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Philippines

Solid Wood Products

Annual

2005

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Report Highlights:

The devastation brought about by mudslides in December 2004 has forced the Philippine Department of Environment and Natural Resources (DENR) to impose stricter logging and forest products transport regulations. The disaster also resulted in a review of existing forestry laws by the GRP. Pending results of the review, tighter guidelines are expected to govern local timber cutting and wood use. Because of this, solid wood production is expected to contract through 2006, providing positive prospects for increased U.S. wood exports, in particular, for use by the local furniture and interiors sectors.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Manila [RP1]
[RP]

Summary

Official data on forest cover and timber production is not readily available, but the Philippine forest resource is expected to continue its decline through 2006. A series of devastating typhoons, and the ensuing mudslides in Central Luzon in December 2004, exposed the seriousness of unabated deforestation activities, both legal and illegal, in the Philippines. The disaster, and its effects on major stakeholders, has forced the GRP to review existing forestry laws. Revising Philippine forestry policy, however, ideally will need a national land-use code for the guidance in classification of Philippine lands. A new and comprehensive forestry law is expected to be more environment-friendly. In the meantime, and pending results of the review, the Department of Environment and Natural Resources (DENR) is imposing tighter regulations on forest product harvesting and local wood use. While this situation widens the window for increased U.S. forest product exports, new taxes and increasing manufacturing costs, are expected to dampen any significant increase in overall wood demand over the next two years. The Philippine solid wood market, in general terms, is likely to contract over the next two years because of this, with the furniture and interiors sectors expected to remain the niches that offer the best prospects for increased U.S. wood exports. These prospects will be made more positive if the GRP were to grant the industry's duty-free request for lumber, veneer and wood panel imports.

Production

- Forest Situation & Outlook

Official Philippine forestry statistics are provided by the Forest Management Bureau (FMB) of the Philippine Department of Environment and Natural Resources (DENR) at:

<http://forestry.denr.gov.ph/stat2003.htm>

The most recent statistics, however, are only through CY2003. Forest areas and cover are expected to continue shrinking through 2006 with timber removals and annual allowable cut (AAC) expected to follow this declining trend. Indicative of this are the recent environmental disasters that otherwise would not have happened had there been ample forest cover or trees in areas classified as forests.

Successive typhoons from November to December last year resulted in massive floods and mudslides in Aurora and Quezon provinces on the main island of Luzon, causing significant damage to property and loss of human lives. In response, President Gloria Macapagal-Arroyo instructed the DENR to order the suspension of all timber cutting throughout the country. The President also asked Congress to review a bill filed in the late 1980s that called for a total logging ban nationwide for 25 years.

The DENR log ban was partially lifted early this year. More information on that issue is available at:

http://www.pwpa.org.ph/index_newsview.php?idx=63

Despite the order, the confiscation of illegally cut logs still continues, as reported by local media, and the DENR has responded by increasing its vigilance. It has also initiated a study of the possibility of limiting logging operations to 2-3 regions while prohibiting timber harvests elsewhere. Refer to:

<http://www.denr.gov.ph/article/articleview/2751/1/349/>

In the recently-concluded first Philippine Forestry Development Forum held in Manila at the Asian Development Bank (ADB), forestry experts and industry players expressed concern over the DENR's forestry policies which they regard as creating uncertainty among major stakeholders. They cite the absence of a comprehensive forestry law as a major shortcoming and reportedly submitted a proposal to President Arroyo and the Philippine Congress urging the GRP to classify lands into specific production forests and/or protected areas. The proposal likewise urged Congress to act on the Sustainable Forest Management Bill and the National Land Use Code, two bills that have been pending in the legislature since 1998. What is currently being implemented, according to media reports, is the 30-year old Revised Forestry Code, which many consider to be obsolete. To efficiently classify Philippine land, be it forest or non-forest, a clear land-use policy is required.

While the DENR has reportedly maintained a vigilant outlook for illegal loggers, some wood users have complained that overzealousness in regulating the movement of forest products is causing delays in the procurement of local wood (refer to Furniture and Interiors Market Segment).

