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Value chain analysis of the wood processing industry in the Philippines

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Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Value Chain Analysis of the Wood Processing Industry in the Philippines

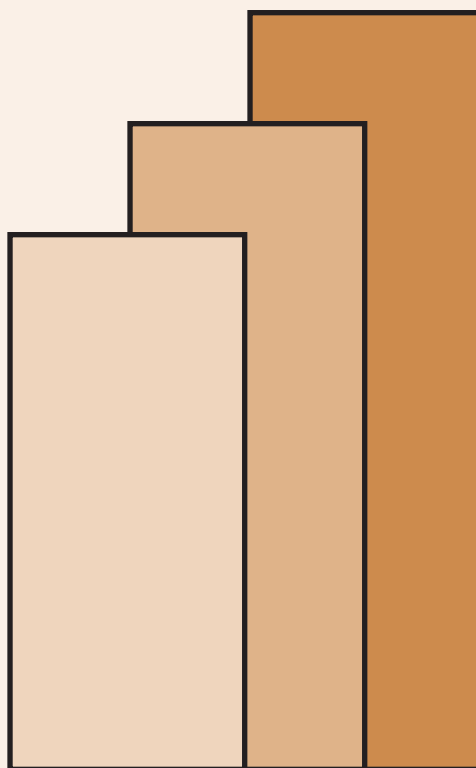
Danilo C. Israel and David Feliks M. Bunao

DISCUSSION PAPER SERIES NO. 2017-05

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Value Chain Analysis of the Wood Processing Industry in the Philippines

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Abstract

Wood processing is an important downstream activity of the forestry sector of the Philippines because it adds economic value to log, diversifies the products that can be produced from it, and increases the incomes and employment of involved communities. Despite its many economic contributions, however, the wood processing industry has been on the decline for many years now. This study analyzed the wood processing industry concentrating on its value chain, the major issues and problems it is facing, and the recommend actions to address the problems and issues. Among others, the study found that the wood processing industry is constrained by various technical, financial, economic, marketing, environmental, institutional, and research-related problems and issues. To address these individually, specific recommendations were put forward. In terms of research, in particular, the study suggested the gathering of more detailed and complete data and information on the wood processing sector by relevant government agencies and the conduct on relevant studies not just the whole processing sector but also on specific wood processing activities.

Keywords: Philippines, CARAGA region, wood processing, value chain, problems and issues

Value Chain Analysis of the Wood Processing Industry in the Philippines

Danilo C. Israel and David Feliks M. Bunao¹

I. Introduction

Wood processing² is an important downstream activity of the forestry sector because it adds economic value to log, diversifies the products that can be produced from it, and increases the incomes and employment of involved communities. The total national income and employment from wood processing are not known with certainty but in the log producing CARAGA Region (Region 13), alone, the wood processing industry directly employed close to 10,000 workers, mostly in the Agusan provinces (Paqueo and Silfverberg 2016). This employment does not include those in the upward and forward linkages of the industry such as the thousands of tree growers and workers in tree plantations and those involved in the marketing of wood products.

Despite its economic contributions, however, the wood processing industry of the Philippines has been on the decline for many years now. Of late, a perceived reason behind this is the imposition of Executive Order (EO) 23 or total log ban. Issued in February 2011, this order declared an indefinite moratorium on the cutting and harvesting of timber in the natural and residual forests. With the implementation of this EO, the number of wood processing firms in the country fell. In the case of the Caraga region, it went down from 119 firms in 2010 to only 27 firms in 2015.

There is no study that looked in detail into the value chain in the wood processing industry in the Philippines, identify the major and current issues and problems it is facing, and recommend specific actions to address them. In this light, this paper a) reviews the relevant foreign and domestic literature on wood processing; b) discusses the wood processing value chain in the Philippines; c) analyzes its economic performance in the last ten years; d) identifies the various issues and problems constraining its development; and e) recommends specific policies and other actions that can be undertaken to address them. This paper hopes to contribute to the sparse literature on the wood processing industry in the country and its more effective development in the coming years. The study uses primary data and information sourced through key informant interviews (KIIs) and focus group discussions (FGDs) with related private sector and government stakeholders and secondary data and information from published and unpublished records of private and government institutions.

¹ The authors are Senior Research Fellow and Research Analyst II of the Philippine Institute for Development Studies (PIDS).

²Official Philippine statistics has no definition of wood processing. A wood processing plant is described as a mechanical device, machine, combination of machines or set-up used for the treatment of poles and piles or conversion of logs, and other wood raw materials into lumber, veneer, plywood, wallboard, blockboard, paperboard, pulp, paper or other finished wood products. (PFS 2014). The other available and official definitions relevant to wood processing are provided in the Appendix.

II. Review of related literature

International studies on wood processing

There have been a number of country-specific studies conducted on wood processing in other countries³. Palus et al. (2015) studied the trade performance and competitiveness of the wood processing industry of the Slovak Republic vis-à-vis neighboring countries using 2003-2012 data from the Food and Agriculture Organization (FAO) Forest Products Statistics (FPS). Among others, the study found that the Slovak wood processing industry has a comparative advantage in coniferous and non-coniferous sawn wood, and paper and paperboard products and a comparative disadvantage in wood based panels and pulp wood. It also has an increasing trend in comparative advantage until 2008 when the trend started to decline due to an economic crisis.

FAO (2013) looked into the wood processing industry in the Congo Basin using data gathered from four workshops organized from September 2010 to June 2011 in Cameroon, Congo. Firstly, the study asserted that there should be a firm political will and favorable business environment for wood processing investors. Secondly, security of land tenure, clear guidelines on sustainable level of forest extraction, and access to financial services should exist to ensure that businesses will continue to invest in wood processing. Thirdly, there should be buildup of profitable formal markets through the promotion of wood. Lastly, a structured wood processing industry value chain should be created. The study further recommended that government, with the help of business organizations, should integrate various industries including big and small-scale businesses should be tied-up and the informal sector of the wood processing should be convened.

Putzel et al. (2012) assessed the wood processing industry in the province of Binh Dinh, Vietnam by interviewing 21 private companies and forestry department officials. The study suggested that the national government should provide attention to smallholders in Vietnam. Also, efforts should be made to promote the segmentation of the supply chains for woodchips and timbers for furniture at the plantation level. There should also be two separate plantation schemes, one focusing to supply woodchip and the other to supply the furniture industry. Furthermore, smallholders should be encouraged to collectively manage their tree plantations to be able to achieve better access to inputs thus improving the quality of their timber products.

Hieu et al. (2011) analyzed the national objectives for the forestry and wood processing industries of Vietnam using a spatial equilibrium modelling (SEM) analysis. For Vietnam to achieve an optimal production in forestry and wood processing, the study recommended that government should increase the design production capacity of existing larger-scale paper and engineered-wood factories. In addition, planned small-scale paper factories with design production capacities of less than 300,000 tons a year and engineered-wood factories with design

³ This review may not be comprehensive as only the literature that were accessed within the timeframe of the study were included.

production capacities of less than 50,000 tons a year should not be built. Furthermore, existing those small-scale paper factories of less than 50,000 tons should also be shut down by 2015.

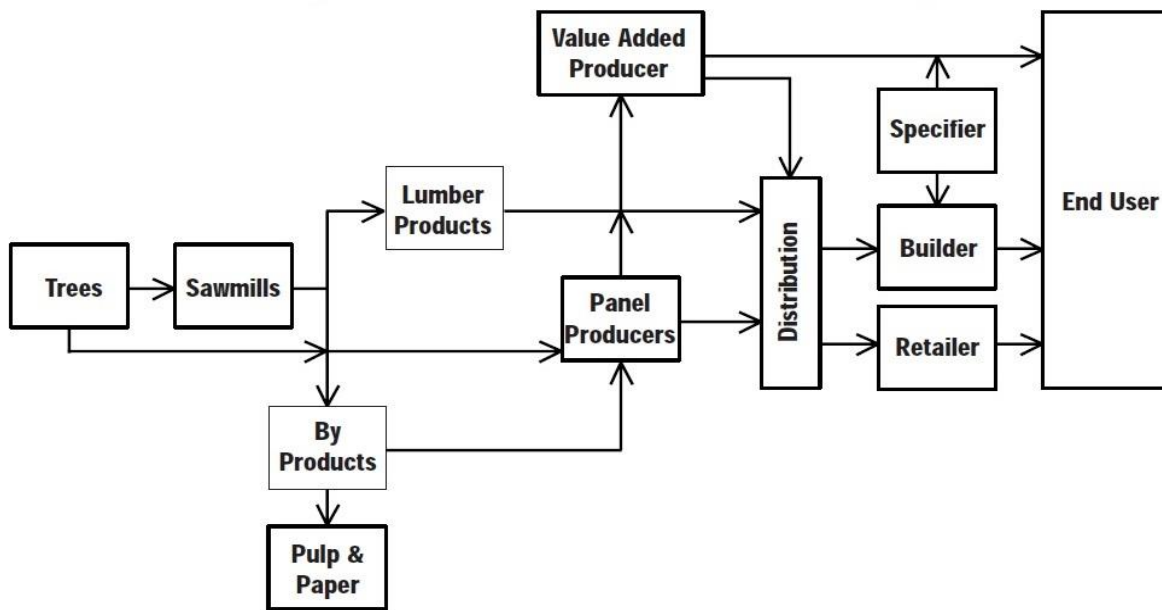
Berberet et al. (2010) examined sustainable forestry and sawmill operations in Northern Wisconsin, USA using data gathered through key informant interviews and from forestry statistics. The study identified three components for a sustainable forestry and sawmill operation, namely, source of timber supply, technology used in milling process, and the use of sawmill by-products. It recommended that sawmills should consider the tree components mentioned above if they want to improve their sawmill operation specifically highlighting the use of new technology. In addition to the use of fuel generated from byproducts, using solar, geothermal, or wind energy in a sawmill operation should be considered for a more sustainable approach.

