BRAZIL

THE ECONOMY AND THE PULP AND PAPER SECTOR

The Brazilian economy was growing strongly in 2008 with a rate of 6.4% in the third quarter/2008 compared with same quarter of 2007. Once the global crisis was intensified in late September, the Brazilian economy fell sharply due to lack of credits and consequently decreased in consumption. With the sharp drop of activities in the last quarter/2008, the Brazilian had an annual GDP growth of 5.1%.

Brazil, well inserted in the global economy started to suffer the impact of the slowdown in commodities demand in prime markets and the consequent fall of international prices.

With high inventories of its products and sudden drop in domestic and global demand, companies of the Brazilian pulp industry had to manage their levels of production through planned downtime, reducing production by 150 thousand tons of pulp during NovemberDecember/2008.

The continuous investments in modernization of its facilities and in the expansion of the installed capacity, and considering the good performance of industry during the first half of 2008, led, however, Brazil to jump from the 6th to the 4th position in the world leading pulp producers, with a total of 12.8 million tons produced.

The Brazilian production of paper reached 9.2 million tons in 2008, maintaining the 12th position among world producers.

In light of the planned investments in the past which will come into activity in 2009, we should expect to increase the installed pulp capacity by 10%. Brazilian investors did not cancel announced investments. However, the expansion projects of the pulp installed capacity were postponed and are awaiting the definition of a new postcrisis economic scenario.

At this time the forecasts are not prominent in the business world. With the current global economic situation, prudence is the rule. The uncertainties generated by the global crisis, will certainly impact further on global supply and demand of pulp and paper, presenting a new and totally different scenario. Thus, there is no precise identification of the trend of this market for 2009. The present objective of Brazilian industry is maintaining the 4th position in the world pulp production, in 2009.

However, it is quite clear that the crisis is conjuncture, and that the sector in Brazil is the world most wellstructured. The global crisis may result in opportunities for markets with the sustainable and technology level found in Brazil.

BEST PRACTICES OF THE PULP AND PAPER INDUSTRY IN BRAZIL

The industry has 1.7 million hectares of planted pine and eucalyptus forests and 2.8 million hectares of preserved forests, totaling 4.5 million hectares of forests. Of this total, 2.25 million hectares of forests are certified, representing 42% of certified forest area in Brazil (5.4 million hectares).

Moreover, the initiative's program of forest fostering encouraged the association of more than 10 thousand forest farmers, and occupies an area of 380 thousand hectares. This program aims to reach 30% of the wood demand for the industry, besides being an important mechanism for the expansion of the planted area, generating income and maintaining the economic activity in rural areas.

The Brazilian pulp and paper industry is also committed to the challenge of climate change and contribution to reduce emissions of greenhouse gases GHGs. The forests planted by the sector are major carbon sinks and contribute significantly to absorption of CO_2 from the atmosphere. The genetics study and development of various types of pine and eucalyptus for decades, has allowed a better use of land space and a large increase in the productivity of Brazilian wood. It is estimated that one hectare of pine absorbs 27 tons of CO_2 per year, and one hectare of eucalyptus can absorb between 18 to 39 tons of CO_2 per year. The sector also contributes to the recovery and protection of degraded areas.

The production processes have been greatly improved and modified, contributing to reduce GHG emissions, such as the use of renewable fuels, solid waste management, methane capture and treatment of liquid effluents, biomass energy generation and production of ethanol from cellulose.

In Brazil, the social responsibility takes different dimensions: economic, environmental, spatial, political, cultural and social.

Improving the life quality in rural areas where the companies are located, is closely related to the restoration, preservation and conservation of the environment as well as the affirmation and strengthening of environmental management practices in projects related to employment generation and family income, the extension of services as access to safe water, sanitation, waste removal, safe energy, education, culture, and health services.

Thus, the social and environmental responsibility of companies is assuming a strategic and sustainable profile, not only because it brings image and reputation benefits to the companies or ensures a license to operate, instead they will understand that plants are not isolated production units, but a business community formed from an ecosystem.