- Solid Wood Products & Outlook

Forest products production and price information for 2004 is provided at:

<http://forestry.denr.gov.ph/designated.htm>

Applications to operate new wood processing facilities, e.g. sawmills and mini-sawmills, plywood and veneer plants, have been suspended since 2003 as most sawmills and mini-sawmills had reportedly been identified as utilizing illegally-sourced logs. In general terms, production of Philippine wood products is expected to contract considerably this year, and further shrink the following year as the GRP intensifies efforts to curb illegal logging, which is the likely source of a considerable portion of the country's wood supply. As a result, the number of wood processing plants and their output of logs, lumber, veneer and plywood, is expected to decline from the 2004 level.

The local wood products industry association is the Philippine Wood Producers Association (PWPA) whose member companies and their corresponding product lines are provided at the following link (enter logs, lumber, plywood or veneer to search for specific items).

http://www.pwpa.org.ph/marketplace_service_search.php

The monthly manufacturing output by volume for wood and wood products as well as furniture and fixtures through February 2005 is provided at the following link:

<http://www.bsp.gov.ph/statistics/spei/tab40.htm>

Trade

DENR acknowledges the difficulties in curbing illegal logging. In a statement submitted to the G-8 Environment and Development Ministers Meeting in the United Kingdom in March 2005, DENR Secretary Michael Defensor reportedly asked the G-8 member-nations to ban the entry of illegally-sourced lumber and wood products into their respective markets. Currently, however, a system implementing a forest stewardship certification system is not in place, and the GRP's severe lack of resources constrain effective enforcement of such a desired eco-labeling forestry regime.

The GRP is currently conducting a review and hearings on MFN tariffs for 2006 onwards. As such, 2005 MFN import duties for forest and wood products remain at the levels reported in GAIN RP 4035. During public hearings, local furniture manufacturers have been very vocal in pushing for tariff-free privileges for lumber, veneer, and solid wood panels imports (refer to Furniture and Interiors Market Segment). Any tariff changes are likely to be announced before the end of 2005, and are expected to be aligned with the forest policy currently being crafted.

The PSD table trade numbers for 2004 are Post estimates, which approximate WTA data. The factors affecting solid wood products trade are enumerated in the specific wood market segments. While there are expected shifts in solid wood import patterns, in general, the Philippine forest products market is expected to contract through 2006.

Market Segment Analysis

The 2003 and 2004 GNP and GDP performance (at constant 1985 prices) by industrial origin and expenditure share is provided at:

http://www.neda.gov.ph/econreports_dbs/NIA/GNP_GDP/FY_%202004_29Janv2_SummaryTableNIA.xls

Provided in the table below are the 2005 first quarter growth rates with textual descriptions provided in:

<http://www.nscb.gov.ph/sna/2005/1stQ2005/2005qpr1.asp>

Growth Rates (Percentage calculated at constant 1985 prices)			
Sector	2005 Q1	2004 Q1	2004 Q4
Agri-Fishery	-0.1	8.6	1.4
Agriculture and fishery	0.1	8.3	1.4
Forestry	-40.5	96.5	-47.9
Industry	4.2	4.7	7.2
Mining and quarrying	-4.4	21.7	1.5
Manufacturing	4.2	3.9	7.4
Construction	7.9	1.7	9.2
Electricity, gas, water	5.6	5.1	5.2
Services	6.9	6.6	5.9
Transport & communications	9.6	9.2	9.6
Trade	6.0	7.1	5.8
Finance	11.1	7.0	8.0
Real estate	6.8	4.0	3.9
Private services	4.6	6.5	6.5
Government services	4.3	3.5	-1.8
Gross domestic product	4.6	6.4	5.4
Gross national product	4.7	6.4	5.6

Source: National Statistical Coordination Board

For the entire calendar year 2005, the Arroyo administration is projecting GDP growth at between 5.3-6.3 percent, and to settle within a range of 6 percent to 7 percent in 2006 and 2007. The International Monetary Fund (IMF) and ADB, however, expect growth at a slower rate during this period.