Zhang et al. (2007) analyzed the development of the wood processing industry of China from 1979 to 2004 using the self-sufficiency rate (SSR) and other tools. The study found that the general trend for production, imports, and exports of wood in China increased through the years. The study also mentioned that among the wood processing industries, plywood has the highest self-sufficiency rate while sawn wood has the lowest. In general, the study asserted that the wood processing industry in China has a low international competitiveness, with the exception of plywood.

Harvey (2005) examined the result of the Wood Processing Strategy (WPS) implemented by the Government of New Zealand to develop the wood-processing industry using a case study approach. It identified several lessons from the result of the WPS. Firstly, there should be a significant incentive to get people involved and a clear unifying goal or vision to be presented first so that people will be motivated to invest their time and resources. Secondly, there should be a committed leadership from all the partners including government. For example, the active participation of high-ranking public officials would allow the timely release of funds and implementation of projects. Thirdly, there should be a means to assess the progress of the project vis-à-vis to the overall objective of the WPS and regular reviews and evaluations.

Cohen and Kozak (2006) examined the wood industry in Canada through a value chain analysis (Figure 1). In this study, the wood industry value chain starts with the trees which are the raw materials. These trees are then delivered to sawmills for processing. The sawmills produce processed lumber products and byproducts. The lumber products are channeled down to lower chain producers such as value-added producers and panel producers for their further use or sent directly for market distribution. On the other hand, the byproducts, usually in the form of chips, are used in production of pulp and paper. The lower chain value-added producers are usually small and medium enterprises which products to produce finished goods such as furniture, engineered wood products, and similar products. An interesting component of the distribution component of the value chain are the so-called specifiers including architects, engineers, and interior designers who influence product selection among the final users of wood products.

Figure 1: Simplified value chain of wood industry



Source: Cohen and Kozak (2006)

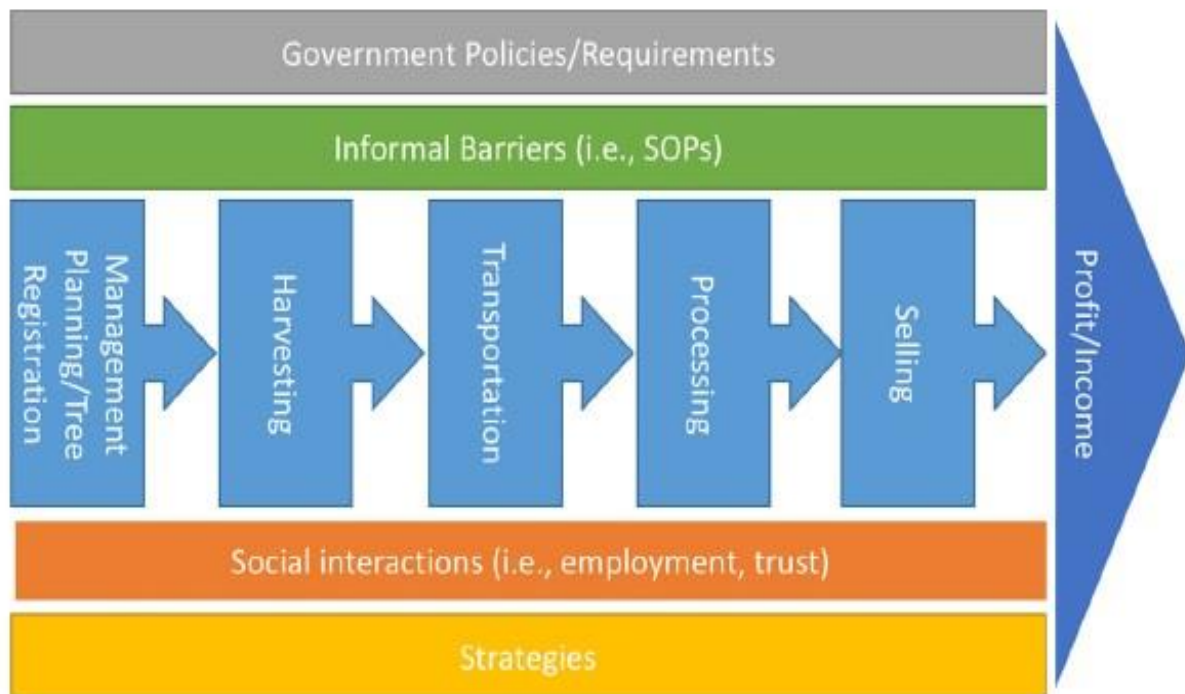
Philippine studies on wood processing

Pulhin and Ramirez (2016) examined the effect of timber regulation on community-based timber enterprise (CBTE) and smallholder forestry in the Philippines using a timber supply value chain. Data and information source were review of literature, KIIs and FGDs. The study found that the timber supply value chain consists of five phases, namely: 1) management planning, 2) harvesting, 3) transportation, 4) processing, and 5) selling of lumber (Figure 2). Based on its findings, the study concluded that overregulation and lack of administrative support hamper the potential of timber industry in reducing poverty and addressing sustainable wood supply. Instead, these strict regulations have perpetuated corruption within the various phases in the timber supply value chain thus increased the cost of doing business. The recommended that before implementing regulations in the timber industry, government should consider the capacities of communities and smallholders.

Paqueo and Silfverberg (2015) analyzed the wood industry in the CARAGA region using jobs value chain analysis (JVC) and data and information sourced through KIIs and FGDs conducted in selected cities and municipalities in the region. The study found that the value chain has four major segments, namely: 1) industrial tree plantation, 2) harvest, 3) transport and 4) wood processing (Figure 3). The study explained that there is a great potential for the wood industry in the CARAGA region as it was able to generate job opportunities for the regional population. However, despite this positive result, the study also asserted the full potential of the wood processing industry there is not fully utilized due to policy, regulatory, and production

issues. It recommended that the government should immediate conduct stakeholder consultations with private sector and other groups in order to fix the current bottlenecks in the wood industry value chain.

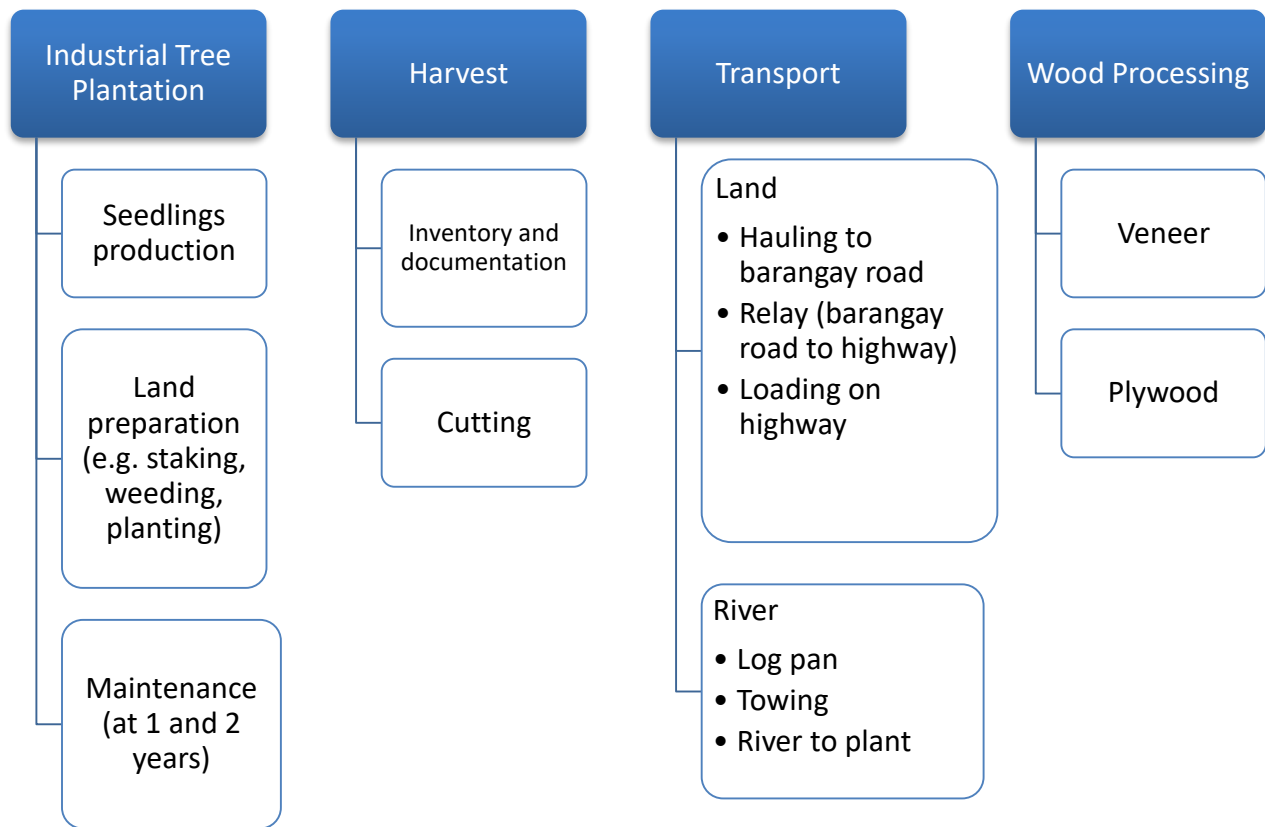
Figure 2: Timber value chain framework on community-based timber enterprise and small-holder forestry



Source: Pulhin and Ramirez (2016)

Aldaba (2014) examined the performance of the Philippine manufacturing industry with the purpose of developing a new industrial policy framework that will enable the industry to become a catalyst of sustained and inclusive growth of the country. Based on sectoral roadmaps of various manufacturing industries, the study came up with a Manufacturing Industry Roadmap (MIR). In relation to the wood industry value chain, in particular, the study found that high shipping and transportation costs have been the concern of the furniture industry as well as high cost and lack of raw materials. In the case of engineered bamboos, the study identified the shortage of bamboo poles as a major constraint preventing the industry from taking part in the global market for bamboo products. Furthermore, in the case of the paper industry, the study cited the lack of materials and high cost of power as major constraints as well. To develop these wood-related industries, the study recommended the establishment of supply hubs for raw and natural materials. It also argued that the government, in partnership with private sector, should develop and establish massive tree plantations where wood production and processing will together be carried out.

