



Fuqua School of Business
Emerging Markets Corporate Finance BA456
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The Bolivian Tropical Wood Consortium (TWC)

The blockades prevent us from meeting our contracts and we can soon be excluded from our main markets. Regaining them will be a hard task... we are losing clients, sales and overall exports are declining.

- Osvaldo Barriga, President of the Bolivian Chamber of Exporters.

We really have the best of both worlds; access to the forestry resources and low production costs of Bolivia on the one hand, and the stability and more advanced infrastructure of Brazil on the other”.

- Enrique Nelkenbaum, Head of the Tropical Wood Consortium.

The morning of January 15, 2005 the boardroom of Tahuamanu’s headquarters in La Paz looked more anxious than usual. Three days earlier, a riot in the city of Santa Cruz had broken out and several government buildings, including the city council and the airport were taken by protesters. The board was about to discuss a strategy to attract potential partners to invest in a forestry development project in the northern region of Bolivia. For Tahuamanu, the project was an opportunity to diversify into the profitable wood industry and create synergies with its core Brazil nut processing business. The ambitious endeavor however required an investment that was beyond the company’s capacity. Tahuamanu had therefore decided to reach out to potential lenders - including the Inter-American Investment Corporation and International Finance Corporation - and find equity partners that will be associated in the Tropical Wood Consortium (TWC). The consortium was also a way to diversify investment risks and foster strategic alliances with other companies within the industry. Tahuamanu was now running against time; in an effort to promote the largely untapped forestry sector in Bolivia, the government, together with the International Forestry Stewardship Council, had certified a large extension of forest to be exploited, and thus attracted the interest of other potential competitors. The company’s biggest challenge ahead was to put forward a convincing project that would persuade international partners and potential lenders to invest in a country undergoing severe political turmoil.

Bolivia

With a population of 8 million and a per capita GDP of US\$900, Bolivia stands out as one of Latin America's smallest and poorest countries. Its economy is still highly dependant on mineral, and most recently, hydrocarbon resources, which account for nearly 40% of total GDP and 63% of total exports. Bolivia has nonetheless a great agricultural and forestry potential, as it enjoys one of the world's most diverse climates and a largely untapped forest in the Amazonian region. Lack of productive infrastructure - including transportation, irrigation and electricity - along with poor financial intermediation have traditionally been the main roadblocks constraining the growth in these sectors. In the past two decades however, World Bank support-schemes along with the privileged access to Andean markets granted by the *Comunidad Andina de Naciones* (CAN) have allowed agriculture in the eastern lowlands to flourish. With a three-fold output increase in the 1990s, soy is now the fastest-growing product and has become the largest agricultural export earner. Other products such as sugar cane, maize and sunflower have also found profitable niches in neighboring markets. Contrasting to this dynamism, the forestry sector has remained largely untapped, contributing to only 3.5% of total exports. The World Bank estimates that output of timber and manufactured wood products in Bolivia is "far from realizing its full potential". With over 1,000,000 has. of forest recently certified by the Forestry Stewardship Council, the Bolivian wood industry has now the opportunity to expand in unprecedented proportions.

Economic Policy

After nearly three decades of military regimes and central planning, Bolivia introduced democracy in 1982 and embraced free market reforms in 1985. The abandonment of the state-led model was precipitated by an economic crises triggered by the collapse of international tin prices and a large-scale withdrawal of foreign loans. Economic reforms were encompassed in an orthodox policy package that came to be known as the New Economic Policy (NEP). The NEP was first introduced as a "shock therapy" under an IMF-led structural adjustment program, consisting in the simultaneous elimination of price controls, contraction of public spending and liberalization of both trade and capital markets. After successfully curbing inflation and restoring fiscal health, the NEP continued throughout the 1990s with a wide-ranging privatization program that included all major state owned enterprises.

In the past 20 years, Bolivia has managed to maintain low inflation rates, a stable exchange rate and a controlled trade balance. The NEP has also turned Bolivia into one of the region's most open economies with minimal state intervention. The reforms however have contributed little to reinstate economic growth and reduce overall poverty. Although some indicators such as life expectancy, school enrollment and sanitation have shown gradual improvement, GDP per capita and investment rates remain among the lowest in the region, and far below the lower-middle-income group average (see exhibit 2).

In spite of market oriented policies, the economy has lacked the dynamism necessary to reduce unemployment and significantly reduce overall poverty, which still affects more than 60% of the population. Most of the foreign investment driven by the privatization process was directed to capital-intensive sectors, especially hydrocarbons and mining, which showed limited potential to create employment and link with other domestic industries. The concentration of investment in these sectors has reinforced Bolivia's "dual economy", characterized by a thriving resource-based/capital-intensive industry coexisting with a precarious informal sector supporting the largest portion of the population. As a result, income inequality, unemployment and informality have been growing to unprecedented levels, which in turn have been nurturing social unrest and political instability (see exhibit 3).

The prevailing business environment

The persistent failure to initiate a process of sustained development and address the country's major economic and social problems has progressively fostered a social backlash against the economic model and exacerbated political instability. Social turmoil has in recent years taken a violent tenor; in October 2003, president Gonzalo Sanchez de Lozada, an unconditional supporter of market reforms, was forced to step down after a month of violent protest that left more than 80 casualties. Sanchez de Lozada was succeeded by his Vice President, Carlos Mesa, who distanced himself both politically and ideologically in an effort to appeal to the prevailing "anti-systemic" national sentiment. Far from taking a conservative posture, Mesa has ventured into implementing wide-ranging reforms. Among the most controversial ones are the "*Asamblea Constituyente*" that will redefine the national constitution and the "*Nueva Ley de Hidrocarburos*", aimed at modifying the investment framework for the energy sector to allow for higher government control.

After enjoying one year of popular support and relative stability, president Mesa has started to bear the costs of political isolation. The lack of control over a fragmented and polarized congress has slowed down his reforms and to a large extent eroded his popularity. A recent government measure increasing the price of gasoline has triggered another wave of violent protests. The social pressure that started demanding the policy's derogation escalated into other demands such as the removal of a French utility company, and "political autonomy" for Santa Cruz - the country's most prosperous region. Mesa conceded in the first two and is now struggling to keep protests in Santa Cruz under control. In recent days however, different social sectors, including universities and members of the congress, joined the separatist movement led by Santa Cruz's *Comite Cívico*. Mesa's biggest challenge ahead is now to bring the country together and restore investment confidence that has reached historical low levels.

Investors are becoming increasingly concerned about the operational risks resulting from the prevailing political instability. Governance indicators in Bolivia have worsened in terms of political stability, corruption, rule of law and government effectiveness. Persistent roadblocks and the disruption of main highways and airports - which are common vehicles for social pressure - have become a serious burden for doing business.

On account of the escalating events, the World Markets Research Center has recently revised the country's risk from moderate to medium, which places Bolivia in a risk-category higher than the Latin American average (sexhibit 3).