From P186 billion (\$3.4 billion at P55/\$) or 3.8 percent of GDP in 2004, the GRP is hoping to narrow its budget deficit to 3.6 percent of GDP with the implementation of President Arroyo's Republic Act 9337 (RA 9337) or the Expanded Value-Added Tax Act of 2005 (refer to GAIN RP 5020). RA 9337 takes effect July 1, 2005 and lifts the VAT exemptions previously enjoyed by several industries (including power and electricity, air and sea transport, and the sale of forest products). Prior to RA 9337, new taxes on alcohol, tobacco and petroleum products were also imposed. GRP economists reportedly believe the new taxes will generate an estimated \$1.94 billion in additional tax revenue next year, and help the GRP meet its debt obligations.

A. Construction Sector

The growth in the local Business Process Outsourcing (BPO) industry last year enhanced demand for real estate and office space and likely led private construction activities. As of the end of 2004, the Philippines reportedly had more than 70 call centers, 80 percent of which are located in Metro Manila.

A summary of private building construction for the past five years follows:

NUMBER, FLOOR AREA, & VALUE BY TYPE OF PRIVATE BUILDING CONSTRUCTION												
(Value in billion Pesos, floor area in thousand sq.m.)												
Year	Residential			Non-Residential			Additions/Alterations			TOTAL		
	No.	Floor Area	Value	No.	Floor Area	Value	No.	Floor Area	Value	No.	Floor Area	Value
2000	47,911	4,989	24.60	7,647	5,115	37.11	14,878	517	8.22	70,436	10,620	69.76
2001	50,276	5,883	28.77	8,214	4,557	79.85	15,596	615	8.13	74,086	11,056	166.75
2002	63,516	7,080	36.38	10,441	5,090	41.28	17,514	611	8.26	91,471	12,781	85.92
2003	66,308	7,968	42.08	10,715	5,032	31.13	18,867	2,194	7.41	95,890	13,608	82.21
2004	71,918	8,543	49.95	11,187	5,747	40.03	19,536	588	9.51	102,641	14,878	99.49

Note: Totals may not add up due to rounding.
Source of Basic Data: National Statistics Office

Information on the Philippine housing market may be found at:

<http://www.hudcc.gov.ph/index.php?id1=6>

Guidance and regulations for all Philippine buildings and structures are provided in Republic Act No. 6541 or the National Building Code of the Philippines.

<http://www.chanrobles.com/republicactno6541.htm>

Details on the upcoming (Nov. 13-15, 2005) 15th Philippine International Construction Equipment and Building Materials Exhibition and Technology Forum follows:

http://www.philonline.com.ph/~webdev/GlobalLink/PhilConstruct/philConstruct_index.htm

According to the National Economic Development Authority (NEDA), for the first quarter of 2005, private construction grew 5.8 percent from the same period the previous year, as developers capitalized on low interest rates. Sustaining this growth will likely depend on the continued expansion of call centers, as housing demand will be dampened by the increasing prices of labor and construction materials. Housing unit-prices are likely to increase further starting the second half of this year, and accelerate in 2006 as the effects of the higher VAT become more pronounced. This will compound existing price considerations and misconceptions about the strength and durability of wood as a construction material, as well as further dampen imports of wood materials for exterior and structural purposes in the construction of call centers. But since call centers in the Philippines are mostly offices of foreign multinational companies, they are often high-end in nature, are not as price-sensitive in terms of office space rental compared to firms catering to the local market. The interiors and furniture requirements of newly constructed BPO offices, therefore, offer the brighter prospects for more wood use in the next 2–3 years.

