

Restriction of Log Exports

By ANTONIO DE LAS ALAS
*President, Philippine Lumber
Producers Association*

I have been requested to make a study of the proposed limitation on exports of Philippine logs to foreign countries. This is a subject which is indeed most important, and in view thereof, it has been the subject of repeated studies one of which was made by a Committee composed of Mr. Manuel Diaz, Mr. Gregorio Poblacion and Mr. Ralph W. Dempsey who submitted a report thereon to the Honorable, the Secretary of Agriculture and Natural Resources. I shall make reference to this report later. The matter is considered more serious in view of the fear that eventually the large volume of log exports may bring about an early depletion of our forest areas to the detriment of the nation and future generations. The problem is further aggravated by the charge that Philippine logs exported to Japan are processed in that country into sawn lumber or into plywood and lumber and plywood thus processed are exported to the United States where they undersell or compete with Philippine lumber or plywood directly shipped from the Philippines.

In the solution of this problem, two principles must be accepted, namely:

(a) That our forest reserves must be conserved to insure a steady adequate supply of lumber products in the future, and

(b) That exports of logs should be discouraged if not prohibited so that these logs may be processed in the Philippines into lumber plywood or any other manufactured product and thus create or increase industries in the Philippines which means greater opportunity for employment, and

in order that our logs may not be the source of competition when processed to the United States where they compete with similar products coming directly from the Philippines.

There can be no controversy as to these two fundamental principles. They immediately raise two questions: First, is the prohibition or restriction of the exportation of logs the only remedy against depletion of our forest resources? Second, what will be the effect of the prohibition or radical restriction of log exports now or in the near future on the economy of the Philippines?

As regards the first question, the depletion of our forest areas cannot be attributed entirely to the volume of cuttings made by producers. If the purpose is to prevent the exhaustion of our forest resources the remedy is not necessarily prohibition or limitation of log exports. There are various ways of attaining effectively the same objective among which are the following:

(1) "Kaiñgin" must be completely stopped. It is well known that this has been the most destructive way of wiping out forest areas. If necessary, the Armed Forces of the Philippines, including the Constabulary and the Police, should be enlisted to eradicate this evil. The Bureau of Forestry should be given enough guards to enforce the law prohibiting and penalizing "kaiñgin."

(2) Selective logging should be enforced. The rules governing the size of

trees that can be cut must be strictly adhered to.

(3) Great care should be exercised in the matter of withdrawing areas from forest reserves and opening them for agricultural purposes. There are reports that areas which were forests before or should continue to be forests have been converted into agricultural lands. In this connection the plan to delimit the forest areas must be realized as soon as possible. Once land is declared forest areas it must be preserved as such permanently. I noticed that in Finland even private lands were divided into agricultural and forest areas and this division is maintained for ages.

(4) More vigorous and systematic reforestation should be adopted. In many countries in Europe and even in the United States, the original forests were destroyed or very badly depleted. Through a systematic active campaign of reforestation, you can not help but observe that much headway has been accomplished to restore forest areas.

(5) All care and precaution should be taken to protect and conserve our forests. All laws, regulations and measures intended to eliminate waste and improper or illegal destruction of our timber lands should be enforced effectively.

As I stated at the beginning, the matter of the prohibition or restriction of log exportation has been the subject of various studies one of which was that of a Committee appointed by the Honorable, the Secretary of Agriculture and Natural Resources, which submitted a report to the Secretary. The recommendations of the Committee may be summarized as follows:

1. Restrict the exportation of logs to Japan on the 10%-90% formula for the first two years; i.e., the total volume of logs going to Japan should not exceed 10% in the Peeler and Veneer Nos. 1 & 2, and the rest 90% to be in Peeler and Veneer No. 3 and sawlogs.

2. After the first two years, the exportation of Peeler and Veneer Nos. 1 & 2 should be completely banned.
3. There is no restriction as to the quantity of lumber that Japan could import from the Philippines.
4. The 10%-90% formula should be applicable to every shipment, the details or implementation to be left to the Bureau of Forestry.

When this report was submitted to the Philippine Lumber Producers' Association, I was very much surprised that it did not receive any favorable reception. On the contrary the reaction of the members was clearly against it. Among the reasons advanced against the plan proposed in the report are the following:

(a) That the local sawmills and factories will not be able to absorb the increase in the lumber of higher grades which necessarily will result from the prohibition or restriction of the exportation of lumber of such higher grades.

