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WOODEN FURNITURE EXPORTS OF THE PHILIPPINES^{1/}

Country Paper

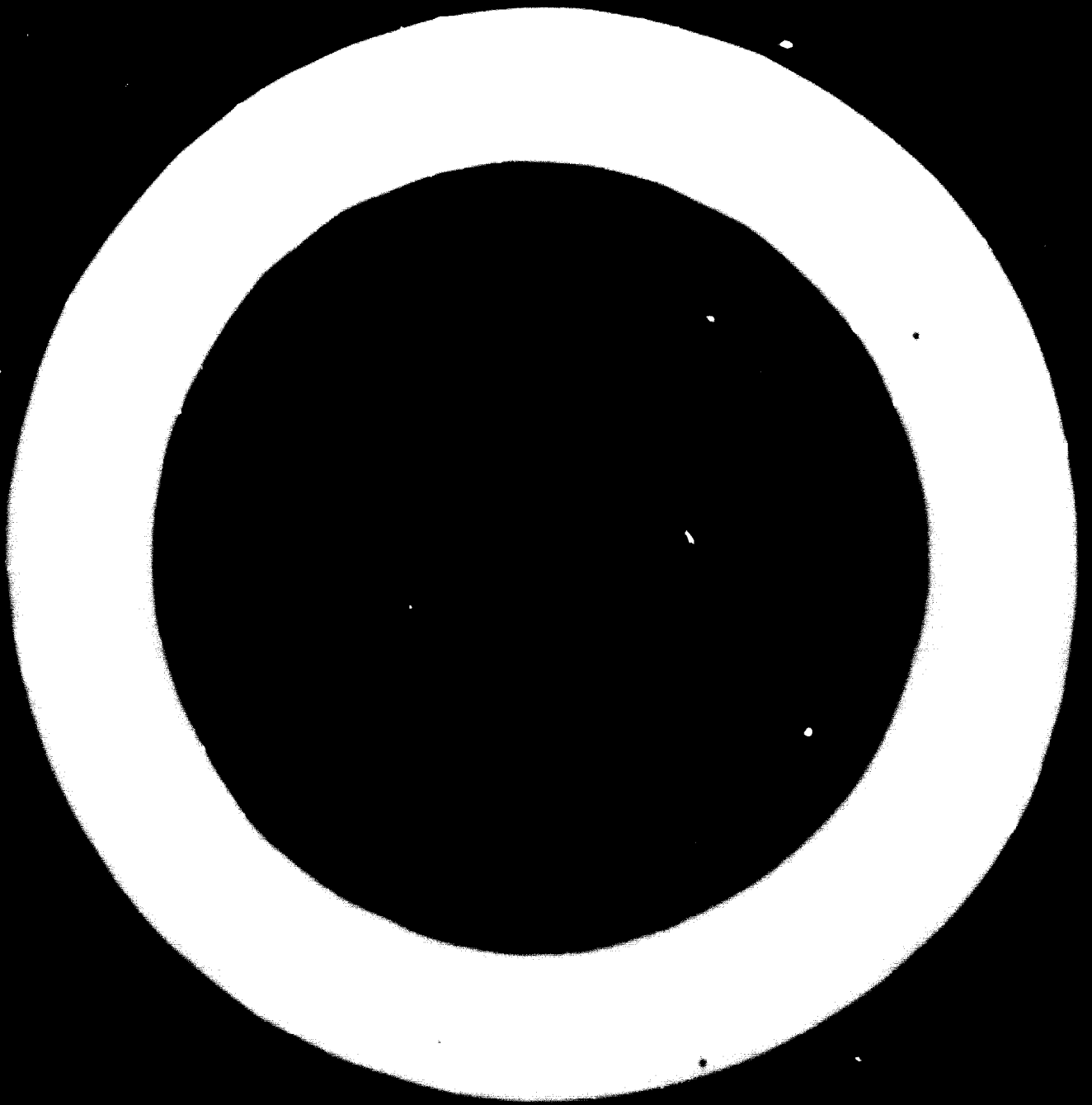
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Forest-based industries in the Philippines play a vital role in the nation's economy.

In 1970, forest industries accounted for 25.88 per cent of the total Philippine exports. The following table on the exports of the Philippines in the years 1961 to 1970 underscores the importance of forest industries to the Philippine economy.