The Tropical Wood Industry

Further-processed tropical wood is a US\$6.6 billion industry that has shown a vigorous growth over the past decade. A combination of lower trade barriers, increasing demand for wooden furniture and a buoyant construction and renovation activity in developed markets, has kept tropical timber exports on the rise. Despite the gradual tendency to substitute wood for non-wood materials, the International Trade Center estimates that demand for tropical wood products will increase at a healthy annual rate of 10% in the medium term. Global exports in this industry are still dominated by Asian countries (83%) followed by Latin America (16%) and Africa (1%). In spite of its lead however, Asia has been gradually losing market share to Latin America. The latter has experienced an average export growth of 24% per year, increasing its global share from 7% to 16% in less than ten years. The relative decline of Asian exports is largely explained by the saturation of its forestry potential, but most importantly, substantial deforestation followed by the extinction of many wood species due to unsustainable logging. Latin America on the other hand has a significantly larger forestry potential and has been adopting sustainable practices in an effort to avoid the Asian experience and comply with stricter environmental standards now imposed by importing markets (see exhibit 4).

Tropical wood exports from developing countries are not only growing in volume but increasingly moving up to higher value-added segments. The shares of both processed furniture and semi-processed builders' joinery have increased relative to profiled wood, with Asia showing a significantly higher share in value-added exports than Latin America. Due to optimistic growth perspectives of Asian economies and the deforestation problem, Asian wood processors are expected to gradually abandon wood extraction and continue to move up to high value-added products, especially furniture and parts, leaving room for Latin America to consolidate into the semi-processed segments and eventually become net exporters to the Asian region.

The Bolivian tropical forest offers one of Latin America's greatest growth potential for the wood industry. With over 49 million has. and more than 360 wood species, Bolivia has the seventh largest and most diverse tropical forest in the world. It follows Brazil as the second largest exporter in Latin America (exhibit 4), and yet much of its potential remains largely untapped. It is estimated that forestry operates at less than 1% of full capacity, with local production still dominated by low value-added commercial timber. Among the major obstacles inhibiting the development of this industry are lack of investment, poor infrastructure - including transportation and energy - as well as low entrepreneurial drive. In recent years however, the government has been promoting investment in the sector by establishing a tax-free export processing zone in the tropical region and enacting one of the world's most modern and complete forestry law. In

addition, with the support of the International Forestry Stewardship Council, the government has recently certified more than, 1,000,000 has. of forest ready to be exploited..

Tahuamanu and the Tropical Wood Consortium

In 1989, a group of entrepreneurs led by Enrique Nelkenbaum embarked on a project to develop a processing plant of Brazil Nuts in the northern city of Cobija. The ambitious venture was aimed at creating the country's largest mechanized plant to tap into the growth potential of the forestry sector in Bolivia. Tahuamanu - named after the largest river crossing the Bolivian Amazons - was then created with the support of several partners and lenders, including the Bolivian Export Foundation, the Andean Development Corporation and the Inter-American Development Bank. The company followed an aggressive growth strategy based on continuous technological upgrading and the constant quest of export markets, and quickly became the largest producer of processed Brazil Nuts in Bolivia, with revenues averaging US\$6 million a year. After nearly 15 years of operations, Tahuamanu has successfully positioned into European and North American markets, reaching a diversified range of buyers that include US food-processor "Planters" and British chocolate-maker "Cadbury" (see exhibit 5). The company has not only thrived in international markets but has also contributed to the development of the region and become a model for social corporate responsibility. It is estimated that over one half of the 57,000 inhabitants living in the city of Cobija is direct or indirectly involved with the Brazil Nut business. Tahuamanu's commitment to maintaining first-rate working conditions and using environmentally-friendly practices has earned them the respect of both the local and the international community.

At the brink of reaching a saturation point in Brazil nut production, Tahuamanu has started to explore new business opportunities in forestry-related areas. The most obvious choice has been the wood industry, not only because of the region's great potential and favorable market conditions, but also because of the synergies that could potentially be created with the nut industry. In order to successfully undertake this new venture, Tahuamanu has decided to spearhead the formation of the Tropical Wood Consortium (TWC). This business group is still in a phase of consolidation but is likely to include a number of small and medium sized wood processors from Bolivia, Brazil and Ecuador as well as the Andean Development Corporation. Other companies in different stages of the value chain, such as a furniture maker and a technology supplier have also shown interest in joining in. The consortium modality has not only been deemed necessary for devising a project that exceeds Tahuamanu's financial capacity, but has also been a vehicle to diversify investment risks and most importantly, foster inter-firm cooperation.

The nut-wood synergy

In addition to optimistic market and resource conditions, Tahuamanu's strategic decision to diversify into the wood industry has been prompted by the synergy found with Brazil nut processing. This synergy derives from the sharing of extractive and storage

infrastructure, including access roads/paths and storage barns, which substantially reduces both operational and forest management costs, while allowing economies of scale to cushion the sizeable investments in improving access to forest lands. Another advantage of the nut-wood synergy is reflected in lower labor costs. Logging activity in the region usually requires the movement of labor into the forests during the dry season and their reallocation after four months. Brazil nut on the other hand is exploited during the rainy season, and thus offers an opportunity for workers to remain in the forest for seasonal job rotation. This provides both industries with a year-round availability of labor and eliminates the costs of reallocating workers.

Although difficult to precise at this point, TWC estimates that the nut-wood synergy will reduce extraction and processing costs by about 35% and 15% respectively. Given that these two stages make up for the largest fraction of total costs, the synergy can significantly increase the competitiveness of both industries.

The Project

After nearly one year of extensive studies, TWC has come up with a US\$ 13 million full-scale development project, which if implemented, will give birth to the country's largest and most modern wood processing plant. The project will be located in a tax-free export processing zone up in the northern city of Cobija and will have an area of influence of 186,000 has. (a radius of 70 to 100 kilometers from the plant), required to produce approximately 58,000 cubic meters of processed wood per year. The large extension is necessary to comply with sustainable forest management practices that recommend a 20-year rotation system, whereby the forest is completely replanted after a cycle of 20 years. Annual production will need an estimated 130,000 cubic meters of raw material that will come from two different sources: 50% from private concessionaries and 50% from community-based suppliers, organized in either the "Indigenous Community Forest Land Association" or the "Land Forestry Association". This combination will provide with both the reliability and flexibility necessary to manage demand fluctuations, while assuring a significant social and economic impact in the form of income earnings and employment creation throughout local communities.

In order to optimize forest management and leverage economies of scope in the extraction process, TWC will exploit 35 different species of hard, soft and precious wood. Around 70% of the extraction and transportation to the plant will be outsourced to specialized Brazilian companies. Rough wood will then be processed with three different types of technologies - sawing, laminating and slicing - to finally produce plywood, veneer and sliced panels. The end uses include floors, frames, construction and furniture parts (see exhibit 6 for a more detailed description of the project's value chain).