Figure 3: Jobs value chain in CARAGA region, Philippines



Source: Paqueo and Silfverberg (2015)

BOI (2014) prepared the 2014 Investment Priorities Plan of the Philippines which aims to upgrade and transform the manufacturing industry in the country partly building upon the study of Aldaba (2014). This work also provides a more detailed discussion on each sector in the manufacturing industry. For the furniture industry, the report recommended that the government should provide incentives for investment in industrial tree plantations and supply/trading hubs for raw materials. For paper industry, the strategies recommend to develop it include modernization, retooling and rehabilitation of old paper mills, improving and expanding fiber raw material base to include agricultural wastes, and developing massive tree plantations and commercial agro-forestry integrated with virgin wood pulp production to help meet the fiber requirements of local mills.

Abad (2008) looked into the Philippine furniture industry in particular with the aim of identifying how the local firms manage to mix design, local manufacturing capability, and global and local sourcing to become competitive in the high end, low volume markets. Using Porter's Five Force Analysis and Diamond Model Framework, the study found that the low-cost quality labor and innovative designs with the incorporation of mixed media were the two factors that

helped the industry compete globally. Despite these advantages, however, issues such as scarcity of raw materials, availability of cheap imported furniture, outdated technology and intense domestic rivalry have hindered the growth of the industry. The study recommended that government should build up a massive base or source of endemic Philippine raw materials utilized in the furniture industry. Also, it recommended provide funds for research on enhancing the currently used raw materials and for identifying other alternative materials the industry can utilize. Moreover, it should build a cluster of suppliers for the furniture industry in the different parts of the country.

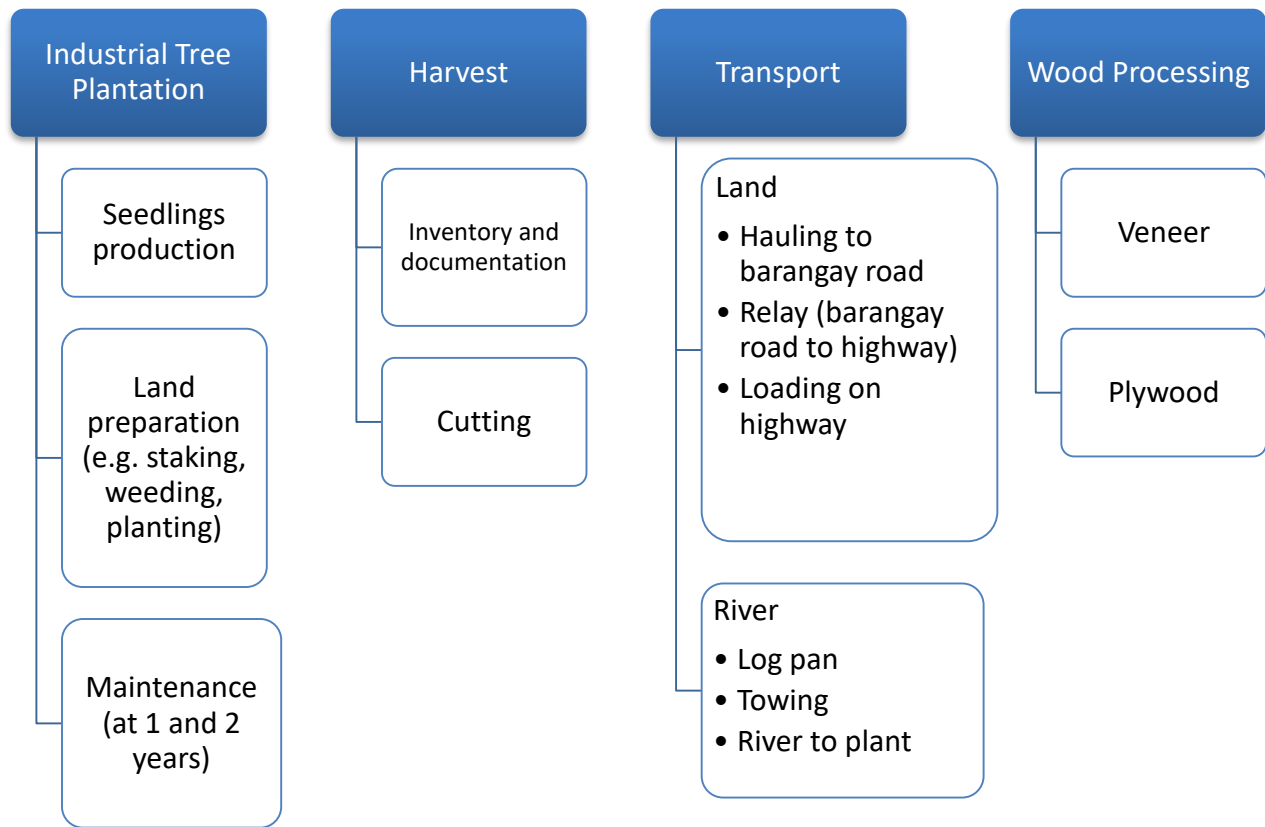
Poblador et al. (1983) examined the wood-based furniture, leather products and footwear manufacturing industries in the Philippines. The aim was to analyze the status of each industry and identify areas for future development. For data and information, the study surveyed several firms in Metro Manila, Bulacan, Rizal, Laguna, Cebu and Pampanga. Focusing on the wood-based industry, the major problems identified were the lack of capital, inadequate supply of raw materials and fluctuating domestic demand for furniture. To conclude, the study asserted the need for market research and development in order to push for exports of wood-based furniture. Identification of important products and markets was also seen to be critical, as well as the determination of the different technological requirements for the tapping such markets.

EDFI (1968) examined the status of the wood processing industry in the Philippines. One of its main objectives was to identify problems and recommend long-term measures for the overall development of the wood industry. Among the issues mentioned was the lack of meaningful land use policy in the country which adversely affects forestry management. The paper recommended that the government should develop and enforce a meaningful land use policy. In addition, it proposed the development of a formal industry integration program to minimize the risk of overburdening the industry with excess capacity due to different integration centers which do not consider market constraints.

Research gaps

The above review of the relevant studies international and domestic studies on wood processing shows some important research gap. Firstly, many of these studies were not national in scope but were site-specific concentrating on particular areas of a country. Secondly, where the studies done were national in scope in the case of the Philippines, the studies did not always deal on specific wood processing industry subsectors but on the industry as a whole. Thirdly, the analyses conducted in the Philippines did not always deal on the value chain of the wood processing industry but on other forestry issues and concerns. Fourthly, where value chain analysis was conducted, the effort has been cursory in nature and not as detailed as one may hope for. Specifically, the flow of goods from the upstream phases to the downstream and final stages are not extensively. Lastly, and equally important, the value chain analysis conducted was not accompanied with an economic analysis of the performance of the individual stages of the wood processing industry. This current study attempts, to the extent possible, to fill in these research gaps and limitations in past literature.

Figure 3: Jobs value chain in CARAGA region, Philippines

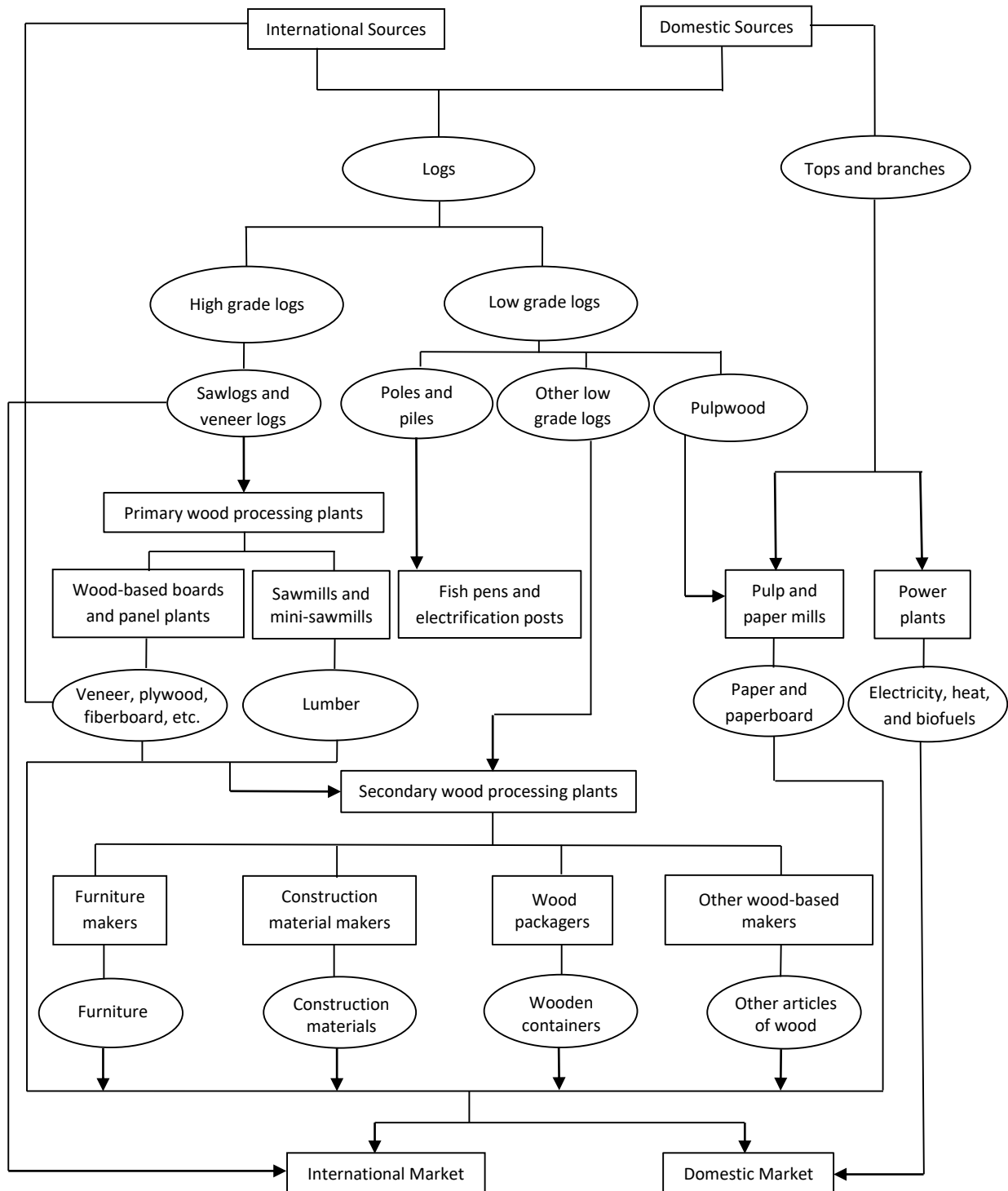


Source: Paqueo and Silfverberg (2015)