Year	Total Exports of RP-US\$ (000)	Logs and Lumber	Percentage Contribution of		Total
			Plywood and Veneer	Furniture	
1961	497,905	18.56 %	2.48 %	.05 %	21.08 %
1962	553,201	20.39 %	3.10 %	.05 %	23.54 %
1963	724,183	21.11 %	3.49 %	.04 %	24.64 %
1964	739,955	19.34 %	4.64 %	.06 %	24.03 %
1965	766,686	21.13 %	3.66 %	.05 %	24.84 %
1966	826,913	24.76 %	3.38 %	.07 %	28.20 %
1967	800,124	26.52 %	3.36 %	.08 %	29.95 %
1968	846,797	25.58 %	3.89 %	.10 %	29.56 %
1969	851,501	26.54 %	3.57 %	.12 %	30.22 %
1970	1,141,651	22.39 %	3.38 %	.11 %	25.88 %

It is sad to note that the exports of the furniture industry have not increased to more than 1/3 per cent of the Philippines' total exports in 1971. Mr. Bozidar Macesic, a furniture industries expert and a member of a two-man UNIDO team which conducted a study of the Philippine furniture industry in 1971, noted further that the actual export of wooden furniture accounted for less than 10 per cent of the value of the total furniture exported from 1964 to 1970. (Rattan, buri and other types of furniture accounted for the larger share thereof)

The insignificant contribution of wooden furniture exports is ironical when we consider that the Philippines

- is the world's third largest producer of broad-leaved logs
- the world's second largest exporter of broad-leaved logs
- the world's second largest veneer producer
- the world's eight largest producer of plywood
- the world's twelfth largest producer of broad-leaved sawntimber

✓ Sources: Central Bank of the Philippines

ADVANTAGES TO RP'S^{1/} WOODEN FURNITURE EXPORTS

The wooden furniture industry enjoys a distinct advantage for exports when we consider that:

1. There is enough lumber available, especially "Philippine Mahogany" which enjoys high prestige and esteem in the world market. (Please see Appendix 1 for Total Net Volume of Sound Trees in the Old Growth of Dipterocarp Forests);
2. Our future lumber supply is assured by the efforts extended by the RP Government on reforestation programmes, selective logging activities and gradual decrease in log exports. Appendix 2 shows the vast quantities of commercial forests still available for future use;
3. There are now in the Philippines a few trained managerial personnel with sufficient technical know-how and expertise in large-scale wooden furniture manufacturing necessary for export-oriented wooden furniture firms;
4. There exists a cheap labour force that is easily trainable to operate the complex wood-working machines required for large-scale furniture manufacturing;
5. Sufficient investment incentives are granted by the Board of Investments for export-oriented furniture firms. These incentives enhance the profitability of such an enterprise;
6. Private studies^{2/} show the relatively high returns on investments - from 30 per cent to as high as 60 per cent - in exports of wooden furniture. This shows the cost advantage enjoyed by Philippine wood furniture manufacturers in the world market.

Beside from these "internal" advantages, certain "external" advantages are available to Philippine wooden furniture exports such as:

1. Preferential tariff concessions granted to exports of developing countries from industrialized nations participating in the UNCTAD/GATT "Generalized System of Preferences."
2. Increasing export demand.

^{1/} Republic of the Philippines

^{2/} Source: A project feasibility study on wood-furniture export by a De La Salle Graduate School Student team.

INCREASED EXPORT DEMAND - OPPORTUNITIES

The bulk of Philippine wooden furniture exports has been limited to the United States (including Hawaii and Guam) and its territories, Japan, Australia and a few other countries.

Appendix 3 shows the exports of furniture to these countries from 1965 to 1970.

1. The United States is by far the largest buyer of Philippine wooden furniture. In recent years (1968 to 1970) the growth rate of wooden furniture exports to the United States has been a respectable 20 per cent. However, this is far from the 35 per cent growth rate of total U.S. imports of furniture for the same period.

Mr. Allan C. Mattison^{1/} in his forecast for the wood-working industry in the U.S. for the period 1965 to 1975 gave the following potential U.S. requirements for a few specific wood products:

Kitchen cabinets	- 20,000,000 units/year
Doors	- 24,000,000 units/year
Windows	- 28,000,000 units/year

The value of the above alone is estimated at \$600,000,000.