Road infrastructure in Bolivia is a major obstacle in transporting goods to final markets. The project is located far from major maritime ports with transportation costs averaging 12% of total operational costs (depending on the product). In addition to large distances, the country's main highways are still precarious and unreliable during rainy seasons, and

restrictions on high-tonnage loads required for transporting wood products are often imposed. The project has however two major advantages that can largely reduce the high incidence of transportation costs. First, it will concentrate on value-added processed products that are significantly less costly to transport. Second, and most importantly, the project is located near the border with Brazil, which offers a year-round operable road infrastructure, with higher tonnage limits and lower freight rates. The Brazilian ports of Belen, Santos and Paranagua are therefore the most cost-effective to reach North American and European markets (exhibit 7). Ongoing investments in road infrastructure in both Bolivia and Peru will in the future make the ports of Arica and Matarani viable alternatives.

Lack of a reliable source of energy is another obstacle for operating the plant in Cobija. To overcome this problem, the project has considered a U\$1.5 million investment in a wood-based generating plant. A prospective investment to construction a public hydroelectric plant in the region is expected to lower energy costs in the medium term.

Due to the limited size of the domestic economy, TWC will direct its efforts to tap international markets. The first stage will be to position into the largest markets currently importing Bolivian wood, i.e. the U.S., Argentina and the U.K. It is estimated that nearly 40% of production will be sold in North America, 30% in Europe and the rest in regional markets such as Argentina and Brazil as well as domestically. In the medium-term, a second stage will aim at expanding to other growing markets, including China and other Asian countries that are likely to become net importers of processed wood. The project is expected to generate U\$ 11 million of annual revenues after the first four years of consolidation (see exhibit 8).

Financing

A total of U\$ 12.9 million is estimated for setting up the industrial complex with four different technologies for sawing, brushing, slicing and laminating, including U\$1.5 million for an energy-generating plant. Financing is expected to come primarily in the form of equity provided by TWC's different partners. The consortium is still in a process of consolidation but is likely to include a number of wood processors from Bolivia, Brazil and Ecuador, a German technology supplier interested in a technology/equity swap as well as the Andean Development Corporation. An estimated 35% of the project is expected to be financed with loans provided by the Inter-American Investment Corporation (IIC), the International Finance Corporation (IFC) and other commercial banks. A detailed description of the likely financial structure is shown in exhibit 9.

Key success factors

After a thorough analysis of the main competitive forces in the processed wood industry, TWC has identified four key success factors that will constitute the basis for maintaining a competitive edge against other competitors: price advantage, growth potential, flexibility and internal capabilities (see exhibit 10 for a summary of the SWOT analysis).

The project's most important success factor will be its price advantage derived from the interaction of four major cost drivers: a) the nut-wood synergy that will substantially reduce extraction, storage, transportation and labor costs; b) optimization of economies of scope and scale in the extraction and processing of 35 different varieties of wood; c) an estimated 20% savings in operational costs due to tax and duty exemptions; and d) low labor and production costs in the region, including subsidized water and other services.

A second success factor stems from the region's large forestry potential. As discussed earlier, Latin America is expected to benefit the most from rising world demand as Asian forests reach saturation. Currently realizing less than 1% of its full potential, the Bolivian forest offers one of the region's most attractive opportunities to expand. In addition, ongoing integration efforts with regional markets under MERCOSUR and the Free Trade Area of the Americas (FTAA), as well as the prospective extension of the Andean Trade Preference Act (ATPA), may further promote exports of Bolivian wood products.

Flexibility is another key competitive characteristic of the project. Since no land will be acquired and a large number of activities are to be outsourced, TWC will have the flexibility to more effectively manage demand fluctuations and concentrate on its core competences, which are coordinating the value chain; adapting technologies; ensuring product quality; and marketing the final good. In addition, the location of the plant - near the boarder with Brazil and Peru - adds the flexibility to draw upon existing infrastructure and supporting industries in these countries. Being far from the regions more prone to social conflict also insulates the project from major operational risks prompted by prevailing political tensions.

The final success factor derives from the internal capabilities of TWC's leading company. It is reported that Tahuamanu has extensive experience in forest management and international export marketing and possesses an industrial capacity that far exceeds that of existing competitors. In addition, the learning system fed by inter-firm cooperation within the consortium is expected to help TWC move up the industry's learning curve more quickly. These intangible assets are deemed key for the project's competitive potential.

Concluding Remarks

After several hours discussing both technical and strategic aspects of the wood-processing project, the Board of Tahuamanu seemed more convinced about its viability.

CEO Enrique Nelkenbaum said:

“Even though we have many obstacles ahead, we are taking all of the necessary steps to overcome them. It is true that this is a new business for us and there will be some learning costs, but I am not worried about it. We are not just a Brazil Nut company, we are an Industrial Forestry Firm and our

core competencies lie in mastering industrial technologies, managing the value chain and commercializing the products. I am confident that we can quickly become important players the same way we did in the nut industry”.

The group of engineers present in the meeting agreed on that most of the operational risks were largely mitigated.

“The proximity to Brazil gives us access to more reliable transport infrastructure and more advanced supporting industries, which are largely absent in Bolivia. We will reduce the high incidence of energy and transportation costs by investing in our own generating plant and concentrating on high value-added processed products. The cost savings derived from the wood-nut synergy however is our greatest advantage and none of our competitors will ever match that”.

The biggest challenge ahead was perhaps to convince potential partners to invest in a country undergoing such high political turmoil.

Tahuamanu’s CEO added:

“We have to convince them that, being located far from the regions prone to political conflict, Cobija is largely insulated from the operational risks affecting other industries in Bolivia, including our potential competitors. We really have the best of both worlds; access to the forestry resources and low production costs of Bolivia on the one hand, and the stability and more advanced infrastructure of Brazil on the other”.