III. Wood processing industry value chain

A more detailed illustration of the value chain of the wood processing industry of the Philippines is presented below (Figure 4). The chain involves the different wood processing firms at different stages of the chain, the kinds and sources of their inputs, and the kinds and destinations of their outputs and products. At the beginning of the value chain, the basic two raw material inputs of the wood processing industry of the Philippines are the logs and the tops and branches from harvested trees. The logs are either imported by wood processing firms from abroad and/or sourced from the domestic logging firms and/or tree growers sometimes through intermediaries such as log traders. The tops and branches of trees are the by-products of local logging operations and are locally purchased by local pulp and paper mills and power plants for their own operations.

Figure 4: Wood processing Industry value chain in the Philippines



Sources of data: KIIs and FGDs

Logs

The left side of Figure 4 above illustrates the downward flow of the wood processing value chain using log while the right side presents that using the tops and branches of trees. On the left side, the tree species generally used in wood processing in the Philippines include Mangium (*Acacia mangium*), Falcata (*Paraserianthes falcataria*), Mahogany (*Swietenia macrophylla*), Yemane (*Gmelina arborea*), and Bagras (*Eucalyptus deglupta*). Different species have different characteristics and therefore have varying uses. For instance, Falcata is mainly used for plywood production while Mahogany and Yemane are generally utilized for furniture making. On the other hand, Mangium is used for flooring while Bagras is utilized in construction. In 2015, Falcata was the most produced log in the Philippines, sharing 67.58 percent of total national log production followed by Yemane and Mahogany. The least produced species were ipil-ipil and Acacia (Table 1).

Locally produced logs in the Philippine come from different geographical regions (Table 2). The bulk of the logs come from Visayas and Mindano, with the latter contributing the largest portion particularly the CARAGA Region which produced 70.4 percent of the national total in 2015. The non-producing regions, on the other hand, include the National Capital Region (NCR), Autonomous Region of Muslim Mindanao (ARMM) and MIMAROPA Region (Region 4-B). At present, most of the logs produced in the country are plantation species because as stated earlier, under EO 23 the cutting or harvesting of trees from natural forests has been prohibited. As a result, many wood processing firms also use logs produced in tree plantations and/or imported logs⁴.

The logs available from tree plantations are either produced in private lands or degraded residual forests managed by private entities under contract with the Philippine government. On the other hand, the imported logs mostly come from various countries including Malaysia, Papua New Guinea, Canada, Solomon Islands, France, Germany and the United States. The logs coming from these source countries likely come from both their natural forests as well as tree plantations and with the growing environmental concern worldwide, more may have come from the latter.

From 2006 to 2015, in terms of volume, Philippine log production has been increasing but only at a low average annual growth rate (AAGR) of one percent (Table 3). Production was fluctuating from year to year and was highest in 2013 at about 1,616 thousand cubic meters and lowest in 2010 at approximately 557 thousand cubic meters. Production was higher than 1,000 thousand cubic meters in some years and lower in others. In general, log production was lower in the first half and higher in the second of the period. Percentage wise, production decreased the most from 2009 to 2010 and from 2014 to 2015 while it rebounded the quickest from 2010 to 2011 and from 2012 to 2013. The total and average annual production of logs in the Philippines during the whole period were 8,934 thousand cubic meters and 893.45 thousand cubic meters respectively.

⁴ Although no definitive data from available sources can prove this, data in Table 5 below provides credence to this contention.

Table 1: Log production in the Philippines, by species, 2015 (cubic meters)

Species	Quantity	Percent to total
Falcata (<i>Paraserianthes falcataria</i>)	568,929	67.58
Yemane (<i>Gmelina arborea</i>)	80,945	9.61
Mahogany (<i>Swietenia macrophylla</i>)	66,618	7.91
Mangium (<i>Acacia mangium</i>)	47,290	5.62
Para Rubber (<i>Hevea brasiliensis</i>)	10,841	1.29
Bagras (<i>Eucalyptus deglupta</i>)	8,001	0.95
Gubas (<i>Endospermum peltatum</i>)	6,764	0.80
Ipil-ipil (<i>Leucaena leucocephala</i>)	2,396	0.28
Acacia (<i>Samanea saman</i>)	1,415	0.17
Others	48,680	5.78
Total	841,880	100.00%

Note: Data may not add due to rounding

Source of data: FMB (2015)

Table 2: Log production in the Philippines, by region, 2015 (cubic meters)

Region	Quantity	Percent to total
CAR	1,228	0.1
R1	2,094	0.2
R2	1,113	0.1
R3	2,813	0.3
R4A	36,260	4.3
R4B	920	0.1
R5	641	0.1
R6	21,261	2.5
R7	1,693	0.2
R8	990	0.1
R9	76,824	9.1
R10	39,883	4.7
R11	28,946	3.4
R12	34,394	4.1
R13	592,821	70.4
NCR	0	0.0
ARMM	0	0.0
Total	841,880	100.0%

Note: Data may not add up due to rounding

Source of data: FMB (2015)

Table 3: Production, exports, imports, and apparent demand for logs in the Philippines, 2006-2015 (cubic meters)

Year	Local log production (A)	Export (B)	Import (C)	Net Exports (B-C)	Apparent demand (A-B+C)
2015	841,880	2,542	105,177	-102,635	944,515
2014	1,102,365	3,196	50,903	-47,707	1,150,072
2013	1,165,851	1,221	123,519	-122,298	1,288,149
2012	862,429	2,143	107,872	-105,729	968,158
2011	871,126	2,696	88,908	-86,212	957,338
2010	557,345	5,461	41,589	-36,128	593,473
2009	801,520	77	37,412	-37,335	838,855
2008	815,225	642	77,557	-76,915	892,140
2007	880,674	78	93,183	-93,105	973,779
2006	1,036,033	273	65,185	-64,912	1,100,945
Total	8,934,448	18,329	791,305	-772,976	9,707,424
Annual Average	893,445	1,833	79,131	-77,298	970,742
AAGR	1%	843%	20%	22%	1%

Note: Log production data from FMB only has quantity. In the data sources, log differs from roundwood. The former does not include fuelwood/firewood.

Source of data: FMB (Various Years)

Some of the logs produced by the Philippines are sold domestically while others are exported, particularly the high grade logs. From 2006 to 2015, in terms of volume, Philippine log exports have been fluctuating but generally rising (Table 3). Due mainly to the very large percentage rise in exports in some years, particularly from 2009 to 2010, the computed AAGR was a very large 843 for the period. Exports were highest in 2010 at 5.46 thousand cubic meters and lowest in 2007 and 2009 at 78 thousand cubic meters and 77 thousand cubic meters respectively. Furthermore, exports were generally higher during the second half of the 2000s and lower in the first half. Percentage wise, there was a big decline in log exports from 2006 to 2007 and from 2008 to 2009. On the other hand, there was a significant increase in exports from 2007 to 2008 as well as from 2009 to 2010. The total exports and average annual exports of logs in the Philippines during the period were 18.3 thousand cubic meters and 1.8 thousand cubic meters respectively. The data indicate that over time, exports form only a small portion of logs produced in the country.

From 2006 to 2015, in terms of volume, Philippine log imports have been generally increasing with an AAGR of 20 percent (Table 3). Imports were highest in 2013 at about 123.90 thousand cubic meters and lowest in 2009 at approximately 37.41 thousand cubic meters. Like exports, imports were generally higher during the second half of the 2000s and lower in the first half. Percentage wise, there was a big decline in imports from 2008 to 2009 and from 2013 to 2014 and a substantial increase from 2010 to 2011 and from 2014 to 2015. The total imports and annual imports of logs in the Philippines during the period were 791.3 thousand cubic meters and 79.1 thousand cubic meters respectively. Imports of logs were more than exports in all years.

Since imports were consistently higher than exports, in terms of volume, Philippine log net exports have also been consistently negative in all years from 2006 to 2015 (Table 3). However, net exports were generally improving, manifested by decreasing negative net export figures at an AAGR of 22 percent. Net exports were highest in 2010 at -36.13 thousand cubic meters and lowest in 2001 at -122.30 thousand cubic meters. Net exports were generally higher during the first half of the 2000s than in the second half. There were improvements in net exports in 2008, 2009, 2010 and 2015 and worsening in the other years.

Apparent demand for logs, which is computed as production plus imports less exports, is an estimate of total demand and can be used in place of actual total demand in the absence of data (FMB 2009). From 2006 to 2015, the apparent demand for logs increased at an AAGR of one percent (Table 3). Apparent demand was less than 1,000 thousand cubic meters in all years except 2006, 2013 and 2014. It was highest in 2013 at 1,288.30 thousand cubic meters and lowest in 2010 at 593.47 thousand cubic meters. Apparent demand was generally lower in the first half of the 2000s than in the second half.

