Sector Profile
For Forestry and Wood Products
In The Philippines Market

1.0 MARKET STRUCTURE[1]

1.1 Background

The Philippines is experiencing a decline in the volume and quality of local wood supply due to the alarming dwindling forestry situation. The timber industry used to be among the top contributors to the country's national income. The Philippines, being a timber producing country, had been one of the most active producers and exporters of logs and other wood products in the Asia-Pacific region. Over the last three decades, however, the industry has steadily declined in terms of economic prominence. The important contributions of the industry have been eroded by deforestation that has been going on at a rate acknowledged to be among the highest in the world. The rapid depletion of the country's forest resources brought about by various factors has severely affected and continues to affect the viability of the industry.

1.2 Market Size

Data from the Department of Trade and Industry in the Philippines revealed that the country's imports of forest products from New Zealand increased by 37%, from US$ 10.3 million in 2004 to US$ 16.5 million in 2005. Of the total amount of US $ 16.5 million, sawn timber/lumber accounted for 25%, logs (2%), plywood and veneer (37%), pulp wood (7%) and others (29%).

Logs

Local log production dropped significantly by 52% from 767,668 m^3 in 2004 to 367,079 m^3 in 2005. The net supply or apparent domestic consumption (ADC) of local logs in 2005 was 22% lower (951,000 m^3 in 2004, 745,000 m^3 in 2005) in volume than that in 2004. Imported logs constituted 22% of 2005 ADC compared to 19% ADC in 2004.

Total log imports decreased slightly by 7% from 177,107 m^3 in 2004 to 164,960 m^3 in 2005. Hardwood logs continue to dominate log imports, accounting for over 50% of total log supply in the year. Sawmillers mostly use tropical hardwood logs coming from Solomon Islands, Malaysia, and Papua New Guinea as raw material for lumber manufacture. The volume of imported softwood logs (mostly sourced from NZ) that is processed into lumber is negligible, as imported softwood logs are mostly processed into plywood. Log imports from NZ in 2005

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totalled 7,987 m^3. Lumber manufactured from local logs is primarily produced from the lauan species from dipterocarp forests, from plantation species, and coconut wood (cocowood).

Lumber

Local lumber production decreased by 30% in 2005 from 339,272 m^3 in 2004 to 236,512 m^3 in 2005. Of the total lumber imported (363,339 m^3) in 2005, more than 40% of imported lumber originated from Malaysia. Lumber imports from New Zealand only accounted for 6% of the total volume imported in 2005. The increase in total lumber imports in 2005 can be attributed to the decline in local lumber production available for the end use sectors.

Veneer and Plywood

Veneer and plywood imports soared in 2005. Veneer imports increased by 20%, with a volume of 64,979 m^3 in 2005. Plywood imports likewise increased by 52% to 77,463 m^3 from 37,271 m^3 in 2004. During the 1980s, the Philippines was the third leading exporter of veneer and plywood in the Southeast Asian region. Increasing production costs, scarcity of locally available peeler logs, and competition have contributed to the decline of these product sectors.

The demand for wooden poles has declined in the past two years due to the shift in usage from wooden to concrete and steel poles for electrification and telecommunications applications. There is still, however, an ongoing demand for wooden poles used by the electric power cooperatives to replace typhoon damaged poles.

1.3 End Use Segments

The largest lumber consuming sector in the country is the construction/housing industry, which accounts for an estimated 80-85% of domestic lumber consumption.Data from the National Income Accounts showed that the gross value added (GVA) in construction grew by 4.3 percent year-on-year in 2005, slower than the 7.3 percent increase in construction activities in 2004.

Industry experts believe that annual inflation for construction materials is expected to ease in 2006. Therefore, private construction activities are also expected to rise, as easing inflationary pressures will encourage more residential and commercial building developments

By far, the largest domestic user of plywood is the construction industry. It is estimated that this sector uses about 80% of the plywood produced. Private and government housing projects and building construction are the primary end users - in frameworks, ceilings, partitions, paneling, and side panels, built in cabinets and flush doors. Market development programs, changes in design trends and training seminars directed at educating the sector on the many uses, properties, and suitability of wood for construction applications will go a long way in making wood a preferred construction material.

