Pulp & Paper Sourcing

Country Profile: Mexico
PULP & PAPER INDUSTRY CONTEXT:

Forestry in Mexico - Mexico has a forest area of 65 million ha, equivalent to 33% of the country’s total land area. The forest industry contributes 0.9% to Mexico’s GDP of which the pulp and paper sector is a significant and growing sector.

Key element of the P&P supply chain - The pulp and paper supply chain in Mexico comprises both domestic and international elements. The majority of virgin fibre inputs are imported from American and European markets. Around 99% of pulp and paper is consumed domestically with small volumes of exports destined principally to markets in the Americas. The pulp and paper industry in Mexico has been growing and is attracting foreign investment in the sector as demand increases. A number of multinational paper companies now operate in Mexico, including International Paper, Kimberly-Clark, Smurfit Kappa, CMPC, and SCA. The largest Mexican producers are Grupo Durango and Copamex.

<table>
<thead>
<tr>
<th></th>
<th>Imports (1,000 T)</th>
<th>Domestic production (1,000 T)</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibre - Industrial round wood</td>
<td>419</td>
<td>15,485</td>
<td>22</td>
</tr>
<tr>
<td>Pulp for paper</td>
<td>1,264</td>
<td>345</td>
<td>20</td>
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<tr>
<td>Paper and paperboard</td>
<td>3,956</td>
<td>5,141</td>
<td>445</td>
</tr>
<tr>
<td>Total</td>
<td>5,639</td>
<td>20,971</td>
<td>487</td>
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<tr>
<td>Top countries</td>
<td>USA, Chile, Canada, Germany, Austria.</td>
<td>-</td>
<td>USA, Chile, Costa Rica, Canada, Colombia.</td>
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</tbody>
</table>

Table 1: P&P table showing volume of fibre imports, domestic production and exports and top 5 trading countries

Main species used by the industry - Eucalyptus Spp (95%) and Pinus Spp (Caribbean pine) are the key species produced domestically and used by the pulp and paper industry. The sector also uses large volumes of recycled material. Approximately 80% of the fibre used in paper production is recycled – this is sourced both domestically and imported.

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Plantation vs Natural forest – The majority of domestically produced fibre is sourced from industrial pulp plantations, which have been growing in recent years to supply the demands of the industry. These are principally located in five states and in 2009 plantations covered 140,000 ha. It is not known what volumes originate from natural forest.

Spatial concentration of the industry – Mexico has around 60 pulp and paper mills which are principally focused on packaging and tissue. The larger operations are clustered in the south and east of the country. These are predominantly paper mills with two integrated mills in the south close to the forest resource. (See Annex 1)

Forest ownership (State vs Private)³–
- Public administered: 4%
- Private administered: 26%
- Ejidos (local communities): 70%

Legality issues⁴ –
- The 2014 Transparency International CPI score for Mexico is 35. This is lower than 50 and indicates a high concern for governance and corruption in the country and the forest sector in general.
- Global Forest Registry⁵ states that Mexico has unspecified risk based on its forest governance and law enforcement related to logging and trade.

ENVIRONMENTAL CONTEXT:

Forest cover/growth – Between 2000 and 2010 Mexico’s forest has decreased by 0.3% annually compared to 0.5% annual loss between 1990 and 2000. Between 1990 and 2010, Mexico lost 7.8% of its forest cover, equivalent to around 5.49 million ha. The major drivers of deforestation are land conversion for agriculture, forestry and cattle ranching. Planted forest accounted for 5% of total forest area in 2010, and primary forest accounted for 53% (equivalent to 3% of the world’s primary forest). The increase in planted forests between 1990 and 2010 was 178,000 ha.

Concerns raised about the industry⁶ – The Global Forest Registry indicates unspecified risk regarding forest regulation and logging in Mexico. A lack of

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oversight and forest governance has led to a steady loss of forests through illegal logging and the conversion to agriculture\(^7\). Legal and illegal deforestation and degradation are significant problems, highlighted by severe deforestation in Chiapas’ Lacandon rain forest and Monarch Butterfly Reserve where the country’s protective systems are not sufficient to control these activities\(^6\). As the plantation sector grows, this could put additional pressure on Mexico’s forest resource.

**Impacts on HCV\(^5\)** – High Conservation Values (HCVs) are biological, ecological, social or cultural values which are considered outstandingly significant or critically important, at the national, regional or global level. According to Global Forest Registry, there is a lack of robust legal systems to ensure responsible management of HCV resources.

**Peat resources and associated use/activities\(^8\)** – Mexico has limited peat resources that extend up to 10,000 km\(^2\). These are principally located in the tropical southeast of the country. There could be potential concerns with a growing plantation sector and establishment on peat should be avoided.

**Impacts on water resources\(^9\)** – The water risk index of Mexico is 3.5, which represents a high risk in general for the country. This though depends upon the region.

**SOCIAL CONTEXT:**

**Pulp and paper industry employment\(^4\)** - Of the 293,000 people employed in the forest industry, approximately 125,000 people (43%) are engaged in the pulp and paper sector and indicated a very high level of dependency. In 2009, there were 56 pulp and paper plants in Mexico which created 64,000 direct and 235,000 indirect jobs.

**Concerns about FPIC or other social issues\(^5\)** – Communities control approximately 70% of the country’s forests and a wide variety of community enterprises exist in the country. Existing forest policies in Mexico have nurtured a successful community forestry enterprise sector, Mexico, and Central America in general has gone further

than most in promoting a diverse community forestry options. According to the Global Forest Registry, the legal system in the Mexico sufficiently fair and efficient in dealing with the traditional people's rights. On the other hand, the indigenous forest people have protested against large scale development, plantation forestry, and illegal logging.

**FOREST CERTIFICATION CONTEXT:**

**Certification schemes available in Mexico** – To date 704,799 ha of the country’s forests have been certified by FSC\(^\text{10}\), principally community owned forests. Almost 2,000 Mexican communities hold permits to harvest timber and Mexico has more independently certified community forests than any other country. There are currently no records of PEFC\(^\text{11}\) certification in Mexico.

**Criticisms of the schemes** – The presence of certification is positive in providing additional assurances of responsible forest stewardship, though there are concerns that the growing plantation sector will affect biodiversity and water resources.

**GENERAL OVERVIEW**– Whilst a high percentage of recycled material is used in Mexico, the pulp and paper industry currently relies upon imports of virgin fibre for its raw material inputs. This situation though is changing with increased foreign investment into the sector and plantation industry. These developments do however though raise concerns regarding poor forest governance and the declining resource though forest certification in the country is increasing and is therefore considered high priority.

**PRIORITY RATING: HIGH PRIORITY**

<table>
<thead>
<tr>
<th>Responsible Sourcing Values</th>
<th>Legal Values</th>
<th>Environmental Values</th>
<th>Social Values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Corruption Perception Index (CPI)</td>
<td>Global Forest Registry</td>
<td>Protection of HCS</td>
</tr>
<tr>
<td>Mexico</td>
<td>Red</td>
<td>Green</td>
<td>Red</td>
</tr>
</tbody>
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ANNEX 1: PULP AND PAPER MILL LOCATIONS IN MEXICO
(Source: RISI database, accessed on December 14, 2015)