Exhibit 1: Map of Bolivia



Exhibit 2: Selected economic and development indicators

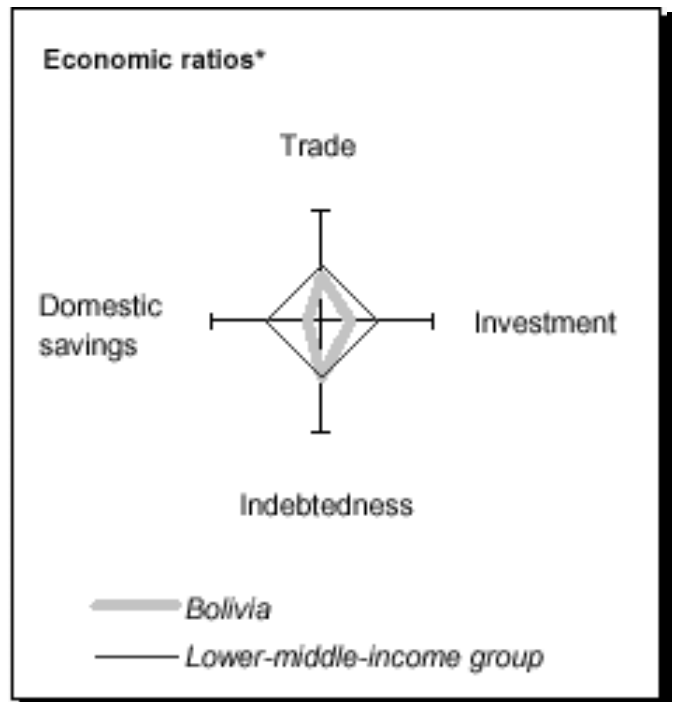
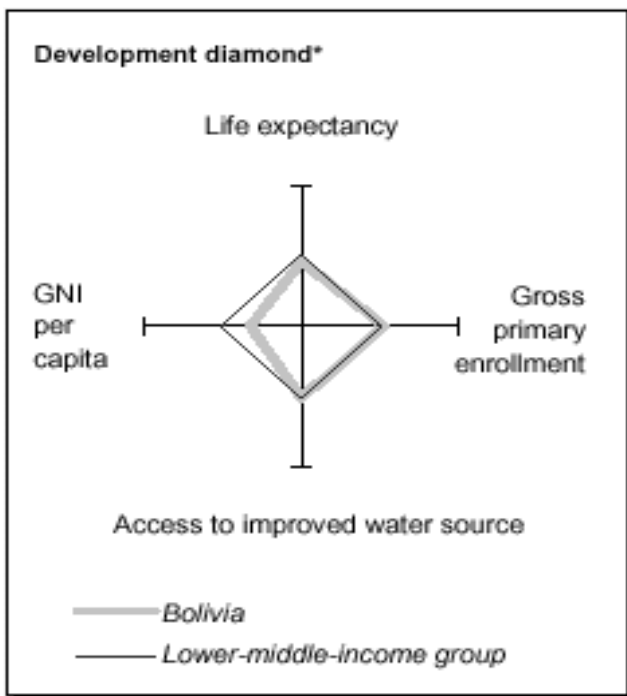
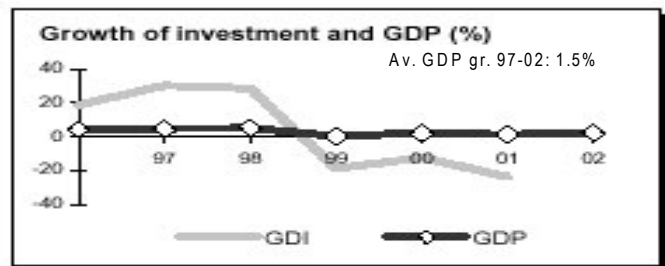
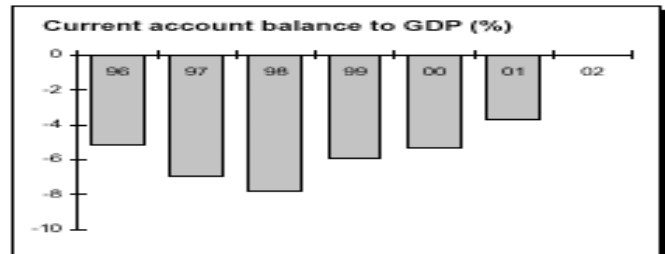
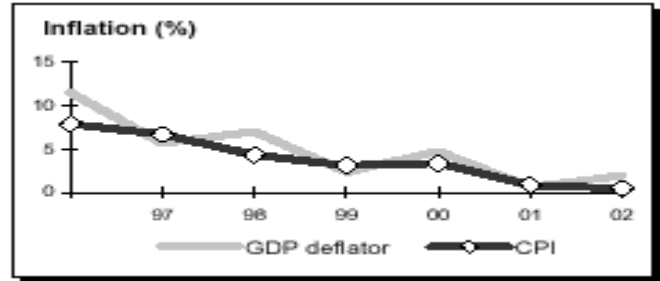
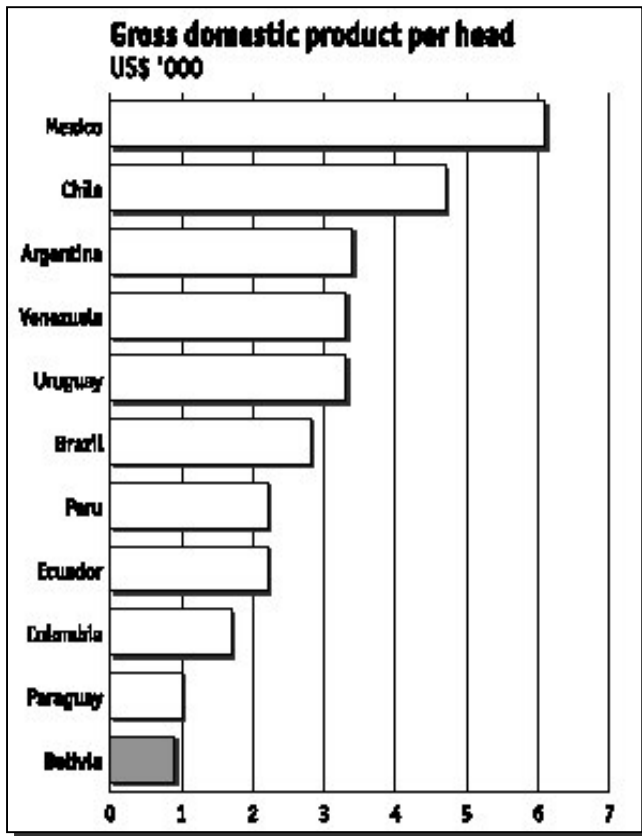