If the Philippine log performance from 2011 to 2016 can be used to help determine the effect of EO 23, it can be seen that this effect was negative. Log production has fallen during this 5-year sub-period when the order was in implementation except in 2013 (Table 3). Exports has also decreased in all except in 2014. On the other hand, imports which were replacements for locally produced logs, increased in all years except 2014. All these data suggest that indeed, EO 23 was generally inimical to the log production of the country in its years of implementation so far.

After harvest, the logs produced in the Philippines are first graded into two categories (Figure 4). The high grade logs which are the sawlogs and veneer logs are either exported or sent to the primary wood processing plants. On the other hand, there are three kinds of low grade logs: those which are categorized as poles and piles and used in local fish pens and electrification posts, those other low grade logs that are not processed by primary wood processing firms due to poor quality but are useful to secondary wood processing firms in the production of some wood articles, and those that are graded as pulpwood which are generally utilized in pulp and paper mills.

From 2006 to 2015, in terms of volume, Philippine log production of different types has been increasing except for pulpwood which registered an AAGR of -8 percent (Table 4). Sawlog and veneer logs formed the dominant share of the total with 610,588 cubic meters average annual production during the period followed by pulpwood with 276,122 cubic meters and poles and piles with 6,734 cubic meters. Eighty-nine percent of the sawlogs and veneer logs come from plantations while only 11 percent are generated from natural forests in the Philippines during the period (Table 5). The figures also show that the percent share of natural grown logs to the total production was lower in the second half of the decade when EO 23 has been in implementation. In a significant way, this finding strongly supports the contention that the implementation of EO 23 has indeed helped reduce the harvest of trees from the natural forests of the Philippines.

Table 4: Log production in the Philippines, by type of log, 2006-2015 (cubic meters)

Year	Sawlog and Veneer log	Percent to total	Poles and Piles	Percent to total	Pulpwood	Percent to total	Total
2015	442,598	52.6	4,366	0.5	394,917	46.9	841,880
2014	631,024	57.2	6,055	0.5	465,285	42.2	1,102,364
2013	641,122	55.0	6,657	0.6	518,071	44.4	1,165,851
2012	742,286	86.1	4,514	0.5	115,629	13.4	862,429
2011	780,405	89.6	3,888	0.4	86,833	10.0	871,126
2010	518,343	93.0	4,436	0.8	34,566	6.2	557,345
2009	689,163	86.0	3,267	0.4	109,090	13.6	801,520
2008	473,929	58.1	3,119	0.4	338,178	41.5	815,225
2007	648,126	73.6	5,882	0.7	226,667	25.7	880,674
2006	538,883	52.0	25,165	2.4	471,985	45.6	1,036,033
Total	6,105,879	68%	2,761,221	31%	67,349	1%	8,934,448
Annual Average	610,588		276,122		6,735		893,445
AAGR	2%	3%	41%	25%	-8%	-4%	1%

Note: Data may not add up due to rounding. Also, data on other logs that are not processed in primary wood processing but used in secondary wood processing to produce some wood articles are not separately itemized in the data sources.

Source of data: FMB (Various Years)

Table 5: Sawlog and veneer log production in the Philippines, by type of forest, 2006-2015 (cubic meters)

Year	Natural forest	Percent to total	Forest Plantation	Percent to total	Total
2015	11,647	2.6	430,951	97.4	442,598
2014	3,201	0.5	627,823	99.5	631,024
2013	220	0.0	640,902	100.0	641,122
2012	3,541	0.5	738,745	99.5	742,286
2011	14,872	1.9	765,533	98.1	780,405
2010	121,769	23.5	396,574	76.5	518,343
2009	107,284	15.6	581,879	84.4	689,163
2008	103,135	21.8	370,794	78.2	473,929
2007	152,361	23.5	495,765	76.5	648,126
2006	171,071	31.7	367,812	68.3	538,883
Total	689,101	11.3%	5,416,778	88.7%	6,105,879
Annual Average	68,910		581,678		610,588
AAGR	148%	169.6%	9%	4.5%	2%

Note: Data may not add up to total due to rounding

Source of data: FMB (Various Years)

Primary processing

The primary wood processing plants, called PWPPs here for convenience, to which the sawlogs and veneer logs are sent are composed of wood-based board and panel plants, sawmills and mini-sawmills (Figure 4). Wood-based board and panel plants include veneer plants, plywood plants, blockboard plants, fiberboard plants, and similar plants. These wood-based board and panel plants produce veneer, plywood, fiberboard, particleboard, blockboard and other engineered wood which are then sold domestically or abroad or sent to the secondary wood processing plant. On the other hand, sawmills and mini-sawmills produce lumber which are either marketed domestically and/or internationally and/or forwarded to secondary wood processing plants.

In 2015, there were 205 existing PWPPs in the Philippines (Table 6). Most of these processing plants were veneer plants (69), active-mini sawmills (67), and plywood plants (43). Others were active regular sawmills (16) and other WBPPs (12). Most of the PWPPs were in Mindanao while Luzon has 9 and Visayas has none. The regions with the most number of PWPPs were Regions 10, 11, and 13. Those with none were CAR and Regions 1, 2, 4B, 7, 8, and ARMM.

Table 6: Number of primary wood processing plants in the Philippines, by region, 2015

Region	Active Regular Sawmill	Active Mini-sawmill	Veneer Plants	Plywood Plants	Others	Total
CAR	0	0	0	0	0	0
R1	0	0	0	0	0	0
R2	0	0	0	0	0	0
R3	0	0	1	1	1	3
R4A	2	0	2	2	0	6
R4B	0	0	0	0	0	0
R5	0	0	0	0	0	0
R6	0	1	0	0	0	1
R7	0	0	0	0	0	0
R8	0	0	0	0	0	0
R9	0	2	2	2	0	6
R10	1	39	10	10	1	61
R11	1	11	25	12	2	51
R12	1	4	1	12	8	26
R13	9	10	26	0	0	45
NCR	2	0	2	4	0	8
ARMM	0	0	0	0	0	0
Total	16	67	69	43	12	207

Note: Others include those producing panels using low quality logs, lumber strips and logging/processing wastes.

Source of data: FMB (2015)

From 2006 to 2015, the number of PWPPs in the Philippines has been decreasing with an AAGR of –one percent (Table 7). By type, the number of veneer plants, plywood plants, and other plants has been rising with AAGRs of 13 percent, 1 percent, and 6 percent respectively while the number of active regular sawmills and active mini-sawmills has been falling with AAGRs of -5 percent and -3 percent, respectively.

From 2006 to 2015, in terms of volume, the total production of primary wood processing plants in the Philippines has been decreasing with an AAGR of –4 percent (Table 8). However, the production of all other types of primarily processed products had been increasing except plywood which had been decreasing with an AAGR of -7 percent.

Table 7: Number of primary wood processing plants in the Philippines, by plant type, 2006-2015

Year	Active Regular Sawmill	Active Mini-sawmill	Veneer Plants	Plywood Plants	Others	Grand Total
2015	16	67	69	43	12	207
2014	22	62	67	37	10	198
2013	22	84	66	42	12	226
2012	31	60	65	48	10	214
2011	29	93	40	43	8	213
2010	27	119	40	43	8	237
2009	34	153	31	41	7	266
2008	35	116	34	41	7	233
2007	30	136	31	39	6	242
2006	28	124	27	40	8	227
Total	274	1014	470	417	88	2263
Annual Average	27.4	101.4	47	41.7	8.8	226.3
AAGR	-5%	-3%	13%	1%	6%	-1%

Source of data: FMB (Various Years)

Table 8: Production of primarily processed wood products, 2005-2014 (thousand cubic meters)

Year	Lumber	Veneer	Plywood	Fiberboard	Blockboard	Total
2015	232	59	146	54	87	578
2014	496	40	164	22	49	771
2013	450	60	199	13	58	780
2012	218	129	297	5	22	671
2011	372	114	300	2	42	830
2010	377	136	276	5	37	831
2009	304	88	253	12	42	699
2008	358	101	235	10	42	746
2007	362	124	281	6	56	829
2006	432	95	317	5	62	911
Total	3601	946	2468	134	497	7646
Annual Average	360.1	94.6	246.8	13.4	49.7	764.6
AAGR	1%	1%	-7%	57%	16%	-4%

Source of data: FMB (2015)

From 2006 to 2015, in terms of both volume and value, the total exports of selected products of primary wood processing plants in the Philippines have been increasing with AAGRs of 6 percent and 10 percent, respectively (Table 9). Of the different products, exports had been rising except for plywood which experienced falling exports with AAGRs of -15 percent in volume and -14 percent in value.

Table 9: Export of selected primarily processed wood products, 2006-2015 (volume in cubic meters, value in thousand US \$, FOB)

Year	Lumber		Plywood		Veneer		Total	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
2015	267,267	37,346	781	401	1,315	808	269,363	38,555
2014	310,070	69,420	2,057	1,819	3,681	3,269	315,808	74,508
2013	239,565	74,132	3,738	3,773	2,784	3,078	246,087	80,983
2012	391,663	28,046	12,951	10,986	32,048	13,475	436,662	52,507
2011	404,533	24,377	39,834	24,336	14,663	1,347	459,030	50,060
2010	376,596	10,587	23,737	14,963	3,108	2,057	403,441	27,607
2009	293,287	9,629	33,305	21,921	4,032	1,301	330,624	32,851
2008	214,534	11,602	38,931	19,237	3,764	2,003	257,229	32,842
2007	207,642	14,342	36,759	14,810	6,714	3,833	251,115	32,985
2006	184,386	13,198	19,952	9,619	5,856	4,018	210,194	26,835
Total	2,889,543	292,679	212,045	121,865	77,965	35,189	3,179,553	449,733
Annual Average	288,954	29,268	21,205	12,187	7,797	3,519	317,955	44,973
AAGR	7%	27%	-15%	-14%	36%	77%	6%	10%

Note: Some of the processed wood products such as particleboard and fiberboard) were not included due to the difference in measurement used. Particleboard is measured in gross kilograms while fiberboard is measured in net kilograms.

