

Investment and Financing in Timber Production and Processing in the Philippines

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Good morning...

It is a privilege for the Philippine Wood Producers Association to be part of this forum which aims to strengthen the policies and opportunities for forest investment in our country.

We have been asked to discuss "Investment and Financing Mechanisms in Forest Production and Processing in the Philippines." We have, however, modified the topic, limiting it to "Investment and Financing in Timber Production and Processing in the Philippines," simply because "forest production" is a highly diversified concern and I would rather limit this presentation to what our sector is most familiar with. I believe, too, that, other speakers have more effectively tackled the broader picture on forest production and processing.

This paper will tackle, for the most part, these four key points:

- That the Philippines still has vast tracts of land---in areas with year-round favorable climate---which can be developed as industrial tree plantations,
- That working with indigenous people with their right to ancestral domain has been one of our biggest challenges, but one which could translate to greater productivity for the industry and of greater benefit to communities
- That a large demand for wood products exists---bigger even today, mainly because wood comes from renewable resources and because it is more environment friendly compared to other raw materials like plastic, metal and other non-wood materials, and
- That to attract investors to this sector, the government, particularly the DENR must be able to put together a package of services which will make it easier for investors to come in.

Let me expound on key point number one...

The Philippines still has vast tracts of land---in areas with year-round favorable climate---which can be developed as industrial tree plantations.

But first, a little historical background on the industry...

The wood-based industry, particularly following World War 2, was one of the economic pillars of the reconstruction period, with the government strongly encouraging timber production and export for much needed foreign exchange. In the 1980s and 90s, log exports were banned and logging bans were declared in several regions, drastically reducing timber license agreements from 408 to five today. A number of these timber license agreements--- which by the way could no longer be renewed as provided for in the constitution, had been converted to integrated forest management agreements or IFMAs. Integrated forest management agreements, though still concerned with tree harvesting, emphasize forest development and productivity.

By the way, all statistical data presented here come from official government sources. I believe, however, that these data need further validation for accuracy.

Today, the Philippines' forest areas consist of 16 million hectares, with 13 million hectares suited for timber production.

Table 1. Land Classification of the Philippines

Land Classification		Area in million ha	Percent
Forestland		15.8	53
Classified	15.0		
Unclassified	0.8		
Certified A&D		14.2	47
Total Area		30.0	100

Source: 2005 Philippine Forestry Statistics, FMB, DENR

About 6 million hectares have been claimed for Indigenous Cultural Communities, as mandated in the Indigenous Peoples Rights Act of 1997.

Table 2. Allocation of Forestland

Tenure	Area in '000 ha	Tenure-exempt/free	Area in '000 ha
TLA	779	National Park	1,342
IFMA/ITPLA	714	Military/Naval/Civil	
PTLA	46	Reservations	292
AFFLA	90	Watershed Reserves	1,499
TFLA	17	Fishponds	91
SIFMA	40	Untenured forest	
FLGMA	109	reserves &	
CBFMA	1,662	timberland	2,429
Total	3,457	Total	5,653
CADT/CALT ¹	5,977	Unclassified	753

Source: 2005 Philippine Forestry Statistics, FMB, DENR

Untenured areas or those still free for investors total three million hectares, but prospective investors may still want to venture into tenured areas, especially areas under community-based forest management and socialized industrial forest management, which by the way do not have the financial capability to develop them.

Out of the current 13 million hectares of timber area, 7 million hectares are with forest cover, 6.8 million hectares of which are planted to high value trees or hard woods. (Again, statistics from government agencies).

Table 3. Forest Area by Category

Forest by Category	Area (ha)	Percent
Broad-leaved Forest	6,857,803	95.70
Coniferous Forest	221,971	3.10
Mixed Forest	82,786	1.20
Total	7,162,560	100.00

Source: National Forest and Tree Resources Assessment 2003-2005, FMB, DENR

Please note that 85 % of this forest cover is government-owned, thus anyone investing in any of these must enter into agreements with the Philippine government.

¹ If claimed by ICCs or IPs per NCIP, they are no longer under the forestland category but A&D or private land under native titles.