B. Furniture and Interiors Sector

A report cited on the Chamber of Furniture Industries of the Philippines' (CFIP) website and funded by the Canadian International Development Agency (CIDA) entitled "The State of the Sector Report on Philippine Furniture, 2004" provides new and comprehensive information on the state and direction of the Philippine furniture industry. It may be downloaded at:

<http://cfip.com.ph.16.m6.net/dll/PEARL2%20State%20of%20the%20Sector%20Report.pdf>

The Philippine International Furniture Show (PIFS) is the premier furniture show in the country and indeed many overseas furniture buyers consider the Philippines to be a center for creative furniture design in Asia. Details on the PIFS and other furniture shows follow:

<http://cfip.com.ph.16.m6.net/events/trandex-index.asp>

Effects of the December 2004 floods and mudslides, as well as the position of the CFIP on the proposed total log ban may be accessed in:

<http://cfip.com.ph.16.m6.net/news/default2.asp?getsect=Industry&getID=62>

Exported Philippine furniture is manufactured by roughly 2,500 furniture companies in the Philippines, with about 98 percent considered to be small-to-medium scale operations, according to industry contacts. Only two percent or approximately 50 are considered large furniture-exporting firms, with about five U.S. companies exporting an estimated 75 to 80 percent of their finished products back to the United States. These large furniture makers-exporters import most of their wood requirements because of the unreliability of supply of domestic wood. Alder, ash and oak are popular U.S. wood species and other temperate hardwoods are reportedly gaining popularity because of consistency in supply. The preferred wood grain varies, according to industry contacts, depending on the furniture to be manufactured.

While the furniture and interiors sectors continue to hold the most promise for increased U.S. wood sales, the local industry faces many challenges. Recent wage increases, coupled with the new taxes under RA 9357, will inevitably increase wood prices, and consequently furniture manufacturing costs. The increase in corporate income tax is also of particular concern to big furniture manufacturers and exporters. While most domestic furniture makers are small to medium-scale in size, the larger firms are those that export significant quantities of furniture, and are therefore major wood importers. According to the American Chamber of Commerce of the Philippines, Inc., the impending increase in corporate income tax will make the Philippines the country with the highest corporate tax in the region.

The higher taxes will likely affect the competitiveness of the local furniture industry, and consequently affect wood trade, next year onwards. Dampened global demand and increased competition in 2005, are expected to slow furniture exports during the period.

The abovementioned challenges, however, give credence to the request by the local furniture industry for the GRP to eliminate tariffs on imported lumber and other wood products. CFIP claims zero-tariffs for lumber imports would alleviate the current problematic disruption of wood supply. With a zero-duty regime, importation would be less cumbersome, according to CFIP, as it currently takes between a month and three months to obtain all the requirements for the cargoes to come in through the ports. CFIP notes that while current MFN tariffs for imported lumber are at 7 percent, imported furniture may be enjoying a zero-tariff privilege by 2007 under the Common Effective Preferential Tariff (CEPT) scheme of the ASEAN Free Trade Area (AFTA). CFIP is also pushing for duty-free importation of veneer and wood panels from the current 7 percent and 5-10 percent MFN duties, respectively. The tariff-free privilege is expected to be of significant advantage to U.S. lumber and veneer exports as the prevailing CEPT rate is at 3 percent. More information on the CEPT is provided in:

<http://www.tariffcommission.gov.ph/afta-cep.html>

C. Material Handling Industry

GRP and private analysts agree that, in general terms, robust domestic demand in 2004 contributed to the growth in manufacturing and the economy as a whole. Increasing oil and consumer prices have not abated, rather it has forced the Bangko Sentral ng Pilipinas (BSP) to raise its full-year inflation forecast for the 4th time recently (now at 7.9 percent). Prices are expected to increase further through 2006 and are expected to dampen growth in personal consumption and overall demand.

Consistent with the feeble manufacturing output in the first quarter of this year, export growth weakened as global demand slowed. The deceleration of manufacturing activity in the first three months is a likely indication of how the sector will perform for the entire 2005. This infers a corresponding slowdown in demand for packaging materials this year.

The Philippines is a party to the International Plant Protection Convention (IPCC) and must comply with the International Standards for Phytosanitary Measures or ISPM 15. In October 2004, the Bureau of Plant Industry (BPI) issued Administrative Order 1 (BPI-AO 1) or the Guidelines for Regulating Wood Packaging Material Involved in International Trade. BPI-AO 1 provides that:

1. All shippers or exporters using wood packing materials (WPM) should complete an application form for WPM prior to exportation at least 72 hours before treatment.
2. For destinations that do not implement ISPM 15, inspection should be deemed sufficient until the destination decides to implement the standard.