Exhibit 3: Main drivers of political instability

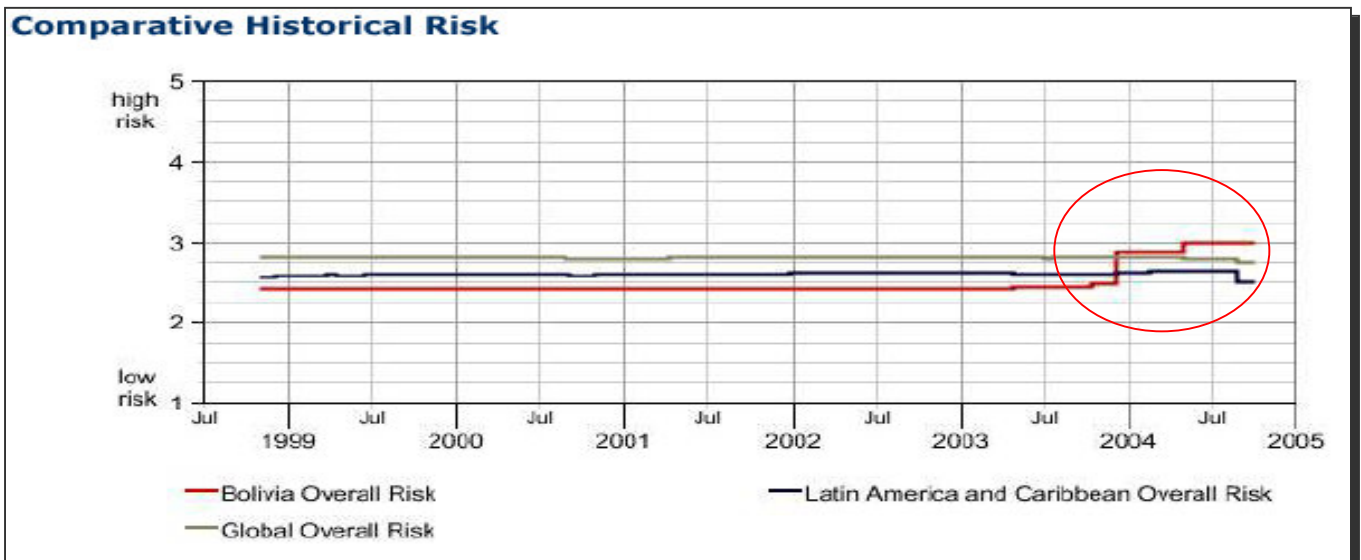
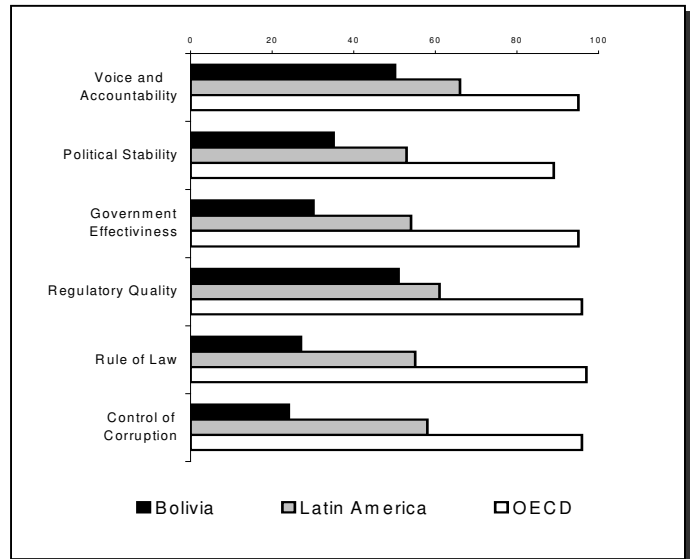
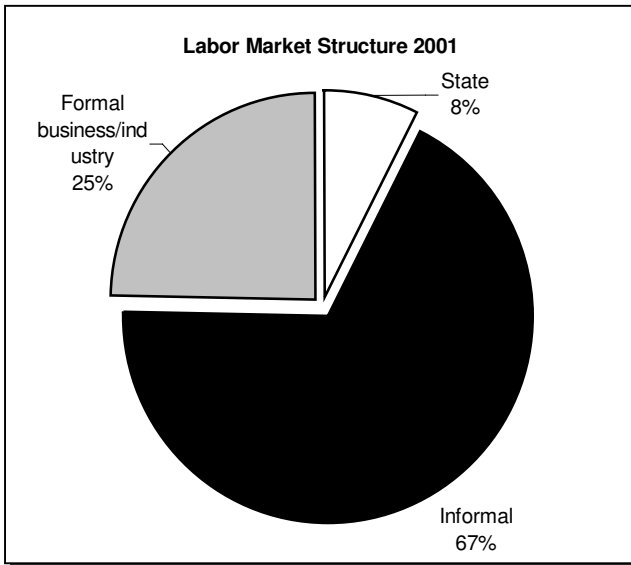
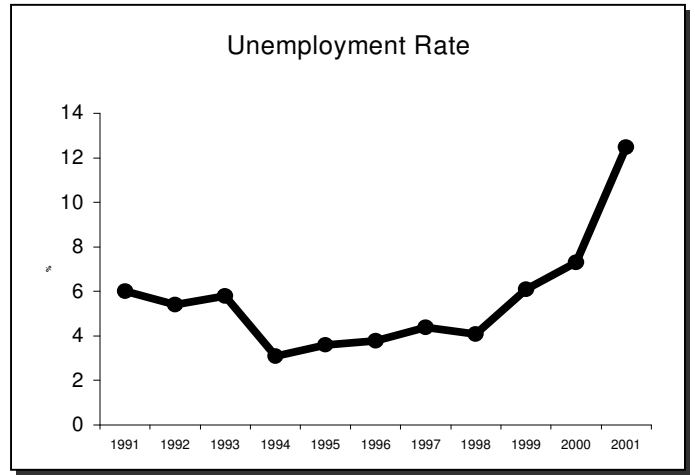
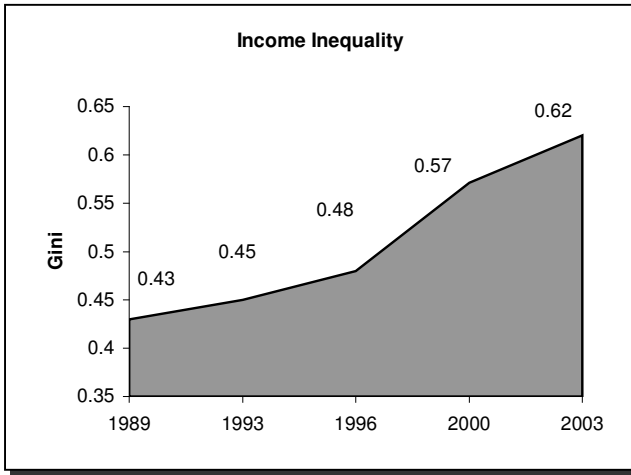
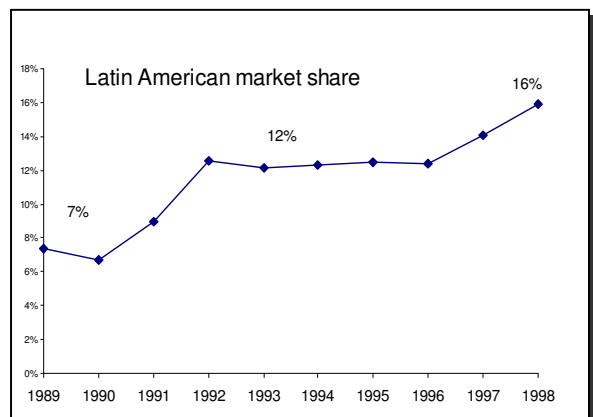