The furniture manufacturing and woodworking industry is the second largest user of sawn timber, with an estimated 10% share respectively of lumber and plywood consumption. A recent report reveals that exports of Philippine furniture earned US$ 304 million or Php 16 billion in 2005, a slight improvement of 3.2% over 2004 total value of US $ 294 million. According to the Chamber of Furniture Industries of the Philippines (CFIP), wood continues to account for the largest share (over 40%) of furniture exports. The US remains to be the largest market for Philippine furniture in 2005. Industry contacts reveal that the furniture industry will be focusing on the high end market to avoid competing on the basis of price with suppliers from China, Vietnam and other low cost producers.

1.3 Growth Rate

- Philippine log imports have a steady market in the Philippines. The growth rate however started to decline over the past two years due to declining sawmill capacity coupled with the renewed weakness of the peso.

- A substantial volume of the local demand for lumber is met through imports. Lumber imports have fluctuated slightly over the last five years but maintained a steady increase in the past two years.

- The Philippine Wood Processing Association (PWPA) estimates that the industry will be importing US $50 million of aggregate forest/wood products should the government continue to implement the indefinite /prolonged logging suspension.

1.5 Known Factors Influencing Growth Rate

- The private construction sector is expected to improve as the real estate sector will see growth in 2006 that will translate to higher sales in the industry.

- The PWPA and the CFIP are studying strategies designed to secure a stable and reliable source of raw materials, in the light of the logging ban imposed by the government. Long-term supply relationships based on price, accessibility, geographic and competitive advantages are envisaged.

- Furniture exporters' relationships with the major US and European buyers will continue influence decisions on where to source raw materials.

- The dramatic decline in the number of sawmills operating in the country will result in the substantial decrease of local lumber production. The scarcity of local lumber will prompt protracted reliance on imported lumber usage.

- Many firms and countries are looking for ways to keep the industry economically viable; there will be growing usage of local plantation species as general construction grade timber. Plantation species lumber will likewise provide inputs for domestic furniture production.

2.0 COMPETITIVE ENVIRONMENT

2.1 Major Players in the Market

Based on full year 2005 statistics, logs were principally sourced from Solomon Islands, accounting for 40% share of the total imported log market. Malaysia, and Papua New Guinea are the other major suppliers of tropical hardwood logs.

Of the total lumber imported in 2005, over 50% originated from Malaysia which dominated lumber imports. Canada and the USA are the second and third largest suppliers of imported lumber. Softwood lumber imports mostly came from New Zealand.

The local species used as utility poles are Gmelina, Bagras and Eucalyptus. Locally treated poles do not last as long as those treated abroad. Most of the imported wooden poles being used in this market are sourced from the United States, New Zealand, and Malaysia. The US remains the top supplier of wooden poles.

2.2 Marketing Strategies

The lack of product knowledge and utilisation of U.S. hardwoods in furniture making and interiors has been partly addressed by several training seminars sponsored by the American Hardwood Export Council (AHEC). The Northwest Hardwoods and AHEC provide importers, specifiers, and end users with promotional assistance, technical information and sources of supply for American hardwoods in countries where they are represented. Occasionally, they also conduct seminars targeting different end use segments, such as, interior decorators. Foreign suppliers in the market likewise send major end users on inward buyer mission trips.

At present, the wood processing and furniture manufacturing sectors are already aware of NZ Pine. In fact, a number of companies belonging to these sectors already use NZ Pine logs and lumber. NZ Pine lumber is likewise carving its niche in the construction industry. To create awareness and increase its usage in construction, one NZ supplier conducted/sponsored a seminar on NZ Pine's construction grade application during the annual meeting of the United Architects of the Philippines. This resulted in increased awareness and appreciation of NZ Pine's quality for certain construction applications.

2.3 Distribution Channels

Traditionally, forestry and wood products are distributed locally by distributors, traders and agents. Traders and agents normally act as middlemen between the supplier and the client. Their clients include sawmills, plywood manufacturers and furniture manufacturers. Agents and traders normally work on commission basis, the rate of which depends on the arrangement between the agent and the supplier.

In the case of locally harvested logs, most log harvesters have timber license agreements and do their own processing for resale or for their own consumption. Sawmillers or plywood manufacturers also sell their processed wood to retailers or direct to contractors. There are also instances wherein the sawmillers or wood processors do their own importations of logs intended for their own production.

2.4 Pricing

Competitive pricing is critical in this market. Pricing of logs and lumber is customarily determined by global supply and demand.