(b) If Peeler and Veneer grades cannot readily be sold they may be left standing in the forests which would be tantamount to another form of selective logging. Logging operation under this condition will necessarily be costly.

(d) Small operators have very limited production and market and they cannot, under such restrictive arrangement, be expected to survive.

(e) Operators having concessions with timber stand of almost wholly white lauan species with hardly and red lauan species would be at a great disadvantage.

The second question is what will be the effect of the prohibition or restriction of the exportation of logs on the economy of the Philippines?

The exportation of logs is one of the principal dollar-earning trades of the Philippines. In 1950 the exporters of logs received from abroad a total of ₱3,435,049.00 for the logs they exported. Since then the amount received in this country from

abroad for the value of export logs increased annually. In 1954, ₱57,824,123.00 or \$28,912,061.50 were received in this country for the value of 570,797,977 board feet of logs exported during that year. Final figures for 1955 are not yet obtainable, but available information indicates that the income for the exportation of logs last year was even greater.

The taxes paid on account of logs exported amounted to ₱4,170,682.00 during the fiscal year 1954.

Aside from the big amount of money earned by the exporters and the large amount of taxes paid the government from the export of logs, our country received other economic benefits from the log export trade. There are about 14,400 men employed in logging alone. Considering the unemployment situation, the number of men thus employed is of some significance. Approximately ₱21,600,000.00 constituted the payroll of the logging operators during the fiscal year 1954. Other persons are benefited by the logging business like those whose trucks are hired to transport logs.

✓ But since we have accepted the principle that the export of logs should be discouraged if not prohibited so that logs may be processed in the Philippines into lumber or plywood or any other manufactured product, notwithstanding the tangible immense help to our economy and an appreciable increment of the government's income, we must leave no stone unturned so that logs will be processed in the Philippines into lumber or plywood or any other manufactured product and exported in these forms, convinced that in the long run this will help much more the economy of our country.

What then should be done to achieve our desire of processing our logs into lumber or plywood or any other manufactured products so that our exports may be in such processed forms? In the study of this problem, it is pertinent and will be

very helpful to find out the reasons why the Japanese are able to process our logs into lumber and plywood and export these products to the United States at prices competitive with similar products directly coming from the Philippines. The reasons for this situation favorable to the Japanese trade may be summarized as follows:

- (a) Lower wages;
- (b) Lower freight;
- (c) Greater operation efficiency; and
- (d) Higher utilization.

I do not care to discuss the matter of lower wages as the modification of the present Minimum Wage Law so as to lower the minimum wage seems to be most difficult if not impossible. In the past, the Philippine Lumber Producers Association strongly advocated the modification of the Minimum Wage Law so as to permit the reduction of the minimum wage in places where it is warranted by the circumstances, not because we do not believe in giving the laborers decent living income, but in order to assist the development and extension of the lumber industry.

The three other points above-mentioned will be referred to and discussed in the general discussion of the problem which follows:

To be able to reduce or prohibit completely the export of logs and encourage and increase the exportation of lumber, plywood and other manufactured product, the following measures are earnestly urged:

1. The establishment of more lumber mills and factories manufacturing plywood, core veneer, wallboard, furniture, pre-fabricated houses or parts thereof and other works utilizing wood, should be encouraged in a decided and positive way. For the purpose, ample financial credit facilities should be extended to companies or persons undertaking these projects. Adequate loans should be granted for whatever machineries, equipment and spare parts they may need and the necessary dollar allocation should also be provided for the pur-

pose. They should enjoy the required banking facilities for operation. In fact I would even go further. In view of the large unemployment (estimated to be a million and a half) which should be considered as an emergency situation as the unemployed are easy prey of communists engaged in subversive activities, I would adopt extraordinary or unusual measures. To entrepreneurs who are known to be honest and possess the necessary ability and know-how, I would provide them with the necessary capital. It is better than entrusting huge public funds to government corporations with managers of doubtful managerial competence. Some such radical departure is demanded by the situation.

Credit accommodation for the establishment of more lumber mills is especially urged. It is well known that many of the producers now exporting logs do not have any mill at all or that their mills are not adequate to take care of their production so that if the exportation of logs is immediately prohibited, many producers at the present time will have to go out of business.