Source of data: FMB (Various Years)

From 2006 to 2015, in terms of both volume and value, the total imports of selected products of primary wood processing plants in the Philippines has been increasing with AAGRs of 23 percent and 8 percent, respectively (Table 10). The imports of all types of primarily processed wood products has been increasing as well.

From 2006 to 2015, the net exports of selected primarily processed wood products in the Philippines has been mixed with AAGRs of -75 percent in volume and 10 percent in value (Table 11). For the different types of products, plywood and veneer registered positive AAGRs while lumber posted negative rates in both volume and value.

Table 10: Imports of selected primarily processed wood products, 2006-2015 (volume in cubic meters, value in thousand US \$, FOB)

Year	Lumber		Plywood		Veneer		Total	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
2015	1,144,691	75,291	292,126	140,667	23,726	8,328	1,460,543	224,286
2014	207,362	100,090	411,269	156,093	14,826	8,550	633,457	264,733
2013	240,197	114,362	195,037	99,760	30,642	10,722	465,876	224,844
2012	218,607	91,107	95,183	67,483	59,507	19,537	373,297	178,127
2011	159,974	70,200	94,231	69,617	38,011	11,333	292,216	151,150
2010	136,574	50,466	61,163	37,276	25,683	5,895	223,420	93,637
2009	128,754	43,441	51,549	27,664	22,875	5,032	203,178	76,137
2008	134,846	45,663	57,189	35,777	27,262	8,461	219,297	89,901
2007	174,456	84,368	58,517	38,826	24,892	8,183	257,865	131,377
2006	261,193	87,925	75,135	47,682	37,220	10,614	373,548	146,221
Total	2,806,654	762,913	1,391,399	720,845	304,644	96,655	4,502,697	1,580,413
Annual Average	280,665	76,291	139,140	72,085	30,464	9,666	450,270	158,041
AAGR	50%	2%	25%	18%	4%	6%	23%	8%

Note: Some of the processed wood products such as particleboard and fiberboard) were not included due to the difference in measurement used. Particleboard is measured in gross kilograms while fiberboard is measured in net kilograms.

Source of data: FMB (Various Years)

Table 11: Net Exports of selected primarily processed wood products, 2006-2015 (volume in cubic meters, value in thousand US \$, FOB)

Year	Lumber		Plywood		Veneer		Total	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
2015	-877,424	-37,945	-291,345	-140,266	-22,411	-7,520	-1,191,180	-185,731
2014	102,708	-30,670	-409,212	-154,274	-11,145	-5,281	-317,649	-190,225
2013	-632	-40,230	-191,299	-95,987	-27,858	-7,644	-219,789	-143,861
2012	173,056	-63,061	-82,232	-56,497	-27,459	-6,062	63,365	-125,620
2011	244,559	-45,823	-54,397	-45,281	-23,348	-9,986	166,814	-101,090
2010	240,022	-39,879	-37,426	-22,313	-22,575	-3,838	180,021	-66,030
2009	164,533	-33,812	-18,244	-5,743	-18,843	-3,731	127,446	-43,286
2008	79,688	-34,061	-18,258	-16,540	-23,498	-6,458	37,932	-57,059
2007	33,186	-70,026	-21,758	-24,016	-18,178	-4,350	-6,750	-98,392
2006	-76,807	-74,727	-55,183	-38,063	-31,364	-6,596	-163,354	-119,386
Total	82,889	-470,234	-1,179,354	-598,980	-226,679	-61,466	-1,323,144	-1,130,680
Annual Average	8,289	-47,023	-117,935	-59,898	-22,668	-6,147	-132,314	-113,068
AAGR	-1920%	-3%	38%	45%	6%	15%	-75%	10%

Note: Some of the processed wood products such as particleboard and fiberboard) were not included due to the difference in measurement used. Particleboard is measured in gross kilograms while fiberboard is measured in net kilograms.

Source of data: FMB (Various Years)

Secondary processing

If not sold domestically or exported, the different products of PWPPs in the Philippines are then sent to secondary wood processing plants, called SWPPs here for brevity. The secondary wood processing firms consist of furniture makers, construction builders, wood packagers, and other secondary wood manufacturing firms. These firms generate their supply of lumber, veneer, plywood and other raw material inputs from the PWPPS and/or international sources (Figure 4).

Various wood-based manufactured articles and wood-based furniture are produced by these secondary wood processing firms in the Philippines. The furniture makers produce chairs, tables, beds, cabinets and drawers and other wood-based items. The makers of construction materials produce beams, doors, railings, mouldings, frames and flooring and other wood-based construction items. The wood packagers produce wooden containers such as crates, pallets, wooden boxes and wood cable-drums. Other wood-based makers produce various wood articles used in handicrafts, arts, musical instruments, toys, home decorations, kitchenware, and other similar items. The outputs from these secondary wood processing industries are then sold in the international and/or domestic markets (Figure 4).

The domestic market of secondary wood products in the Philippines is difficult to assess because of the absence of records of sales of SWPPs. Perhaps the best estimates one can get for the secondary wood products sold are from the Census of Philippine Business and Industry (CPBI). For 2012, it was estimated that the value of products sold to the domestic market by secondary wood processing firms was P38.98 billion with P23.73 billion coming from manufacturers of products of wood, cork, straw, and plaiting materials and P15.25 billion from the manufacturers of furniture (Table 12). This means that the total income of the wood processing industry of the country, when those from secondary wood processing firms is included, is indeed substantial.

From 2006 to 2015, in terms of both volume and value, the total exports of products of SWPPs in the Philippines has been decreasing with AAGRs of 19 percent and 17 percent, respectively (Table 13). The production of both wood-based manufactured articles and forest-based furniture had been increasing as well.

From 2006 to 2015, in terms of both volume and value, the total imports of products of SWPPs in the Philippines has been increasing with AAGRs of 69 percent and 26 percent, respectively Table 14). The production of individual SWPP products had been increasing as well.

From 2006 to 2015, in terms of both volume and value, the total net exports of products of SWPPs in the Philippines has been rising with AAGRs of 21 percent and 16 percent, respectively Table 15). The production of individual SWPP products has been rising as well except for the value of forest-based furniture whose AAGR fell by 21 percent.

Table 12: Sale of products and by-products of secondary wood-based manufacturing establishments in the Philippines, by mode of sale, 2012 (thousand pesos)

Mode of Sale	Manufacture of Manufacture of products of wood, cork, straw, and plaiting materials	Percent to Total	Manufacture of furniture	Percent to Total	Total
Value of Products Sold to Domestic Market	23,730,680	61%	15,252,631	39%	38,983,311
Interplant Transfers	36,086	6%	565,657	94%	601,743

Notes:

Value of products sold to domestic market refer to goods sold locally. Direct exports refer to goods sold outside the country. Value of products sold to exporters refer to goods sold locally to other exporters. The manufacture of furniture includes furniture of any kind, any material (except stone, concrete or ceramic) for any place and various purposes. There it is not exactly representative of wooden furniture.

Source: PSA (2012)

In the international market, the main buyers of the products of secondary wood processing firms in the Philippines include Japan, Australia, USA, France and United Arab Emirates. Most of the wood-based manufactured articles are sent to Japan, USA and France while most forest-based furniture are sold to USA, Japan and United Arab Emirates. Additionally, paper and paperboard products are sold to Australia, USA and Japan. In the domestic market, the products of secondary wood processing firms are sold all over the country but mainly in Luzon where many traders are based.

In the right side of the value chain, the tops and branches of trees which are byproducts of logging find their way into the pulp and paper mills and power plants as inputs in the production processes of these plants. Pulp and paper mills produce paper and paperboard products which are sold internationally and locally. On the other hand, power plants produce electricity, heat and biofuels which they supply to the local market. The estimated tops and branches produced in the Philippines in volume have been increasing with an AAGR of 6 percent (Table 16).

Table 13: Exports of secondary processed wood products in the Philippines, 2006-2015 (quantity in gross kilograms, value in thousand US \$, FOB)

Year	Wood-Based Manufactured Articles		Forest-Based Furniture		Total	
	Quantity	Value	Quantity	Value	Quantity	Value
2015	1,351,417,685	2,790,702	18,644,392	107,678	1,370,062,257	2,898,380
2014	990,261,566	2,965,043	27,018,539	155,098	1,017,280,105	3,120,141
2013	917,821,274	3,063,002	21,098,404	105,373	938,919,678	3,168,375
2012	592,305,366	2,158,947	20,794,122	100,023	613,099,488	2,258,970
2011	441,925,314	1,683,815	20,957,881	105,874	462,883,195	1,789,689
2010	303,610,772	1,028,736	21,326,764	94,111	324,937,536	1,122,847
2009	245,556,299	820,405	20,408,317	81,448	265,964,616	901,853
2008	294,068,065	918,241	42,538,608	154,754	336,606,673	1,072,995
2007	275,271,301	769,647	155,902,886	174,701	431,174,187	944,348
2006	-	650,283	-	205,869	-	856,152
Total	5,412,237,822	16,848,821	348,689,913	1,284,929	5,760,927,735	18,133,750
Annual Average	601,359,758 ¹	1,684,882	38,743,324 ¹	128,493	640,103,082 ¹	1,813,375
AAGR	24% ¹	20%	-16% ¹	-3%	19% ¹	17%

Note: “-” indicates other unit of measurement (e.g. quantity in piece) were used in the data sources therefore corresponding figures cannot be added to the rest of the figures.

¹ Values used in the computation were only from 2007 to 2015.