NZTE was able to obtain indicative current prices (2006) of sawn timber from competing sources. Listed below are CIF prices of sawn timber (except for local lumber, price is quoted in average domestic price), as supplied to NZTE by our wood importing agents.

Wood Type	Price (CIF US $)/m^3
Acacia (local hardwood)	125
Gmelina (plantation)	37
Mixed light hardwood (MLH)	140-190
Spruce Pine/Fir (Canadian) KD lumber	.42/kg
US mixed lumber	.60/kg
NZ Radiata Pine (KD)	.51-.88/kg

Industry contacts that are currently sourcing logs and sawn timber from New Zealand claim that they are now increasingly sourcing from countries in Europe, South Africa, Malaysia, and Indonesia, as prices of wood coming New Zealand are sharply rising.

3.0 REGULATORY OVERVIEW

3.1 Duties/Taxes

Logs, sawn timber, wooden poles and MDF are freely importable items.

The current duty for logs/wooden poles, sawn timber, MDF and particleboard are 0%, 7%, and 15%, respectively. A 12% value added tax is levied on all imports. This is computed based on the landed cost of the product.

3.2 Regulatory and Licensing Restrictions or Difficulties

There are a few entry requirements that forestry and wood products importers should comply with. Wood products importers are required to register with the Department of Environment and Natural Resources (DENR) and the Philippine Wood Products Association (PWPA), obtain an authority to import and provide a phytosanitary certificate issued by the counterpart plant quarantine authority from the originating country.

3.3 Quotas

There are no import bans or quotas on logs, sawn timber, veneer or wooden poles into this market. Import bans are only enforced on wooden products that are not properly documented.

4.0 RECOMMENDED STRATEGIES

4.1 Possible Points of Differentiation for New Zealand Companies

- The use of NZ Pine is environment friendly as it comes from an industrial plantation forest (renewable resource).

- NZ Pine has high recovery yield.

- NZ Pine suppliers can provide consistent and reliable wood supply.

- Pine lumber is suitable for furniture manufacture due to its excellent machining and finishing properties.

- New Zealand forestry and wood products have a forest stewardship certification (FSC). It is an independent certification, which shows that plantations are managed according to political, social and environmental factors and values. The Chamber of Furniture Industries informed us that their export buyers (from the US and Europe) now require furniture manufacturers to provide them with documentation on chain of custody or certification or forest certification/accreditation on the source of the wood materials.

4.2 Tactical Recommendations on Market Entry

NZ lumber suppliers should start positioning themselves as a reliable supplier of construction grade lumber in anticipation of improved market conditions in the construction sector.

Suppliers should also sponsor/support activities of wood based trade associations such as the CFIP or PWPA by conducting product demonstrations or workshops on NZ Pine and sponsoring inward buyers' missions.

The Chamber of Furniture Industries of the Philippines (CFIP) is the national association that works for the mutual benefit and sustained growth of the Philippine furniture industry. At a recent meeting with their Executive Director, we were informed of their programs that could provide mutual opportunities for cooperation for both New Zealand suppliers of raw materials and the Chamber. CFIP regularly organizes seminars and training programs on a variety of topics, such as, managing the supply chain, supervisory effectiveness on improved quality and productivity, among others. The Chamber welcomes speakers from overseas who can provide training programs that would benefit the industry. Topics relating to capability building, productivity and technical applications on the use of raw materials are valuable.

4.3 Recommendations on Long Term Strategic Issues for Exporters to Consider

The prospects for increased imports of forest products by the Philippines remain positive in the light of domestic supply shortage.

While the current importation of New Zealand pine into the Philippines is an indication of market's acceptance for pinewood, there is the need to expand volume demand and increase its usage, especially for construction applications.

To further promote New Zealand pine, New Zealand Trade and Enterprise Manila recommends the following activities:

- Organise and conduct seminars/technical workshops on New Zealand Pine to target both the Philippine Wood Producers Association, Chamber of Furniture Industries of the Philippines, and United Architect Association of the Philippines. These sector specific seminars should be done on a sustained (yearly or every two years) basis, in order to achieve positive results and continuity;

- Conduct/sponsor a seminar on NZ Pine's construction grade application during the Worldbex 2007 trade fair. Worldbex is the premiere construction and building products trade fair in the Philippines. The 12th Worldbex will be held on 14-18 March 2007; and

- Sponsor inward buyers' missions, composed of new and existing customers involved in wood processing, construction and furniture exports.

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