Table 4. Forest Area by Ownership

Land Tenure	Area (ha)	Percent
State-owned	6,087,029	85.0
Privately owned	1,044,486	14.6
Municipality owned	9,846	0.1
Community owned	21,559	0.3
Total	7,162,560	100.00

Source: *ibid.*

Note further that of the total forest cover, less than 30% is covered by management plans, leaving the 70% unprotected and subject to the elements as well the encroachment of illegal loggers and kaingineros or slash and burn farmers. On the other hand, this 70% forest cover can be turned into a productive venture, benefiting communities around them---if investors come in with their highly-needed resources, as well as with the blessing of the government.

Table 5. Forest Area by Management System

Management System	Area (ha)	Percent
With Management Plan	2,101,942	29.4
Without Management Plan	5,059,618	70.6
Total	7,162,560	100.00

Source: *ibid.*

Estimated content of timber from this current 7 million hectare forest area is 387 million cubic meters, two million cubic meters of which can be harvested every year on a sustainable basis, representing import savings of two hundred million dollars, or at current conversion, 9.6 billion pesos per year.

Table 6. Commercial Volume by Category inside Forestland

Forest by Category	Gross Vol. (m3)	Percent
Broad-leaved Forest	371,612,834	96
Coniferous Forest	15,291,282	4
Mixed Forest	52,551	<1
Total	386,956,668	100.00

Source: *ibid.*

Note: Commercial volume refers to trees attaining diameter limits of 50 cm and over.

However, if the government deregulates restrictions on private lands, an additional one million cubic meters of timber may be harvested per year.

Table 7. Commercial Volume of trees outside forestland

Forest by Category	Comm. Vol. (m3)	Percent
Other wooded land	13,351,271	35.0
Other land	24,080,987.47	63.2
Inland water	672,270.93	1.8
Total	38,104,529.82	100.00

Source: ibid.

Let me emphasize that based on an opinion of the Department of Justice², trees planted and harvested in private lands are likewise considered agricultural crops and not forest products; and yet private land owners seem to encounter problems today transporting timber products out of their private plantations. I bring this up to underscore the need for the Department of Environment and Natural Resources to review its rules covering private lands so as not to discourage businessmen and small farmers from investing in tree plantations.

So as you can see from the statistics on available plantation areas which can still be developed, the Philippines' forestry sector is a viable investment choice.

Which brings me to my second point...

Working with indigenous people with their right to ancestral domain has been one of our biggest challenges, but one which could translate to greater productivity for the industry and of greater benefit to communities.

A lot of people believe that working with indigenous communities poses a problem, but we would like to look at working with them as an advantage, for the following reasons...

- They help protect our investments because they occupy the land and thus have a stake in our presence and success.
- They can be our primary source of labor. Some of our members in the wood industry and a good number of mining companies are presently working hand in hand with indigenous people as we share with them the fruits of the land.

Apprehensions about this partnership succeeding have been greatly reduced as their lives have been uplifted due to the corporate social responsibility programs implemented by the private sector.

There had been instances when most companies were initially deluged with excessive demands---the communities' own "wish list" of must-haves like school houses, barangay halls, irrigation systems, livestock, fertilizer supply,

² Ministry of Justice Opinion No. 120 s. 1979, October 3, 1979

etc. ---but after several meetings and explanations, both parties would usually reach a mutually acceptable agreement. The documentation usually takes a much longer time with the office of the NCIP (National Commission on Indigenous People).

Huge tracts of land under the stewardship of indigenous people are viable areas for investment for timber plantations, giving all involved sectors equitable share of the produce of the land.

And now, for my third key point...

A large demand for wood products exists---bigger even today, mainly because wood comes from renewable resources and because it is more environment friendly compared to other raw materials like plastic and steel and other non-wood materials.

But here is the current situation...

Because of decreasing market demand due to the current global financial crisis and the lack of raw materials for processing, industry players have dwindled such that only half of regular sawmills are operating, only 87% of plywood mills are alive, and mini sawmills have been running on an off and on basis.

However, some of the veneer mills on record have expanded into plywood mills. But, a number of unregistered veneer mills operate in areas where they are not supposed to be, meaning they utilize logs from questionable or illegal sources. And one of the negative effects is an “uneven” playing field for some of the plants.