Source of data: FMB (Various Years)

Table 14: Imports of secondary processed wood products in the Philippines, 2006-2015 (quantity in gross kilograms, value in thousand US \$, FOB)

Year	Wood-Based Manufactured Articles		Forest-Based Furniture		Total	
	Quantity	Value	Quantity	Value	Quantity	Value
2015	106,173,166	80,543	99,792,102	101,873	205,965,268	182,416
2014	36,746,186	36,337	94,060,627	110,995	130,806,813	147,332
2013	30,147,486	25,265	77,645,555	65,347	107,793,041	90,612
2012	56,074,963	25,888	70,855,989	47,177	126,930,952	73,065
2011	43,161,766	29,065	79,807,824	53,043	122,969,590	82,108
2010	25,138,647	16,661	91,577,944	40,685	116,716,591	57,346
2009	14,075,728	8,290	64,954,888	23,967	79,030,616	32,257
2008	15,817,515	12,030	65,609,493	29,609	81,427,008	41,639

2007	14,815,457	10,338	58,896,201	24,646	73,711,658	34,984
2006	12,442,818	7,701	-	22,637	12,442,818 ²	30,338
Total	354,593,732	252,118	703,200,623	519,979	1,057,794,355 ²	772,097
Annual Average	35,459,373	25,212	78,133,403 ¹	51,998	105,779,436 ²	77,210
AAGR	40%	39%	8% ¹	22%	69% ²	26%

Note: “-” indicates other unit of measurement (e.g. quantity in piece) was used in the data sources therefore corresponding figures cannot be added to the rest of the figures.

¹ Values used in the computation were only from 2007 to 2015.

² Value does not include 2006 data for forest-based furniture

Source of data: FMB (Various Years)

Table 15: Net Exports of secondary processed wood products in the Philippines, 2006-2015 (quantity in gross kilograms, value in thousand US \$, FOB)

Year	Wood-Based Manufactured Articles		Forest-Based Furniture		Total	
	Quantity	Value	Quantity	Value	Quantity	Value
2015	1,245,244,519	2,710,159	-81,147,710	5,805	1,164,096,989	2,715,964
2014	953,515,380	2,928,706	-67,042,088	44,103	886,473,292	2,972,809
2013	887,673,788	3,037,737	-56,547,151	40,026	831,126,637	3,077,763
2012	536,230,403	2,133,059	-50,061,867	52,846	486,168,536	2,185,905
2011	398,763,548	1,654,750	-58,849,943	52,831	339,913,605	1,707,581
2010	278,472,125	1,012,075	-70,251,180	53,426	208,220,945	1,065,501
2009	231,480,571	812,115	-44,546,571	57,481	186,934,000	869,596
2008	278,250,550	906,211	-23,070,885	125,145	255,179,665	1,031,356
2007	260,455,844	759,309	97,006,685	150,055	357,462,529	909,364
2006	-	642,582	-	183,232	-	825,814
Total	5,070,086,728	16,596,703	-354,510,710	764,950	4,715,576,198	17,361,653
Annual Average	563,342,970	1,659,670	-39,390,079	76,495	523,952,911	1,736,165
AAGR	24% ¹	20%	6% ¹	-22%	21% ¹	16%

Source of data: Tables 13 and 14

Table 16: Estimated tops and branches produced in the Philippines, 2005-2014 (thousand cubic meters)

Year	Tops and Branches
2014	73
2013	77
2012	57
2011	58
2010	37
2009	53
2008	54
2007	59
2006	69
2005	56
Total	593
Annual Average	59.3
AAGR	6%

Source of data: FMB (2014)

The study was unable to find data on the production of paper and paperboard from the FMB. From 2006 to 2015, both exports and imports of paper and paperboard products had been increasing both in quantity and value (Table 17). For exports, it had an AAGR of 221 percent for quantity and 13 percent for value. On the other hand, the quantity and value of imports also increased by 5 percent and 8 percent, respectively. Net exports had been constantly negative because imports have exceeded exports over the years. Net exports were highest in 2015 in both quantity and value, with -934.30 million net kilograms and -778.20 million pesos. Net exports were lowest in quantity in 2014 with -149.60 million net kilograms and lowest in value in 2016 with -355.28 million pesos.

Wood processing organizations

The Philippine Wood Producers Association (PWPA) is a national association of firms involved in the forestry and wood industry sector in the country⁵. Its main objective was to promote the sustainable management of natural and plantation forests in the country which will consequently lead to the development of the wood industry in our country. Members of the association come from all over the country and are involved in various activities such as forest management, logging, forest plantation development, manufacture and sale of forest products.

⁵ Another group identified is the Philippine Lumber Merchants Association but is not discussed here because it covers only the lumber subsector.

Table 17: Exports, imports and net exports of paper and paperboard products in the Philippines, 2006-2015 (quantity in net kilograms, value in thousand US \$, FOB)

Year	Exports		Imports		Net Exports	
	Quantity	Value	Quantity	Value	Quantity	Value
2015	35,137,649	107,678	969,442,084	885,873	-934,304,435	-778,195
2014	806,790,425	283,384	956,392,939	850,219	-149,602,514	-566,835
2013	35,012,082	94,098	907,011,603	784,765	-871,999,521	-690,667
2012	50,471,968	109,758	907,966,510	769,863	-857,494,542	-660,105
2011	135,575,892	179,940	895,160,682	770,601	-759,584,790	-590,661
2010	162,857,499	155,454	932,386,788	624,463	-769,529,289	-469,009
2009	128,154,307	121,658	713,058,604	495,103	-584,904,297	-373,445
2008	131,809,886	144,422	736,295,364	596,077	-604,485,478	-451,655
2007	184,795,060	142,692	889,133,553	675,032	-704,338,493	-532,340
2006	190,790,406	136,877	700,036,224	492,156	-509,245,818	-355,279
Total	1,861,395,174	1,475,961	8,606,884,351	6,944,152	-6,745,489,177	-5,468,191
Annual Average	186,139,517	147,596	860,688,435	694,415	-674,548,918	-546,819
AAGR	221%	13%	5%	8%	56%	12%

Source of data: FMB (Various Years)

For 2016, it had a significant number of members with a total of 363 members, wherein 43 are regular members and 320 are associate members (Table 18). Regular members are firms involved in the upstream production process in the industry while the associate members are those involved in the downstream process. In general, majority of their members are importers (52%) followed by lumber dealers (38%). The composition of the 43 regular members are as follows: 4 tree farmer/loggers, 6 sawmill operators, 10 plywood manufacturers, 1 fiberboard manufacturer, 3 importers and 19 integrated firms. On the other hand, associate members are composed only of importers and lumber dealers. The large majority of members are located in Luzon of the association while only a small minority are situated in the Visayas and Mindanao (Table 19).

IV. Issues and problems in the wood processing industry

The wood processing industry is currently saddled with numerous issues and problems constraining it at different stages of the chain. Due to time and resource constraints faced by the study, the issues and problems summarized below may not be exhaustive and are general to wood processing. They are not specific to individual activities except when these activities are used as examples. The information gathered and presented are based on the existing secondary literature and KIIs and FGDs conducted including with the participating members of the PWPA.

Table 18: Philippine Wood Producers Association members, by region, as of January 13, 2017

Region	Regular	Associate	Total
CAR	0	0	0
R1	0	83	83
R2	1	0	1
R3	5	14	19
R4A	2	5	7
R4B	0	0	0
R5	0	0	0
R6	1	0	1
R7	3	34	37
R8	0	0	0
R9	2	0	2
R10	4	0	4
R11	7	5	12
R12	3	0	3
R13	8	0	8
NCR	7	179	186
ARMM	0	0	0
Total	43	320	363

Notes:

Regular – usually primary wood processing firms and are large-scale.

Associate – usually secondary wood processing firms and SMEs.

Source of data: www.pwpa.org.ph

Table 19: Philippine Wood Producers Association members, Luzon, Visayas and Mindanao, as of January 13, 2017

Major Region	Regular	Associate	Total
Luzon	15	281	296
Visayas	4	34	38
Mindanao	24	5	29
Total	43	320	363

Source of data: Table 18

Technical

The production equipment and technology used by wood processing firms are generally outdated. For instance, existing sawmills were originally designed to process large diameter logs. With the implementation of EO 23, the bulk of logs harvested now come from tree plantations which produce smaller logs. Although, current sawmills can still process these logs, the operation is not efficient. Furthermore, these old technologies produce only limited types and numbers of processed products.

Even if wood processing firms can avail of new technologies, they face training constraints as they have to upgrade manpower to meet the skills needed to fully utilize them. Even if they can train people, firms would have to deal with the added problem of dealing with older employees who may not be comfortable working with new technologies, such as computerized machinery, but have to be maintained because of labor laws and regulations and they know the processing operations.

Wood processing firms find it costly to dispose the old technologies that will be replaced with new technologies. Old machinery can only be sold, if at all, at much reduced prices resulting in financial losses to the firms. Turning old but still productive machinery into scrap or selling them at very low prices may be more costly compared to just putting them into productive, albeit inefficient, use.

Financial

With relatively low prevailing borrowing rates at present, the cost of money is not considered a major problem at present. However, collateral is a critical hindrance particularly for micro, small, and medium enterprises (MSMEs) in applying for loans. This is problem exacerbated by the long and tedious application process for loans in banks and other formal financial institutions. If MSMEs, in particular, source money from informal sources, the borrowing rates could be prohibitive.

Economic

The supply of logs, both local and imported, is inconsistent and/or inadequate. With this, some wood processing firms have to operate at less than full capacity. With unreliable supply of logs, average costs are higher and processing firms cannot benefit from economies of scale in their operations.

Despite the above problem, the price of logs in the Philippines is seen at present as stable as there is not much demand coming from China which is one of the biggest log importers globally. However, if and when China decides to purchase a huge amount of logs in the international market in the future, the price of logs could drastically rise to the detriment of local processing firms.

For the secondary wood processing firms, the afore-cited problem of supply is not solely related to wood. The supply of non-wood inputs including rattan, bamboo and nipa which are used in processing together with wood are also in short supply further limiting production. Due to their limited supply, the prices of these materials are expectedly rising for some time already.

The costs of other inputs such as oil, electricity and transportation have also been stable over the past 12 months. But then again, they could quickly rise in the near future which can create problems for the wood processing industry. Just lately, the price of gasoline and associated products are starting to rise again.

Labor cost is not an issue for wood processing firms at present because they can always limit their hires based on their manpower needs. Also, workers are generally paid based on their output which means that labor cost is flexible. However, it could be an area of concern in the future due to the proposal to abolish contractualization in the country. If it is indeed abolished, labor becomes a fixed cost which has to be paid whether or not processing firms operate at full capacity.