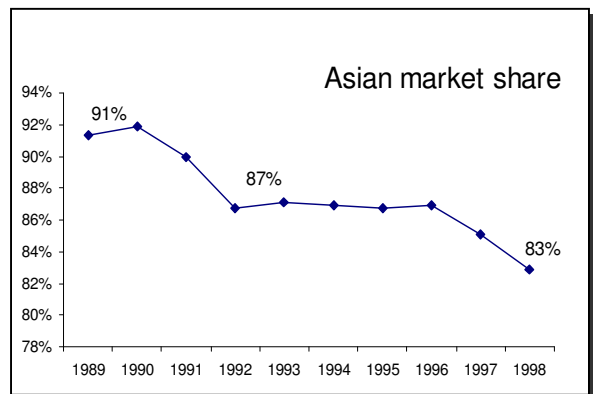
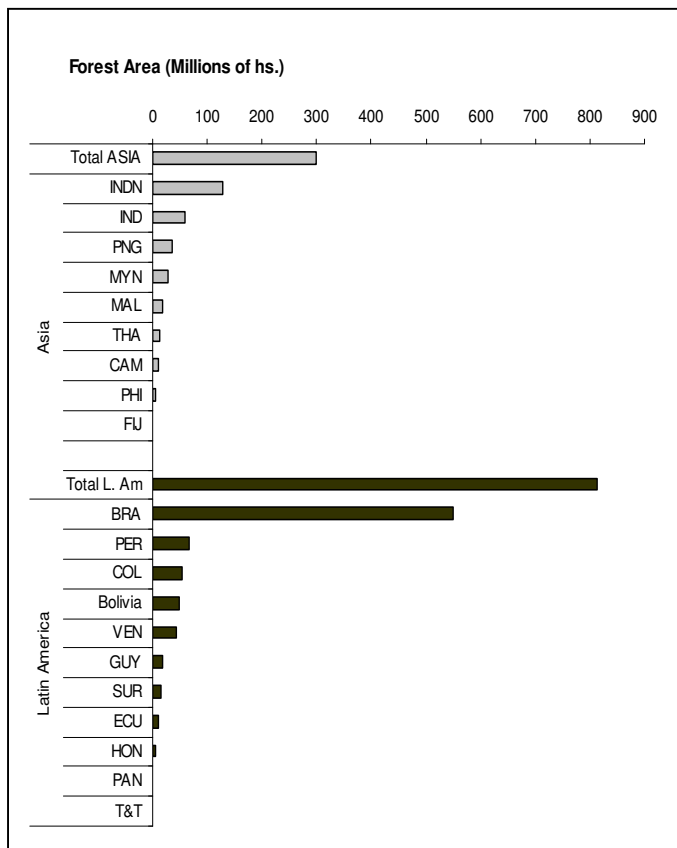
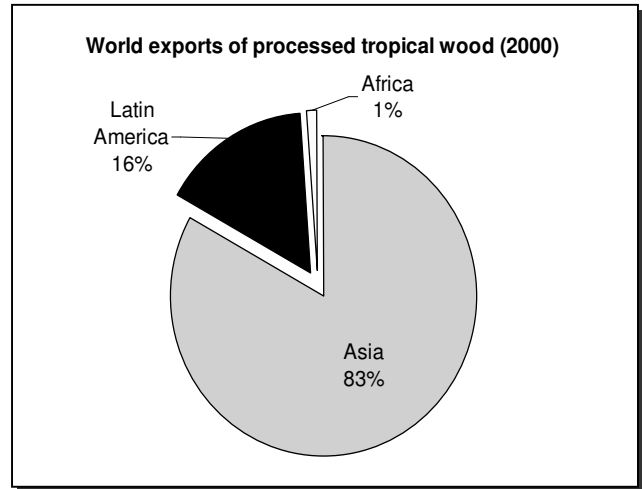
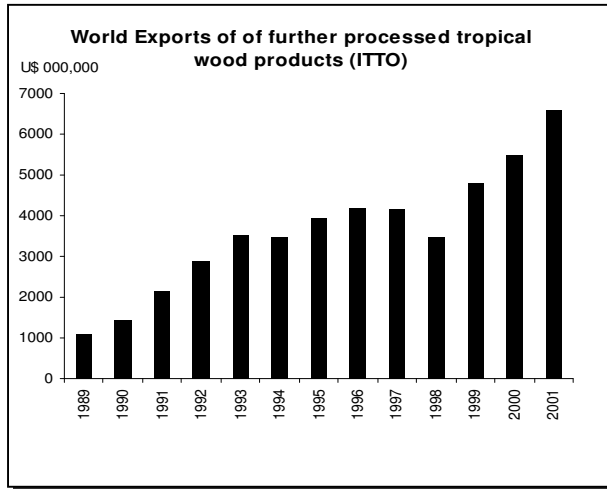
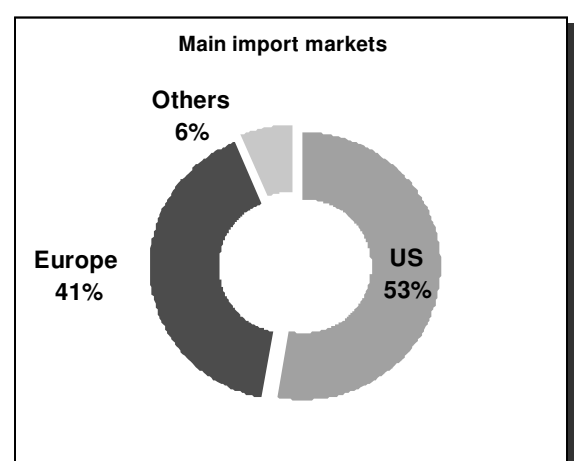
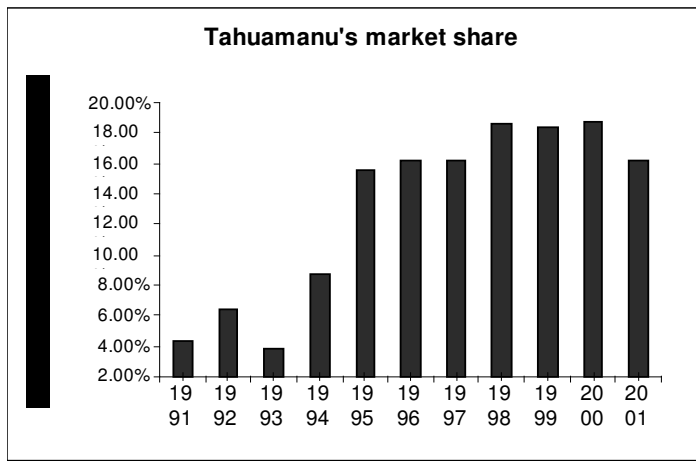
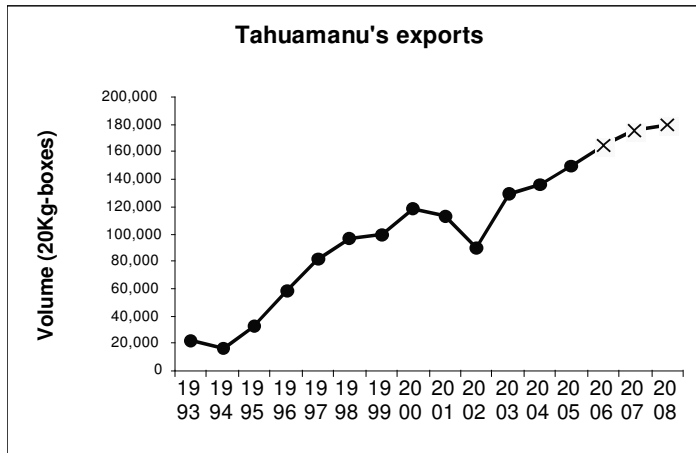