Mr. Mattison stated that were they to cope with the demand for these wood products alone, 42 per cent of American woodworking plants must modernize. Even if 100 per cent of this 42 per cent were to modernize their plants, it is still feared that the dwindling supply of lumber within the U.S. owing to public insistence upon conservation of virgin forests, coupled with increasing labour costs, would force wood product imports to meet this demand. If the Philippines were to supply just $\frac{1}{2}$ per cent of the few items above, the value would exceed \$3,000,000.

Other optimistic projections also point to a construction boom in the middle 70's that would give rise to greater furniture demand. It is expected that total U.S. wooden furniture sales would exceed \$4 billion annually during this decade.

The general acceptance of Philippine wood species, particularly "Philippine Mahogany", in the U.S. market and the preferential tariffs granted the Philippines for her exports to this country augur well for an increased share of the U.S. imports of wooden furniture in the coming years.

^{1/} Source: From a private, unpublished project study on the establishment of a Philippine Woodworking Plant for Export Products.

2. Japan represents one of the best hopes for Philippine wooden furniture exports. While Philippine wooden furniture exports to this country are still small compared to the United States, several factors point to an accelerated increase in the future.

(a) There is an increased demand for wooden furniture in the Japanese market brought about by the increased income of the people. Sales of Western-style furniture have grown tremendously in the last decade and are expected to increase much further in the 70's.

(b) The Japanese Government has announced plans for multi-billion dollar expenditure in housing construction during the 70's to ease the housing shortage. Already Japanese furniture makers have shown signs of strain trying to meet the increased furniture demand. In 1971 a 7-man Japanese furniture manufacturers mission came to the Philippines to assess the Philippine Furniture Manufacturers ability to supply them with wooden furniture components as an adjunct to their manufacturing plants. As a result, trial orders have been placed with a few Philippine furniture manufacturers for certain wooden furniture parts.

(c) Japan extends preferential tariffs to exports of developing countries like the Philippines.

3. Australia has shown no encouraging trend in imports of Philippine wood furniture. However, there may be increased exports to this country in the future due to the preferential tariffs it extends to developing countries. The proposed establishment of a "Philippine House" in Sydney may presage accelerated exports of Philippine wooden furniture in the coming years.

Exports to European countries offer little opportunity for exports due to the distance and high costs involved in shipping. However, it is desirable to investigate this market further because of the preferential tariffs offered to developing countries.

Other Asian markets offer less opportunity since they have their own fledgling furniture industry which is protected by high tariffs. The abundance of domestic lumber makes it more economical to manufacture their own wood furniture. However, from past experience, we have noted the inability of other Asian furniture manufacturers to supply the institutional (hotels, office buildings, etc.) buyers in their own country for bulk orders. This is a market segment that may be tapped for Philippine furniture exports.

PROBLEMS FACING THE EXPORTS OF WOODEN FURNITURE AND PROBABLE SOLUTIONS

A. Technical Problems

1. Lumber instability seems to be the greatest obstacle to an accelerated development of wooden furniture exports. When exposed to atmospheric conditions in extra-tropical countries, furniture made of Philippine hardwood cracks, twists or checks. This problem seems to have been solved by the processing of wood products under atmospheric moisture conditions similar to those of the intended country of importation. The solution is effected thus:

- (a) The wood product is manufactured in an "air-conditioned" plant under extra-tropical conditions;
- (b) The finished product is then packed in moisture-proof material, such as polyethylene sheet or tar paper, thus assuring constancy of the wood products' moisture content during shipping and storage.

Other solutions to this problem have been proposed, such as the use of chemicals to "displace" the moisture contained in the lumber. But several disadvantages exist which render it unsatisfactory for the present.

2. Inadequate production facilities hinder any sizeable export of wood products by existing furniture manufacturers. A glance at the average-sized Philippine furniture plant shows that they would not be able to produce wooden furniture at the volume required to make a profit unless such exports were treated as a contribution to overheads. Even then, importers would require a minimum volume which would be difficult for an average-size firm to meet.

A probable solution would be (a) the establishment of new furniture plants geared solely to exports to achieve optimum production plant size or, (b) the organization of co-operative systems of production where two or more existing furniture firms join together to produce a single product for export.