2. Positive incentives should be given to the export of Philippine wood products. There is in the United States a very large market for Philippine mahogany. Because of the fact that during the war we could not export our products to the United States, and after the war, the exportation of lumber was prohibited absolutely, we lost that market completely. However, through the efforts of the American Philippine Mahogany Association and the Philippine Lumber Producers Association, we have been able to recapture the market, and today it constitutes the largest market for Philippine woods. But we continue to have a big problem there in the way of competition. Wood products from South America, Africa and Japan enter the United States and compete with our products. Even Borneo has started to produce lumber

which is exported to the United States through Hongkong in order to take advantage of the lower freight rate from said port to the United States. We ought to be in a position to meet the competition and to attain that end, we have to reduce our cost of production. The producers have been adopting measures to reduce the cost of production, but there is one matter which entirely depends on the government and that is the elimination of reduction of the taxes now being borne by the lumber industry. Herewith is copy of a letter dated January 20, 1954, which was sent by the Philippine Lumber Producers Association, Inc. to the Secretary of Agriculture and Natural Resources which discusses these taxes in detail. All the taxes mentioned therein continue except the 17% exchange tax and the import license tax of 2% on machineries, equipment, spare parts, etc., imported for use in the industry.

In Japan we know positively that, not only they exempt their export industries from taxation, but they even do positive acts which are tantamount to subsidy of their export trade. This we have to do, especially in view of the fact that one of our most serious problems here is the conservation of our dollar reserve to a safe level. All industries which are highly dollar-producing such as the lumber industry is, should be protected, encouraged and assisted.

3. The freight on lumber and other wood products is unreasonably high. Something should be done in this connection. The high freight rate we are paying is enabling importers of wood products coming from countries other than the Philippines to compete with our Philippine mahogany in the American market. If the Associated Steamship Lines cannot be made to lower their freight rates the Government should acquire immediately freight ships or encourage and facilitate the acquisition of such ships by private corporations. One big advantage of Japan over us is the fact that

there they pay lower freight than in the Philippines. In this connection, a report was received from one of the members of the Philippine Lumber Producers' Association that freight rate from Hongkong to the United States is much lower than from the Philippines to the United States although Hongkong is farther. This is the reason why Borneo lumber shipped through Hongkong also compete with our lumber in the United States. Herewith is a copy of the answer of the Associated Steamship Lines, which explains the situation. Those causes of higher freight rate pointed out by the Associated Steamship Lines be eliminated.

4. As appears above, one of the reasons why Japan is able to process our logs and export the processed products to the United States in competition with similar products coming directly from the Philippines is their greater operation efficiency. This is a matter that should be given careful attention. There is need for able and experienced managers and operators as well as skilled laborers so that production may be conducted with efficiency and with the least waste and costs.

5. Finally, we must make every endeavor to have higher utilization of our forest products. In Japan, the logs we export to them are utilized in full or without any waste. Even sawdust is made to produce income. In the Scandinavian countries almost all the parts of a tree are utilized in some form or other in the manufacture of wood products. We must spare no effort so that the many industries that can be developed out of trees will be established in the Philippines.

The forest resources of the Philippines is indeed vast. It constitutes a great source of national wealth. A good portion of the land areas of the Philippines is covered by commercial forests some of which are still unexplored. Our forest area covers 11,045,020 hectares, representing 38% of the total land area of the Philippines and it could supply around 460 billion board feet

of lumber. As a principal export of the Philippines, logs and lumber which occupied sixth place in importance among the principal exports of the Philippines in 1949, has risen to third place in rank and importance in 1954, and whereas the value of these exports was only ₱6,520,583.00 in 1949, the export in 1954 was worth ₱68,819,024.00. Last year the exportation continued going up. Notwithstanding these impressive figures there is absolutely no doubt that we have hardly scratched, so to speak, the lumber industry. Surely it can be developed to stupendous proportions and thus be made to contribute tremendously to the Philippine economy. It will not be an exaggeration to say that the lumber industry will solve to a great extent our unemployment problem and constitutes an effective means to stabilize our nation's economy. This is not a mere dream; it has happened in that small heroic nation—Finland. This country has forest resources of about the same size as ours but there are more species here than in Finland. In recent years, it had to engage in two unequal wars resulting in her having to pay large indemnities. All the indemnities she was able to discharge in full. She also enjoys the honor of being the only nation that paid all her war debts after the first world war. Finland today counts with a sound stable economy, and what is there in Finland? Mostly forests. This is her main source of livelihood and wealth. Sixty per cent of her industries depend upon her forest products and an equal percentage of her labor population is employed in industries depending upon her forests. If the forests has been able to give Finland a sound stable economy, with more reason our forests should be able to make the economy of the Philippines sound and stable.