Exhibit 4: The further processed tropical wood industry



US\$ 000,000					
Brazil	Bolivia	Honduras	Colombia	Others	Total
458.8	27.8	22.1	16.3	27.1	552.1

Exhibit 5: Tahuamanu in the Brazil Nut industry



U\$	2003	2004	2005 e
REVENUES			
Containers	80	160	176
Exports (pounds)	5,607,848	5,620,000	5,620,000
Price (container FOB)	1.0	8.0	2.0
Revenues	5,798,515	11,240,000	11,240,000
EXPENSES			
Direct cost (per pound)	0.9	6.8	1.7
Total costs	4,928,738	9,554,000	9,554,000
Gross Margin	869,777	1,686,000	1,686,000
OPERATIONAL EXPENSES			
Overhead	360,000	360,000	396,000
Marketing		15,000	15,000
Certification Haccp		10,000	
Total operational expenses	360,000	385,000	411,000
EBITAD	509,777	1,301,000	1,275,000
<i>EBITAD margin</i>	<i>59%</i>	<i>77%</i>	<i>76%</i>

Exhibit 6: TWC’s wood processing project

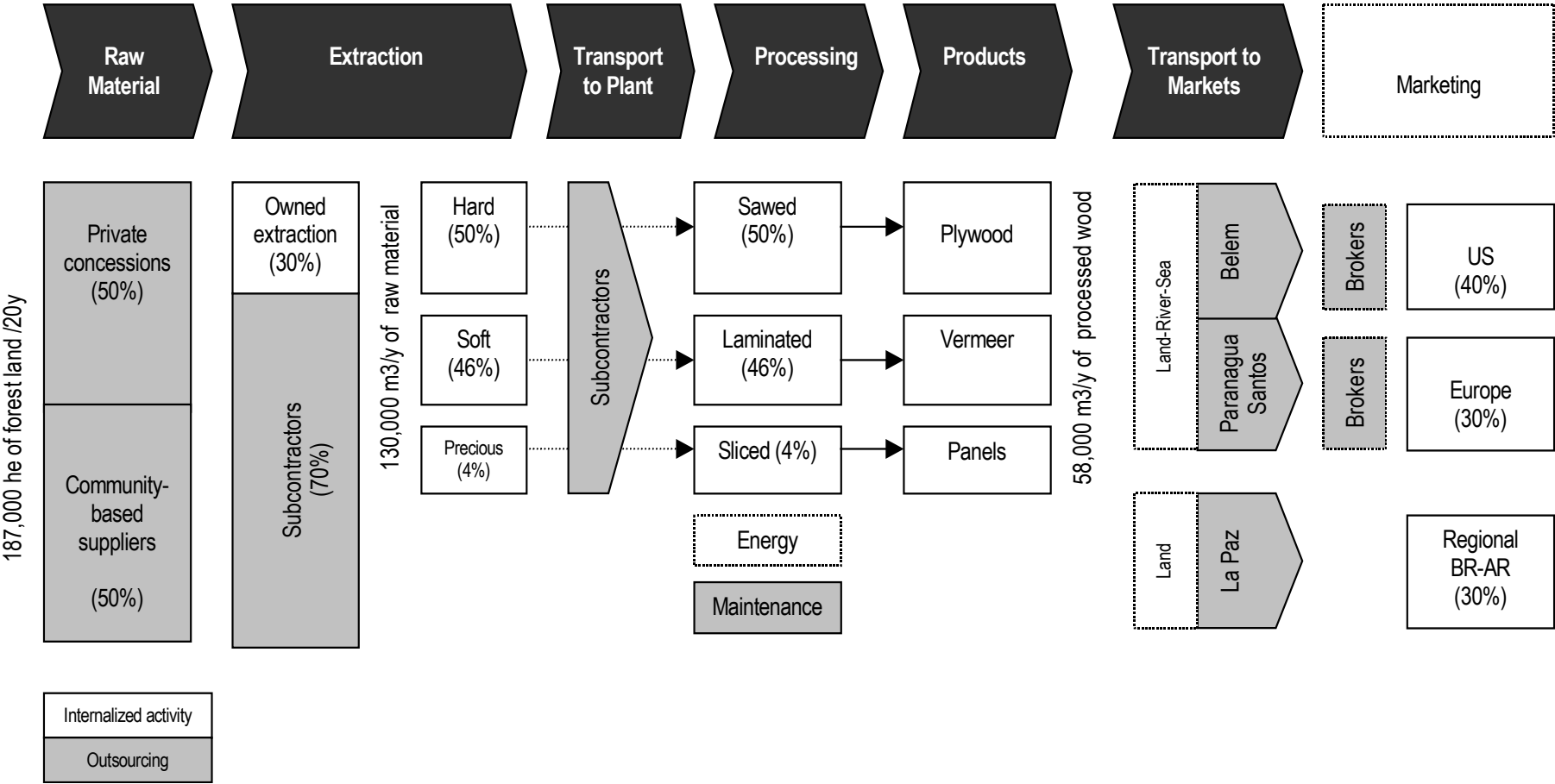
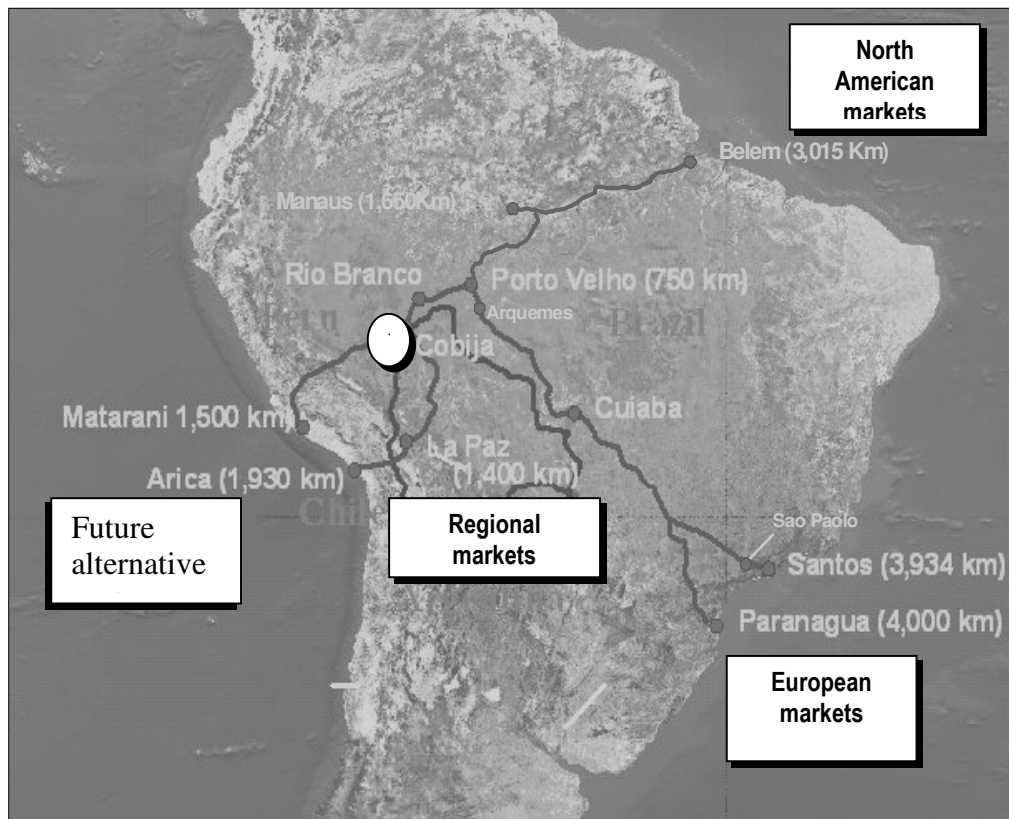