The participation of wood processing firms in the international markets for their inputs and outputs has made them significantly affected by the exchange rate. Now that the dollar is getting stronger relative to the peso, the prices of imported log and other materials also get higher increasing production costs.

Marketing

While a higher value of the dollar compared to the peso can stimulate exports, this potential advantage can be negated significantly by higher input prices brought about by the same exchange rate. As a result, some of the wood processing firms have stopped exporting wood products because they cannot compete with the lower-priced products of other Southeast Asian countries.

Among MSMEs, specifically, there is lack of capability to develop new markets due to limited market intelligence useful in improving their marketing strategies against foreign competitors. This constraint has forced them to refrain from or limit their exports to traditional products and markets.

The importation into the Philippines of substandard products, particularly plywood from China is another big headache for wood processing firms. This imported plywood is sold at lower prices in the country and creates an unfair competition to local manufacturers. As a result, some medium to big local plywood manufacturers have temporarily stopped its operations at certain times.

Environmental

Due to old technology, wood processing firms have low recovery rates and generate large volumes of wastes. To address this, boilers are usually employed in their disposal. This technique, however, may result in the emission of carbon monoxide, nitrogen oxide, and other dangerous gases which are very harmful to the workers and communities surrounding the plants (IFC 2007)

Institutional

The implementation of EO 23 affected not only the supply of wood products to the wood processing industry but also led increased unemployment in the rural areas. It also encourages the practice of illegal logging with the DENR unable to effectively monitor and enforce the order.

The unstable and inconsistent policies related to the wood processing industry has make problems worse. For instance, frequent policy changes related to the harvesting of logs have discouraged investment in wood processing. The policy changes were also done without proper consultations with stakeholders on the ground.

The wood processing industry in general has been neglected by the Philippine government partly because of the environmental lobby favoring the log ban is getting stronger. Yet, at no other time in its existence that the industry needs much attention and assistance in order to simply survive.

Research-related

Government data and information useful to study deeper the development of the wood processing industry have been limited. Thus, researches relevant to the industry have been few and sporadic. This forces MSMEs in particular who may not have funds to do individual research to get their data and information elsewhere, such as word of mouth which can be inaccurate.

V. Summary and recommendations

This study concludes that the wood processing industry of the Philippines has significant economic contributions including in terms of income and employment. Because it is a participant in international trade, it is also potentially significant foreign exchange for the country. Despite these many contributions, however, the industry has been on the decline for many years now due to the numerous issues and problems it is facing some of which are cited above. These constraints have to be addressed in order for the industry to get out of its current state and move forward to better times.

The recommendations to address the issues and problems of the wood processing industry are presented below also in a generalized manner and not specific to particular subsectors. The recommendations are based on the existing secondary literature, KIIs, and FGDs conducted by the study.

Technical

Wood processing firms should be assisted by the government to retool. While large firms may be able to do it on their own, should tap the Department of Science and Technology-Small Enterprise Technology Upgrading Program (DOST-SETUP) which is a nationwide strategy to encourage and assist them to adopt technological innovations to improve their products, services, and operations.

The development of a Skills and Technology Roadmap (STRM) is also needed in the wood processing industry. Among others, this roadmap can be used to identify a set of high priority technical projects that will assist the industry to meet future market demands. It can also establish collaborative arrangements between industry members to together develop new technologies. Likewise,

Individually or together with their wood processing associations and relevant government agencies, wood processing firms can develop home grown technologies to produce wood products that are cheaper but of higher quality through intensive research and development (R&D). The use of other indigenous materials can ease the constraint of limited raw material supply.

Old equipment should be sold by processing firms so that some money can be generated to invest in new equipment. To get better prices, processing firms can sell to recycling firms that convert them for other uses. Otherwise, firms may just have to bear the cost of retooling because while this strategy may seem costly in the short-run, it will prove to be more efficient and productive in the long-run.

Financial

MSMEs that are individually or family-owned can open up their companies to outside investors, both local and foreign. They can also explore help from the government through the various incentive programs that it provides. The formal financial institutions should streamline their loan application process so as not to intimidate small borrowers. The government should impose relevant laws to actively clamp down on loan sharks and make informal borrowing less prohibitive.

Economic

To help increase the domestic supply of logs, the government should actively support non-government reforestation, particularly private reforestation. The issues and problems facing private forestation and recommendations to address them are discussed in Israel (2016). The increase in the supply of logs from this subsector will help stabilize log prices and ensure steady supply.

The wide use of contract tree farming should be considered. Under contract farming, wood processing firms can help farmers secure pasture leases for vacant government lands that they can be converted into tree plantations. The trees produced in these plantations can then be bought by the processing firms thus ensuring a stable log supply and increased farmer income.

The government should develop and implement an aggressive R&D program for non-wood inputs like rattan, bamboo and nipa. These raw materials will augment the supply of inputs to the wood processing industry and could be used in the development of new products. As reminder, the development of these inputs should take cognizance of their potential effects on the environment (Bowyer et al. 2014).

The increasing prices of other inputs of production like gasoline is a national concern which is not specific to the wood processing industry. Suffice it to say that firms must develop innovative approaches in the use of gasoline in their production processes which can reduce gasoline consumption and make their operations more energy efficient. For instance, whenever possible, gasoline-intensive activities can be run with labor power instead. This way, processing operations can reduce their gasoline consumption and at the same time, help address unemployment.

Contractualization is another national issue that is not specific to wood processing firms. Enough said that its final implementation must only be done after serious evaluation and consultation. A thorough benefit-cost analysis on the effects of contractualization on the economy and individual sectors coupled with extensive consultations among all stakeholders will greatly help.

Likewise, the exchange rate is beyond the full control of any single sector, much less the wood processing industry. Whenever possible, wood processing firms could stock on imported wood and other materials when the exchange rate is favorable to them. Otherwise, they may just have to ride with the punches.

Marketing

Wood processing firms should give product quality and certification foremost attention so it can compete both locally and internationally at any given price. For one, they can strive for Forest Stewardship Council - Chain of Custody (FSC – CoC) certification that allows companies to label their products and in enables consumers to identify those produced through responsible forest management.

The pertinent trade departments and agencies should aggressively assist wood processing firms in addressing marketing problems. The relevant trade associations should also assist their members in this regard. Exposures of processing firms individually or as an association to relevant trade publications, fora, fairs and similar activities will help. For one, government can help MSME firms and their representatives get involved in these activities by financial sponsorship and other means.

Strict implementation of the Philippine Standard of Imported Wood Products (PSIWP) should be done upfront at customs to prevent the entry of substandard wood in the country. Overall, customs administration should be improved so that it can perform its functions efficiently and effectively including guarding against substandard imports from countries like China.

Environmental

As part of R&D, efforts should be exerted to find ways on how the wastes wood processing firms can be utilized as an input in the production of new products. This could potentially reduce costs and promote the environment-friendly image of wood processing firms. Furthermore, the firms should be strictly monitored by the government in the management on their own wastes.

Institutional

Coming up with a definite stand on EO 23 is not an objective of this paper. It is argued, however, that the EO should be reviewed to make it more equitable to all stakeholders and subsectors. The government can also help provide employment options as well as safety nets to workers displaced by the log ban.

Stable policies should be in place to ensure a more stable business environment. After a policy has been decided through a fair and inclusive process, it must be implemented firmly across affected firms and over time. This will provide wood processing firms and potential investors a clear and positive message that will help them firm up their production and investment decisions.

The manufacturing roadmaps which have been prepared by the Philippine government should consider the expansion of their coverage in the case of wood processing beyond just a few subsectors, i.e. furniture and paper, to include other wood processing industries that have strong present performance but also future potential.

Research-related

The gathering of detailed and complete data and information on the wood processing sector and its subsectors should be conducted by relevant government agencies. Research on wood processing, e.g. value chain analysis, should trickle down from the sector as a whole to specific subsector activities.

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Appendix

Definition of Terms:

Blockboard - a board having a core of blocks, each not exceeding 2.54 cm. (1 inch) in width, connected or glued face to face to form a slab which is glued between two or more outer piles with the direction of the grain of the core block running at right angle to that of the adjacent outer veneers.

Fiberboard - a generic term for sheet materials of widely varying densities manufactured of refined or partially refined wood or lignocellulosic fibers with the primary bond derived from the interfelting of fibers.

Lumber - the product of the saw and planing mill. Not further manufactured other than by sawing, re-sawing and passing lengthwise through standard planing machine, crosscutting to length and matching.

Mini-sawmill - a sawmill consisting of a headrig with a flywheel diameter not exceeding 106 cm. (42 inches), a bandsaw blade with thickness not exceeding 3 mm. a width of not more than 127 mm. (5 inches), with or without a carriage and a daily rated capacity of not more than 18 cu.m. or 8,000 log carriage or its equivalent, the carriage shall have a gross length of not more than 3.2 m. (10.5 ft.).

Other Wood Based Panel Plants (includes blockboard, fiberboard and particle board) - processing plants producing panels of 4 ft. by 8 ft./5 by 10 ft./2 by 4 ft. sizes from wood in the form of low-quality logs, lumber strips, logging and processing wastes using natural or chemical binders, pressure and heat.

Plywood plant - a primary wood processing plant used to convert logs into panels made of alternating cross veneer layers, held together by an adhesive. Basic machineries include peeling/slicing machinery, dryers, cold/hot press, and finishing machines.

Regular sawmill – a sawmill with a daily rated capacity of at least 10,000 board feet.

Sawmill - a wood processing plant used for the conversion of logs/timber into lumber, or the re-sizing/ ripping of lumber, slabs and other wood wastes into desired dimensions and forms.

Veneer plant – a primary wood processing plant used to convert logs into standardized sheets either by peeling or slicing.

Wood-based panel – a product category that is an aggregate representing the sum of veneer sheets, plywood, particleboard, and fiberboard.