The former is more prevalent in the thinking of firms wishing to engage in exports. However, the Chamber of Furniture Industries of the Philippines (CFIP) is promoting the idea of co-operative systems to optimize the scale of production and minimize material costs.

3. Managerial and technological insufficiency is a stumbling block in the comprehension of problems inherent in large-scale woodworking operations required in export ventures. However, in recent years, a new crop of Filipino technicians have proven their capability in woodworking operations. An example of these are the Filipino technicians of Singer Industries (Phil.) Inc. who have attained high degrees of efficiency in woodworking plant management. Singer Industries (Phil.)

now export more than \$5 million sewing machine wood cabinets annually throughout Asia. While it has been proven that Filipino technicians now possess technological efficiency in woodworking operations, it is necessary that the UNIDO push through the establishment of a Furniture Centre where present and future technicians can be trained in modern woodworking technology. The Chamber of Furniture Industries have also proposed the change of curricula in trade schools to emphasise modern woodworking technology geared to mass production.

4. Lack of standards in lumber and plywood sizes suitable for wooden furniture production have resulted in undue wastage, hence, increased cost of production. The CFIP have made representations to the lumber and plywood industry to produce sizes suitable for furniture production. No changes have been made thus far.

B. Financial Problems

The large capital outlay required for an export-oriented furniture firm eludes most furniture firms. A feasibility study on exports of wooden furniture prepared by a De La Salle Graduate School student team^{1/} noted that the minimum capitalization required to set up an optimum-sized furniture plant geared exclusively to exports was P 4 million (approximately \$572,000). In an industry where the average capitalization is estimated at around P25,000 to P30,000, the capital requirements for exports seem formidable. Even the few "large" furniture firms would find it difficult to raise the capital required for an exclusively export venture.

It appears that this area is open only to the entry of "big business". However, there are two alternatives open to existing furniture firms wishing to participate in export: (a) by mergers or (b) by a co-operative system where two or more firms band together to optimize their scale of capitalization for a particular sizeable export order.

The government can encourage this latter proposal by extending financial help - in long-term loans and working capital requirements - to existing furniture firms that wish to merge or those that band through a co-operative system for furniture exports. Interest rates should be lowered to enhance profitability of the venture.

C. Marketing and Other Problems

1. Lack of indigenous furniture design has been decried by would-be importers of Philippine wooden furniture. This seems to be a long-range problem requiring

^{1/}The writer was one of the four students involved in the study.

experimentation and changes in the outlook of Filipino furniture designers. The CFIP has made representations to Fine Arts schools to include furniture designing in their curriculum with emphasis on native designs. The CFIP also launched an export design contest two years ago to stimulate creative designs for furniture suitable for export.

2. For firms engaged exclusively in furniture exports, an immediate problem is the continuity of export orders. A recommendation has been made to invite prospective foreign buyers to invest in the exporting firm to as much as 30 per cent of total equity to "bind" the latter to the exporting firm. This means that a "joint-venture" between the local manufacturer and the intended foreign buyer be encouraged to assure continuous repeat orders.

3. The 7 per cent tax on manufactured goods versus the 3 per cent tax on contract furniture favour continuity of "custom-made" orders. This erroneous taxation should be revised to encourage development of the industry to large-scale manufacturing necessary in export ventures.

CONCLUSION AND REMARKS

The export of wooden furniture is a highly profitable venture for entrepreneurs who are willing to tackle and conquer the problems inherent in such an enterprise. It would be prudent for furniture manufacturers to take stock and examine the possibility of shifting to furniture exports as a means of improving their profitability in the midst of a "soft" and competitive domestic market. It may well be that the development of furniture export is the catalyst that would change the entire structure of the Philippine furniture industry and presage the dawn of a new era in the mass production of furniture for the domestic market as well.

The Philippine Government should also re-examine its position vis-a-vis the furniture industry. A highly developed and industrialized furniture industry can absorb a bigger portion of the unemployed, not to mention the huge earnings that could be generated by this sector of the economy.

It would indeed be a pity if the forest-rich Philippines were to be continual "hewers of wood" for other wood-hungry countries. The Government could do a lot in providing the impetus for the furniture industry to become a vital sector of the Philippine economy.