Exhibit 7: Transportation alternatives



Export Freight Through Brazil

Route	Distance		Freight US	
	Kilometers	Fright \$US/Ton	Cents/Km x	Ton
Cobija Porto Velho	750	14.32		1.909
Porto Velho Manaus	910	20.13		2.212
Total Cobija – Manaus	1,660	34.45		2.075

Cobija Porto Velho	750	14.32		1.909
Porto Velho Belem	2,265	36.47		1.61
Total Cobija – Belem	3,015	50.79		1.685

Cobija Sao Paolo	3,300	63		1.909
Total Cobija – Santos	3,934	75.1		1.909

Arquemes Paranagua	3,300	68		2.061
Rio Branco Paranagua	3,970	57.72		1.454
Total Cobija – Paranagua	4,000	58.19		1.455

Export Freight Through Chile

Cobija La Paz	1,460	61.76		4.23
La Paz Arica	460	30		6.522
Total Cobija – Arica	1,920	91.76		4.779

Exhibit 8: Project cash flow

TWC-Wood Project Cash Flow
U\$ 000

	Year	1	2	3	4	5	6	7	8	9	10
CASH IN		1932	2760	6823	8,733	9,606	10,471	11,204	11,876	12,232	12,477
Sales - Sawed		1,932	2,760	5,519	5,519	6,071	6,617	7,080	7,505	7,730	7,885
Sales - Laminated		0	0	1,304	1,863	2,049	2,234	2,390	2,534	2,610	2,662
Sales - Sliced		0	0	0	1,351	1,486	1,620	1,733	1,837	1,892	1,930
CASH OUT		2,000	4,643	8,935	6,047	7,020	6,845	7,230	7,571	7,642	7,700
Total Investments		579	2,725	4,047	289	652	0	0	0	0	0
Sawer		579	193	715	0	0	0	0	0	0	0
Laminator		0	2,532	502	175	634	0	0	0	0	0
Slicer		0	0	2,830	114	18	0	0	0	0	0
Energy		0	0	0	0	0	0	0	0	0	0
Total Operational Costs		1,406	1,856	4,701	5,460	5,951	6,428	6,813	7,154	7,225	7,283
Operational Costs - Sawing		1,406	1,856	3,537	3,537	3,855	4,164	4,414	4,634	4,681	4,718
Operational Costs - Laminating		0	0	1,164	1,551	1,691	1,826	1,935	2,032	2,052	2,069
Operational Costs - Slicing		0	0	0	372	405	438	464	487	492	496
Other costs		15	62	187	298	417	417	417	417	417	417
Depreciation/amortization		404	404	630	887	887	887	887	887	887	887
Sawing		404	404	404	404	404	404	404	404	404	404
Laminating		0	0	225	225	225	225	225	225	225	225
Slicing		0	0	0	257	257	257	257	257	257	257
Working Capital		0	0	0	0	0	0	0	0	0	0
NET CASH FLOW		-4,630	-1,883	-2,112	2,686	2,586	3,626	3,974	4,305	4,590	4,777

Exhibit 9: Likely financial structure

	<i>U\$000</i>	%
Total Investment	12,922	1.00
Debt	4,523	0.35
IIC-IADB	2,500	0.19
IFC-WB	1,500	0.12
Commercial	523	0.04
Equity	8,399	0.65
Tahuamanu	3,877	0.30
Brazil/Ecuador Partners	1,034	0.08
SMEs	775	0.06
International Furniture	646	0.05
Technology Supplier	646	0.05
USAID-GDA	646	0.05
PUMA Foundation	388	0.03
Andean Development Corporation*	388	0.03
<i>*Subordinated loan (Quasi-equity)</i>		

Exhibit 10 :Project’s SWOT analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Tahuamanu capabilities and experience in forest management and international export marketing, which can be easily deployed into the wood processing industry. • Industrial capacity that exceeds that of major competitors. • The nut-wood synergy offers a cost competitive advantage against other competitors. • The northern region of Bolivia offers one of the world’s greatest forestry potential. • Labor cost in the region are considerable low and readily available. • The strategic location of the project - near the Brazilian/Peruvian border, provides with alternative transportation options and the opportunity to draw upon the long-established Brazilian wood processing cluster. 	<p>Weaknesses</p> <ul style="list-style-type: none"> • There is a learning curve associated with diversifying into a new industry. The company will have to learn about new processes, technology and markets. • Domestic transport infrastructure in terms of road access and pluvial ports is still precarious. • High-cost and unreliable energy sources. • Absence of a well-developed domestic wood processing cluster • Long distance to main ports.
<p>Opportunities</p> <ul style="list-style-type: none"> • The demand for certified tropical wood is expected to growth at 9-10% per year in the medium term. Given that Asian forests are at a saturation point, most of this growth will benefit Latin American producers. • Bolivian forests have been recently certified by the Forestry Stewardship Council. This can be a powerful tool to market Bolivian wood as “environmentally friendly”. • The city of Cobija has established an “Export Processing Zone”, exempting industrial activity from taxes and export duties, simplifying legal procedures and offering subsidized water and other services to new industries. • Prospective integration under the MERCOSUR and the Free Trade Area of the Americas (FTAA) schemes, as well as a potential expansion of the Andean Trade Preference Act (ATPA) will further reduce access barriers to Bolivian products. • All of the wood species expected to be processed have market acceptance in both Europe and the U.S . thanks to the marketing efforts of Brazilian producers. • There are major road infrastructure projects underway in both Bolivia and Peru, and a prospective investment in a public hydroelectric generation plant, which will eventually reduce transportation and energy costs. • A USAID-led Forest Certification Program will enable indigenous communities to directly certify their forests under the CIMAR/Smart Wood certification system. This will allow a more equitable use of forest resources, thus minimizing the potential for social conflict, and reduce the costs and bureaucratic delays associated with the certification of forest products. 	<p>Threats</p> <ul style="list-style-type: none"> • Bolivia is undergoing a period of high political instability and increasing legal uncertainty. • Road blocking is the preferred method of social protest in Bolivia. • Eastern European countries are becoming a competitive threat to tropical wood producers in the EU. Countries like Poland, Slovenia and Croatia are consolidating their presence in European markets with products that are close substitutes to tropical timber. • A number of NGOs have launched large-scale campaigns against the use of forest products. Although difficult to quantify, this can have a negative impact on the overall global demand of tropical timber.

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