

## **Highlights of Agro-Industrial Cluster Analyses**

### **FOREST-BASED INDUSTRIES**

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I find the analysis of the forestry cluster very comprehensive and I have picked out a few items I will comment on. Firstly, the strategic plans suggest that in order to be able to supply sufficient raw materials to forest-based industries, we should improve the remaining second-growth production forest through assisted natural regeneration timber improvement and enrichment planting. It has also been suggested that as a target, we should develop 400,000 ha of tree plantations, 5,000 ha of bamboo and 20,000 ha of rattan plantations. The private sector can best do these things. However, in fact, in the Philippines, many more plantations had been developed by government. It should be the other way around. There should be more plantations developed by the private sector. However, private sector has not been investing in plantation developments mostly because of uncertainties with respect to policies of the government. Moreover, the areas for development have not been properly or fully identified. There are conflicts in tenure of areas and there had been very little incentive or assistance provided by government to the private sector in the development of forest plantations.

From 1991 to 2001, the developed plantations in the Philippines totaled about 520,000 ha, 62% of which was developed by government mostly in the protected forest areas. Thus, it would be difficult to harvest these plantations. We should provide incentives in plantation development. In 1974, Chile decided to go in an all out plantation development. That was about the same time that the Philippines approved the Forestry Reform Code. However, Chile has provided a lot of incentives such as 75% of the cost of plantation development, which include development of fire roads, fences, and pruning subsidy. They prune the trees while they mature and thus, the

stand of the trees becomes even better with age. They provide 30 years tax exemption on the use of the land and no tax payment on the plantation prior to the first harvest. They give a direct grant of 10% tax credit on equipment for producing export products and a direct grant of 10% of gross export receipts. Their incentives and subsidies are certainly large and attractive. Chile now has 3 million ha of plantations and they are one of the countries exporting plantation-grown wood.

If our government cannot provide this type of incentives, at least private sector should be provided with some guarantees. While private sector wants to plant trees, they cannot obtain loans to do so. What we can do? I repeat a recommendation I have given before—we should establish a guarantee fund. Government should establish a guarantee fund and the private sector can take a loan from a designated bank and that loan could be guaranteed by the guarantee fund. Many government policies constrain plantation development by private sector. Another policy which has been corrected by former DENR Secretary Elisea Gozun is that if you plant trees in your own backyard, you cannot cut the tree unless you get a permit from the DENR. This has been changed. You can now cut the trees you planted but you will need a transport permit to transport the log. With DAO 2004-4, former Secretary Gozun deregulated trees planted in private lands. If they can permit trees planted in private lands to be cut and transported, why can they not extend this permit to trees planted in government lands. The government is probably afraid that this will be used in illegal cutting. But this can be prevented. Since there are only 622 active sawmills, all government has to do is post a staff in the sawmills who will then see to it that no illegally cut logs enter that plant. This will also eliminate the problem at checkpoints. Let me share with you a story. We were running a processing plant in Zamboanga; we contracted to buy gmelina from a tree farmer at PhP 500 per cubic meter. When he delivered the wood, he asked for more money because he had paid more than 10% of the cost at the checkpoints.

With respect to the development of 20,000 ha of rattan plantations, DENR has a policy that rattan permit holders pay PhP0.50 for every linear meter of rattan. They call this rattan deposit. The problem is that this rattan deposit, which is supposed to be used to establish rattan plantations, goes to the national treasury and is difficult to retrieve. What should be done is to cancel the permit of these permit holders if they do not establish rattan plantation commensurate to the amount that they have paid for every linear meter that they cut from the forest. For bamboo, we have 5,000 ha but this is small considering the 15% growth rate of the bamboo furniture industry.

One of the targets of the Forestry Industry Cluster is the rationalization of forest-based industries. One of the proposed activities is to provide fiscal incentives for forest-based industries for equipment, rehabilitation and retooling. Many years back, forest-based industries enjoyed some incentives for importing machineries. This incentive was removed two years ago. If we can have this incentive back and if we work for the inclusion of the wood-based industry in that omnibus incentive package for industries, the cost of importing machineries for retooling the forest-based industries will be considerably reduced.

Furniture and handicraft exports are the two bright spots in forest-based industries. Furniture export increases at the rate of about 12% per annum. The main problem of this industry is the supply of raw materials. The expansion of plantation development in the Philippines particularly in areas that can be utilized for furniture will be most beneficial to this industry. In fact the furniture industry has developed product lines that they have been promoted abroad, with the use of gmelina as the species. The housing sector is still one of the big markets locally for lumber, but the problem is that we have lost the mahogany type of lumber species and the architects and design engineers are shying away from the use of wood because the available wood does not have the appropriate properties for structures. Presently, a new technology called machine-stress graded lumber is now being piloted in the Philippines. This was developed by DOST and the Association of Structural Engineers has endorsed the use of machine-stress graded lumber. A lumber company in Cebu is selling the machine-graded lumber.

The forest-based industries have been relying on industry associations such as the Philippine Wood Producers Association, the Chamber of Furniture Industries of the Philippines and the Philippine Chamber of Handicrafts to fend for themselves against the policies of the government detrimental to their business. I propose that the PA 2020 should support the establishment of a Philippine Forest Industry Development Board. In Malaysia, they have the Malaysian Timber Industry Board, which provides assistance to the timber-based industries. They work on policy development with government and develop local and foreign markets. They link with capital sources. I believe that our forest-based industries need this board which can oversee and address their needs.

Thank you.