Table 8. Timber Processing Mills in the Philippines

Type	Number	Daily Rated Capacity, cu m	Annual Log Requirement, cu m
Regular sawmills	52	2,150	819,000
Mini-sawmills	300	1,590	761,300
Veneer mills	27	500	284,300
Plywood mills	40	2,230	1,390,000
TOTAL	419	6,470	3,254,600

Source: ibid.

Generally, timber processing mills are underutilized. Low wood recovery is prevalent owing to low quality imported logs---the only ones log importers can afford because of high world prices and competition from other importing countries. Also, some log producing countries prefer to process their own logs, part of which are exported to foreign markets which eventually become our competitors. We also face competition from illegally-sourced log and timber products.

We in the industry are still optimistic that we will soon rebound. Let me tell you the reasons...

We expect the local market to recover, with the processing mills answering the need for increased wood requirements as the country emerges from the shadows of the worldwide economic meltdown. We still see the local market as our main clientele. In fact, some mills have already retooled to cater to smaller diameter logs, thus increasing their recovery/profitability.

However, in the future, as investors help develop and expand the local wood industry, and with the government creating a climate conducive to investors, we envision a global market ready to buy our wood products.

Moreover, wood being a renewable resource, is now fast becoming a preference of European and western countries which are very conscious of preserving the environment. People who are serious about preserving planet earth are more inclined to use natural products like wood versus plastics and steel which are considered not so-eco-friendly.

Now, for my final point...

To attract investors to this sector, the government, particularly the DENR, must be able to put together a package of services which will make it easier for investors to come in.

Foremost among these is for the DENR to designate an undersecretary focused only on the development of industrial tree plantations so that they become a driver for economic growth in the countryside, and for our country as a whole. He must be concerned with marketing rather than regulatory functions.

The proposed undersecretary should be tasked with identifying areas for timber plantations. He should also be responsible for packaging tree plantation development proposals by securing all required government permits to include local government approvals, as well as the free and prior informed consent or FPIC from involved indigenous communities.

He must also look after the wood processing sector to ensure an integrated approach to the wood industry. One of his concerns would be research and development so that new wood products, processes and technologies can be utilized for new markets and new needs. This goes without saying that he too must be acquainted with both local and foreign markets.

It is important for this person to work closely with other government agencies such as the Department of Trade and Industry, the Department of Science and Technology, and the academe.

We believe this responsibility is so complex it would require someone working on it full time.

We would also like to recommend that the DENR, the lead agency, reexamine its policies and regulations so that more businesses and financing institutions will be encouraged to put in equity or extend credit to potential investors.

At this point, I would like to state that for any industry to remain healthy and viable, and for investors to seriously consider putting capital, and for financing institutions to provide needed funds, political intervention must be kept to the minimum. A case in point: A plantation in the south.

This was a joint project between the Philippines and another government. Started two decades ago, it soon became a model of a well-managed tree plantation, providing the province its needed wood supply. Because of the availability of reasonably-priced wood from this area, buyers and users no longer needed to get from illegal sources, thus removing pressure on public forests. But because of political intervention, supply from this legitimate source has practically stopped, creating demand for wood--- notwithstanding the source, legal or illegal. The resolution of this case is being closely watched by potential investors as a benchmark for future decision making.

We realize that every investor would always look for an even playing field. This is especially critical in the wood processing business since our products are highly competitive and markets are price sensitive. Any investment necessarily involves risks but investors would always calibrate the risk factor in any business venture.

I want to make this additional statement which I think should be given much attention. Private investors, most especially owners of processing mills desire a perpetual supply of raw materials. Their investments and their vision to retool and modernize their equipment are premised on their facilities operating at 100% capacity for an indefinite period.

These investors, like everybody else, love our country, they love the environment. But aside from this love, they have their own – not selfish—but commercial reasons for wanting a perpetual forest for our country, and this we just have to always remember.

In closing, we dream of a revived sector reminiscent of the 1960s and 70s when the wood industry was a major contributor to our country's economic growth. We honestly believe this can be done, as demonstrated by other countries. And what we need is your firm commitment and support.

Thank you and have a good day.