**TOTAL NET VOLUME OF SOUND TREES IN THE OLD GROWTH OF
DIPTEROCARP FORESTS BY SPECIES GROUP IN CUBIC METERS
(AS OF JUNE 30, 1970)**

Geographical Region	Aplonang		Cebuok-gutsook Yakal		Red Laurus Tampalle Maynala		Almon Baglican White Lanan		All Other Species		Total
Philippines	93,313,482	51,304,230	425,750,530	311,050,955	456,78,985	1,338,067,352					
Mindanao	32,002,040	21,597,000	229,482,400	231,166,871	198,00,434	719,832,854					
Palawan	14,453,212	580,418	-	-	94,000,198	104,248,828					
Luzon	60,940,550	16,900,505	159,301,200	48,400,512	113,799,718	378,920,675					
Visayas	5,840,000	2,237,157	24,900,701	33,403,572	50,567,357	130,050,497					

Source : FRA, Forest Management Division
Updated by: Forest Resources Division

(ATTACHED)

**VEGETATIVE COVER OF THE PHILIPPINES BY GEOGRAPHICAL REGION
IN HECTARES (AS OF JUNE 30, 1970)**

<u>Region</u>	<u>Forest</u>				<u>Grand Total</u>
	<u>Commercial</u>	<u>Non-Commercial</u>	<u>Total</u>	<u>Non Forest</u>	
<u>Per Cent Distribution</u>	16.70%	24.06%	52.96%	47.01%	100.0%
<u>Philippines</u>	<u>3,019,796</u>	<u>7,225,729</u>	<u>15,896,899</u>	<u>14,101,101</u>	<u>30,000,000</u>
<u>Mindanao</u>	<u>2,200,955</u>	<u>1,830,535</u>	<u>6,197,894</u>	<u>4,001,998</u>	<u>10,199,882</u>
<u>Palawan</u>	<u>549,682</u>	<u>688,030</u>	<u>1,339,000</u>	<u>149,966</u>	<u>1,489,026</u>
<u>Luzon</u>	<u>1,365,796</u>	<u>3,408,872</u>	<u>6,014,966</u>	<u>6,094,542</u>	<u>12,109,508</u>
<u>Visayas</u>	<u>785,263</u>	<u>1,325,683</u>	<u>2,346,309</u>	<u>3,854,595</u>	<u>6,209,984</u>

