaged 29% annual growth from 1990 to 2003 and by mid-2004 was on track to easily exceed the previous year's record output of \$661.6 million. The southern states are the biggest producers, mainly Rio Grande do Sul. According to the Brazilian Furniture Industry Association (Abimovel), Brazil

will export \$1 billion in 2005. The top three destinations are the United States, Argentina and France. Compared to global competitors, China's furniture exports are \$2 billion and Italy's are \$6 billion.

Mercosul now makes up a tiny 1% of

**"We don't have that
'furniture by Brazil'
trademark that Italy has.
But we will."**

world furniture exports, of which Brazil holds the lion's share. The trees are the reason Mercosul industrial ministers like Raúl de Jean of Argentina and Brazil's Luiz Fernando Furlan are so bullish on furniture. A pine forest in this neck of the woods takes eight years to mature, compared to about 15 years in North America. And pine and eucalyptus are in such hot demand that 1.2 hectares of the stuff sells for \$20,000 compared to \$583 for soy, one of Brazil's top export items.

On a cold, foggy day at the Hotel Dall'Onder in Bento Gonçalves, a small city known for its furniture makers and its vineyards, Mercosul trade ministers and furniture executives met to discuss how to convert national furniture brands into made-in-Mercosul products. "We have to move away from the idea that

Mercosul just has the stereotypical products of coffee and beef to offer world trade," Furlan said.

Solimão Henken, Benfatto Furniture's export manager, sees a more unified Mercosul furniture industry as a good opportunity. As it is, Benfatto already gets much of its raw material from Argentine and Uruguayan forests. The \$9 million company, which makes furniture for U.S. retailer JCPenney, saw a 30% increase in export volume last year and expects at least that this year. They're hoping that the United States' anti-dumping decision on Chinese-made wooden bedroom sets in 2004 will help them expand their market in North America.

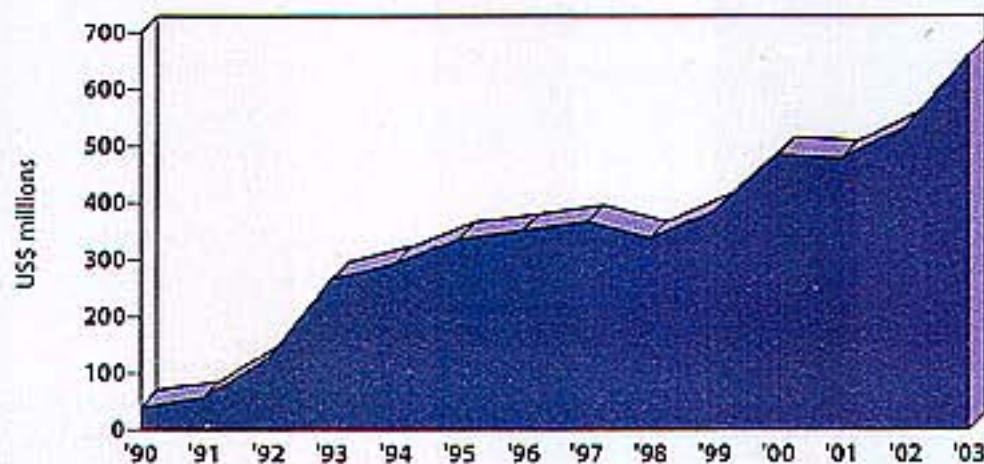
Skeptical. "For us, the Mercosul nations are good raw-material partners without the tariff costs," Henken says. He expects the partnership between Mercosul raw-material players and Brazilian furniture makers to continue. As it is, Argentina exported 10 million cubic feet of pinewood in 2004, compared to 3 million in 2003. By 2007, that number is expected to double to 20 million to keep up with Brazilian demand.

Alcides Pasquale, CFO of Bertolini Furniture, worries about not being able to see the forest for his trees. "Brazil and northern Argentina has the best climate in the world for pine and eucalyptus, but we're not using it wisely at all," he says. By his estimates, Brazil faces a 300,000-hectare deficit.

Brazilian bank Caixa Econômica Federal is on the case here in Rio Grande do Sul, however. In 2004, it invested \$31 million in 62,000 hectares of trees. The goal is to have 120,000 hectares planted by 2006. Yet the biggest companies in the region are Aracruz Cellulose and Votorantim Cellulose and Paper—not furniture makers. "We're using wood faster than we are planting it," says Domingos Sávio Rigoni, president of Abimovel. "It's not hurting us yet, but it will in the medium-term. We export three times more timber than furniture." □

VALUE ADDED

Brazilian furniture exports boom.



SOURCE: Abimovel