The President, in his message to Congress, urged "Utilization of the country's natural resources in economic development."

In accordance therewith, Industries that

utilize forest products should be pushed vigorously.

The time to act is today; tomorrow might be too late. The menace of communism is real and it can easily be discerned at the present time. We cannot afford to procrastinate the development of this country to wipe out unemployment and the source of discontent. If we fail in achieving this objective, we may lose our very freedom and future generations may not care to have the forests which we have preserved for them at the sacrifice of our generation which is today waging a grim struggle for the liberty and free ways of life of present and future generations.

(SGD.) A. DE LAS ALAS
January 20, 1954

Dr. Salvador Araneta
Secretary of Agriculture
and Natural Resources
Manila

Dear Mr. Secretary:

I deeply appreciate your very kind invitation to the lumber producers through our association to discuss with you the problems of the lumber industry. Due to a scheduled meeting of the Monetary Board which coincides with our meeting with you and which I cannot possibly forego as my absence would make it impossible for said Board to constitute a quorum to transact business, I exceedingly regret my inability to be present at your conference. I feel though that the most urgent problem facing the industry at present is the heavy tax burden imposed upon it.

17% Exchange Tax—There was a time after the war when all lumber produced in the Philippines were actually needed for the country's rehabilitation. With reconstruction of destroyed and damaged buildings almost complete and construction projects having reverted to normalcy, it became necessary for the excess productions to be channelled to outside destinations, and it is now the view that the progress, if not the survival, of the lumber industry will

depend largely on the stability of our foreign market.

The law in prescribing the 17% exchange tax on all remittances abroad with a few exceptions provided therein is intended to increase the nation's income, and prevent, if not discourage altogether, the flow of our currency abroad. The need for conserving our dollar reserve is a major objective of the law.

It is to be expected that production would increase and more lumber and logs can be produced out of our Philippine forest for export trade, if sufficient encouragement is given to lumber producers. The best way to obtain this result would be to place at their disposal the means with which to replace or expand their facilities for production. The tendency of mechanizing logging operations thru the use of heavy equipments is an imperative necessity for the advancement of lumber production. This is required to improve efficiency in road building, road skidding and hauling and actually in processing logs into sawn lumber. These essential implements and machineries under the present arrangement cannot be made available to producers unless they pay for the purchase and acquisition thereof, the 17% exchange tax. There seems to be no reason why machineries for lumber production cannot be placed under the same privilege of exemption from the exchange tax as agricultural implements and machineries. The purpose of the latter exemption is to encourage agricultural production, and for the same reason the lumber industry should likewise be entitled to the same encouragement by affording it with the same privilege of exemption from this imposition.

Our lumber has to face the free competition with other species coming from other regions of the world. Prices are generally dictated by factors over which we in the Philippines have absolutely no control. To make our woods competitive in the world market, they must necessarily

be sold at competitive prices. It is impossible for outside consumers to absorb the 17% exchange tax, which necessarily must have to be shouldered by the producers, unlike those for local consumption where additional burdens may be passed along to the consumers. To burden unnecessarily the producers at the start would not only prevent effective replacement of machineries and appliances, but would also make impossible the expansion of the industry for wider areas. It will ultimately result in making exports of these commodities unremunerative to export-producers, considering that they cannot compete in the open market at prices which would not even allow them a nominal profit for their investments.

1. *Forest Charges*: Collection is made on the basis of ₱3.50 for 1st group, ₱2.00 for 2nd group, ₱1.25 for 3rd group and ₱0.60 for 4th group per cubic meter. One (1) cubic is equivalent to 424 board feet.

2. *Reforestation Charges*: ₱0.50 per cubic meter for 1st and 2nd group and ₱0.40 for the 3rd group and 4th groups (as provided under Republic Act No. 115).

3. *Application fee*: ₱5.00 for each application for timber license covering 500 hectares or fraction thereof.

4. *License fee*: ₱0.35 per cubic meter of timber, based on the amount of production to be granted, and kind and amount of forest products found in the area covered by the application as approved.

5. *Inspection fee*: ₱3.00 per thousand board feet for sawn lumber and ₱1.00 per thousand board for logs.

6. *Sawmill License fee*: This depends on the annual output ranging from an annual fee of ₱100.00 on a production of 1 to 2,000 board feet daily output, to ₱1,000.00 if daily output exceeds 30,000 board feet daily. If the owner or operator owns two or more independent sawmills, separate application and license fee shall be filed and paid for each.