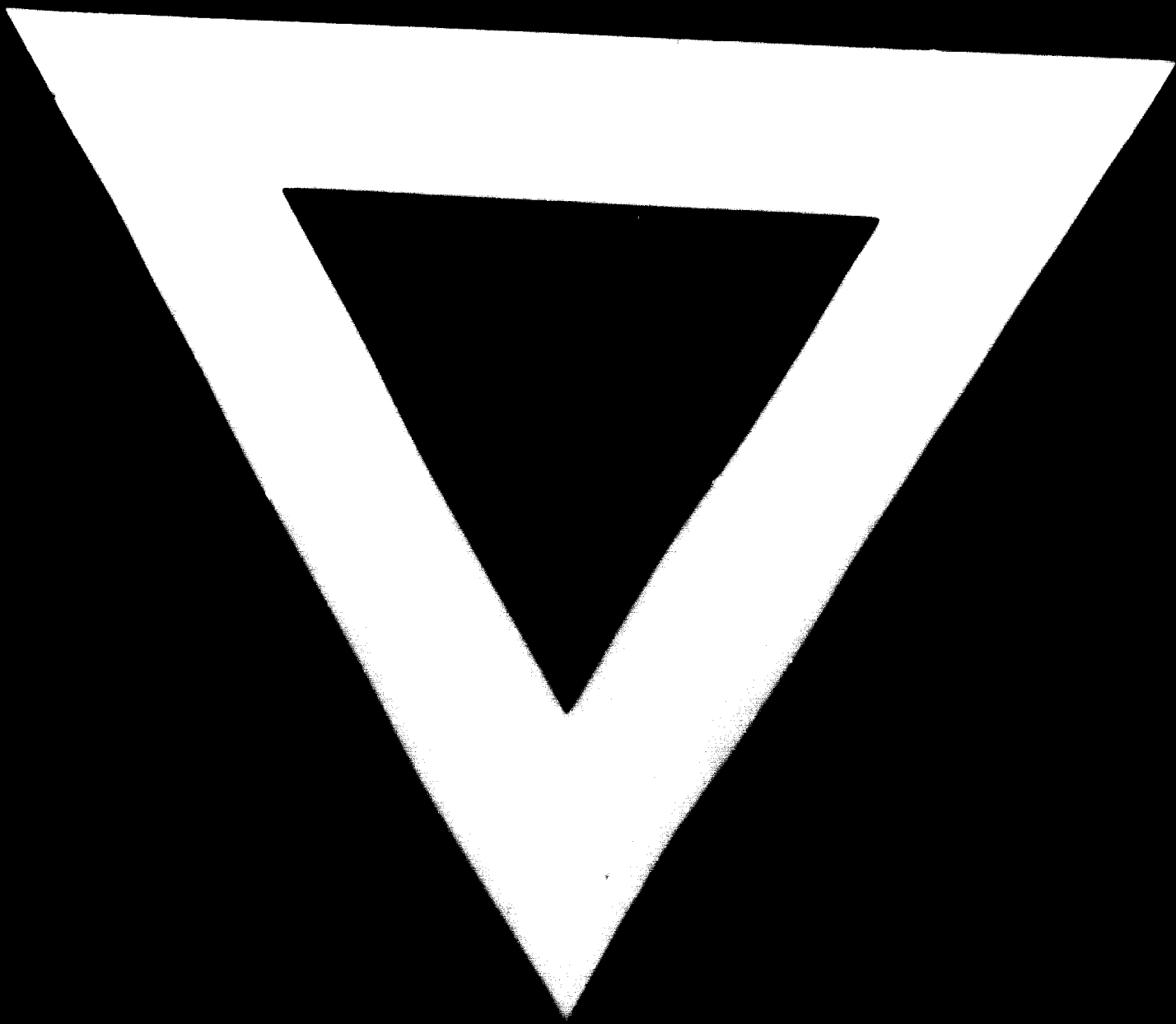
Source : FRI, Forest Management Division

(APPENDIX 2)

Furniture and Fixtures Exports of the Philippines
By Country of Destination

Country Destination	1965 Dollars (US\$)	1966 Dollars (US\$)	1967 Dollars (US\$)	1968 Dollars (US\$)	1969 Dollars (US\$)	1970 Dollars (US\$)	% of Total
USA (Mainland)	266,740	269,639	415,215	417,697	509,547	394,351	31.17
Hawaii	56,085	67,981	91,511	203,925	244,059	413,074	33.91
Guam	66,145	80,394	41,718	80,380	63,480	142,229	11.24
Australia	24,526	28,552	35,680	56,273	101,486	133,362	12.15
Thailand	10,230	69,776	39,450	11,400	689	-	-
Fed. Rep. Germany	6,901	14,541	16,272	37,333	34,906	41,057	3.29
Spain	4,535	33	14,217	8,772	3,903	7,819	0.62
Italy	1,882	3,560	3,470	7,631	9,312	25,958	2.04
Laos	-	21,472	-	-	-	1,824	.14
United Kingdom	313	2,809	6,744	5,917	3,217	1,469	.12
Canada	6,417	1,839	4,396	2,367	1,596	2,185	.17
Belgium	-	1,601	1,772	3,182	5,634	-	-
Hongkong	1,653	-	-	-	954	587	-
Other US Territories	1,624	1,136	789	-	-	-	-
Japan	563	206	110	2,373	5,049	44,016	3.45
Puerto Rico	-	-	256	4,585	2,944	7,999	.82
Sweden	270	-	-	-	1,067	1,570	.12
France	-	224	-	-	5,349	-	-
Panama	4,443	276	-	2,180	2,589	6,905	.47
Singapore	-	-	-	-	-	-	-
Indonesia	-	1,820	773	1,513	1,136	394	-
French Oceania	-	-	-	873	-	-	-
Malaysia	605	119	-	200	2,313	420	-
Liberia	345	-	506	845	-	-	-
Others	925	1,327	849	-	-	-	-
TOTALS	456,157	562,095	678,427	860,427	999,061	20,235	1.60

Source of statistics: Foreign Trade Division, Bureau of Census and Statistics



15. 7. 74