3. Treated WPMs should be properly secured after treatment to avoid recontamination/re-infestation.
4. Treated WPMs should bear the approved mark indicating the date of the treatment, code and the kind of treatment used.
5. Treatment of WPMs should be done only by accredited treatment companies/service providers of BPI.

Heat treatment or fumigation of all unprocessed and raw wood packaging materials are the two approved procedures to be undertaken by BPI-accredited facilities for compliance with ISPM 15. Fumigation is the likely treatment to be adopted by the majority of local exporters.

D. Other Wood Industrial/Niche Markets

To achieve its growth targets in 2005, the Arroyo administration reportedly intends to create a business-friendly environment and will be implementing priority infrastructure programs. Increased spending on major infrastructure projects has already resulted in public construction growing 5.1 percent in the first quarter of this year, a reversal from the 11.5 percent contraction during the same period in 2004. With the new taxes and other fiscal reforms in place, the GRP is now trying to attract prospective investors to locate industries in the Philippines. Central to this bold plan is using the Subic and Clark industrial zones, two former U.S. military bases. More details can be found at:

<http://www.bcda.gov.ph/projects-sct.asp>

Priority GRP infrastructure projects include the construction and/or upgrading of other major highway and rail construction, ports and shipping docks. These include: the Northrail and Southrail Commuter Project; Subic-Clark-Tarlac Expressway Project; Subic Bay Port Project; South Luzon Expressway Alabang viaduct and Calamba-Sto. Tomas phase; MacArthur Highway Widening; Southern Tagalog Arterial Road; Lipa-Batangas connection; Skyway extension; and C-5 extension to Sucat.

Funding limitations remain an obstacle, however, although the GRP reportedly will pump in about P100 billion (\$1.8 billion) this year for infrastructure spending. It also intends to tap multilateral funding and other private sources. Because the projects are to be financed largely by foreign capital (such as China, for the Northrail and Subic Bay Port projects), they are expected to utilize foreign technology and construction materials. A long-term partnership with the GRP vis-à-vis construction of key heavy infrastructure projects may offer a window for increased imports of U.S. wood.

On Jan. 16, 2005, President Arroyo issued Executive Order No. 270 (EO 270), which paves the way for revitalization of the mining sector. EO 270 comes after the Philippine Supreme Court ruled in December 2004 that foreigners were eligible to become majority shareholders in mining projects. More information on this may be downloaded at:

<http://www.denr.gov.ph>

The opening of the mining sector is expected to attract foreign investors, and in the long term, offer positive opportunities for more U.S. wood exports.

Statistical Information

PSD Table						
Country	Philippines					
Commodity	Tropical Hardwood Logs				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Production	375	500	325	300	0	280
Imports	275	129	260	80	0	70
TOTAL SUPPLY	650	629	585	380	0	350
Exports	0	0	0	0	0	0
Domestic Consumption	650	629	585	380	0	350
TOTAL DISTRIBUTION	650	629	585	380	0	350

PSD Table						
Country	Philippines					
Commodity	Tropical Hardwood Lumber				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Production	170	295	165	170	0	150
Imports	225	135	250	230	0	240
TOTAL SUPPLY	395	430	415	400	0	390
Exports	90	68	100	25	0	30
Domestic Consumption	305	362	315	375	0	360
TOTAL DISTRIBUTION	395	430	415	400	0	390

PSD Table						
Country	Philippines					
Commodity	Hardwood Veneer				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Production	250	250	280	200	0	190
Imports	75	40	80	70	0	70
TOTAL SUPPLY	325	290	360	270	0	260
Exports	3	3	3	2	0	1
Domestic Consumption	322	287	357	268	0	259
TOTAL DISTRIBUTION	325	290	360	270	0	260

PSD Table						
Country	Philippines					
Commodity	Hardwood Plywood				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Production	275	310	280	270	0	265
Imports	45	32	55	40	0	45
TOTAL SUPPLY	320	342	335	310	0	310
Exports	20	25	20	25	0	20
Domestic Consumption	300	317	315	285	0	290
TOTAL DISTRIBUTION	320	342	335	310	0	310