7. *Municipal License fee*: This depends on the charge imposed by the local municipal councils on producers and sawmill operators operating in their respective locality.

8. *Wharfage fee* of ₱0.60 per cubic meter of logs and flitches.

9. *Boiler Inspection fee*: For each boiler inspected depending upon the horse power of each, ranging from ₱40.00 to ₱148.50 (157 h.p.).

10. *Import license tax* of 2% on the C.I.F. value of the machineries, equipment, spare parts, accessories, etc., imported for use in the industry; and 7% compensating tax based on the total of the C.I.F. Value of the items imported: These taxes aggregating 9% on the value of all imported goods used by the lumber business, is equivalent to 3% of the cost production or approximately ₱4.50 per thousand board feet.

11. *Sales tax* of 5% on local sales.

12. *Income tax* of 20% and 28% on net income.

13. *Real property tax*.

The foregoing taxes represent ₱39.50 per thousand board feet or 33% of the price per thousand board feet of lumber in the local market. Together with the income tax payable by all corporations, the entire charges represent approximately 40% of the gross income of the lumber industry. It can thus be appreciated that the tremendous tax burdens now imposed on the industry have caused operations to be unremunerative and, in many instances, have discouraged additional investments for its development.

I suggest that apart from the total elimination of the 17% exchange tax for the purchase of implements, machineries and appliances required by the industry, the 2% import license tax and compensating tax of 7% should also be eliminated. There should be a 50% reduction in forest and reforestation charges, inspection and license fees. The wharfage fees of ₱0.60 per cubic meter of logs and flitches should not be charged if loading is not actually done in any government wharf. This last imposition is basically inequitable, not to say immoral, for while the intent of the law is the charge for the use of government wharves, such imposition has been ex-

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Some Observation . . .

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B. FOREST UTILIZATION THIRD YEAR

FIRST SEMESTER

	<i>Units</i>
Wood Technology	3
Forest Pathology	3
Surveying Ia	3
Lumbering 2	3
Mathematics 8 (Anal. Geometry)	3
Electives	2
	17

SECOND SEMESTER

	<i>Units</i>
Logging	3
Forest Entomology	3
Surveying Ib	3
Statistics II	3
Electives	5
	17

SUMMER WORK: Students may select from Forest Products, Lumber Manufacture, Pulp and Paper or Plywood Manufacture; Kiln Drying. 6 weeks, 6 units.

FOURTH YEAR

FIRST SEMESTER

	<i>Units</i>
Business Law I	3
English 3	3
Forest Products	3
Wood Preservation	3
Research Problem	2
Electives	3

SECOND SEMESTER

	<i>Units</i>
Business Law 2	3
Forest Protection	3
Research Problem	3
Electives	8
	17

Suggested electives in addition to those mentioned in the college catalog for the current school year.

1. Light Construction—(2)
2. Lumber Merchandizing and salesmanship—(2)
3. Portable sawmills—(2)
4. Timber Mechanics—(2)

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tended in violation of that intention, to loading and unloading on private wharves for which the government has not invested any amount.

The modification of our tax structure would encourage additional investments to develop and expand this dollar producing industry. It will inevitably result in bringing under production wider forest areas, with more revenues collectible out of increased output, and more opportunities for employment among our laborers.

There are, of course, other problems facing the industry and I would like to submit them to you in the future for your consideration. In your wise approach to the problems of the trade, I am confident that you will take into account the foregoing considerations.

Very sincerely yours,

(Sgd.) A. DE LAS ALAS
President

5. Woodworking machinery—(2)
6. Elements of marketing and transportation—(2)
7. Glues and Finishes of wood—(2)
8. Kiln Engineering—(2)
9. Veneers, adhesives & plywood—(3)
10. Pulp and Paper technology—(3)
11. Physical Chemistry—(3)
12. Logging Engineering—(4)
13. Elements of Finance—(2)
14. Mill Management—(2)
15. Microtechnique—(3)
16. Statistics 12—(3)

* * *

Private: "Sarge, one of the MP's just hung himself."

Sergeant: "Heavens! Did you cut him down?"

Private: "No, he ain't dead yet."

* * *

"How'd you make out with you wife in that fight the other night?"

"Awe, she came on crawling to me on her knees"

"Yeah, What did she say?"

"Come out from under that bed, you coward."