# Tropical Wood Product Exports from Sri Lanka

By Rangika Perera and Richard Vlosky

## Introduction

Sri Lanka possesses an abundance of natural resources that enrich and sustain the lives of its people. Forest resources are one such resource. The forestry sector in Sri Lanka is comprised of natural forests, forest plantations, home gardens, other non-forest tree resources, wood and wood-based industries, non-wood forest products, and bio-energy sources (Weerawardena 2003). It is a sector which has tremendous growth potential for providing economic contributions to the country.

The wood-based manufacturing sector in Sri Lanka depends almost entirely on the local wood supply for raw materials. The sector is diverse, consisting of a variety of industries including saw milling, furniture, construction, parquet flooring, wood-based panel products, and carvings. Of the estimated 9,000 furniture and other wood product manufacturing facilities in Sri Lanka, only about 2 percent target export markets. In 2006, the sector had approximately 28,000 employees. Most mills are concentrated in the suburbs of Colombo, the Capitol (Sri Lanka EDB 2006) .

The particleboard, fiberboard, and paper industries depend on imports to satisfy national demand. In 2001, domestic resources contributed about 61 percent of the national requirement of approximately 0.031 million tons of fiber for making paper with the balance supplied by imports (FAO 2002). There are two government-owned paper mills in the country; one has been reopened recently while the other is operating below its production capacity.

The main reason for fiber and paper product imports is inadequate technology in the mills to utilize domestic fiber resources. Many pine forest plantations were established with the expectation of utilizing them as fiber resources; however, the necessary technology to process pine fibers was found to be too expensive and the quality of the plantation wood was low.

Despite these drawbacks, both wood and paper industrial production in the country have shown a gradual increase over the past decade with the majority of production consumed domestically.

## Wood product exports

Most wood product manufacturers in Sri Lanka serve domestic markets while very few target export markets. Wood product manufacturing companies are small-scale enterprises characterized by limited production capacity, significant waste, and outdated production technology. Another drawback that limits respondent company growth is inadequate production experience and lack of skilled labor.

Wood product exporting, however, is an emerging sector in Sri Lanka. Private sector investment and involvement is the primary reason for this expansion (Weerawardena 2003). Natural resource-based products, including wood products, are subject to royalties, duties, and cesses (a local levy on commodities or products for special purposes). In order to encourage foreign investment and exports, Sri Lanka has been adopting flexible taxes and policies. Although export polices have some inconsistencies, export products are exempted from duties or subjected to concessionary duty rates while start-up subsidies have been made available for new exporters (Sri Lanka Customs 2007, WTO 2004).

In addition, export promotional schemes have been introduced to help Sri Lanka's industries and overall economy become more export oriented (Sri Lanka Customs 2007). The Export Development Board even assists Sri Lankan exporters in finding foreign markets. In order to derive maximum benefits from these emerging global markets and opportunities, it is important to identify the current trade and development barriers that exist in Sri Lanka from the wood product exporters' perspective.

## The study

According to the Export Development Board of Sri Lanka (2006), there were 60 wood product exporters in the country in 2006. An attempt was made to conduct face-to-face interviews with representatives from all of these companies in late 2007/early 2008. Of these 60 companies, 26 agreed to share information resulting in a response rate of 43.3 percent.

**The objectives of the study were to discern:**

1. **The status of wood product exporting;**
2. **The perceived barriers for wood product exporting; and**
3. **Exporter perceptions toward forest certification.**

On average, the companies interviewed had annual gross sales less than US$ 5 million in 2007 with the majority (all but one respondent) exporting between 1 and 25 containers of wood products per year. Fifty percent of respondents had between 26 and 50 employees. A majority (60%) of respondents were relative newcomers to exporting, with 5 years or less in serving export markets. Only 8 percent of the companies had more than 20 years of experience in the export sector.

None of the respondents were entirely dependent on exports. They provide products primarily to the domestic market while a small percentage of their production is exported to international markets. Specifically, on average, less than 10 percent of respondents' annual sales were from exports in 2007. None of the companies received more than half of their 2007 sales (on a value basis) from exports. Difficulties in meeting buyer-required product volumes and maintaining timely delivery of orders were the main factors that hindered their export capacity. Both of these issues are related to production planning where improvements are needed to create stability for current wood product exporters.

Many wood products are exported from Sri Lanka including broom handles and brush blocks, parquet for flooring, hardwood plywood, household utility items, wooden toys, carvings and ornaments, household furniture, office furniture, and furniture in ready-to-assembly form. Other miscellaneous wood products exported include table lamps, skipping rope handles, rulers, and handicrafts (**Fig. 1**).

The main markets for Sri Lankan wood exports are the United Kingdom, the United States, and India (**Fig. 2**). Despite the fact that half of the respondent companies exported furniture and furniture parts, only a few were exporting plywood (4%) or window frames (4%).

Phytosanitary testing is required by many countries in cross-boundary transportation to control for dispersion of pests and destructive organisms which can be transmitted with wood products and packaging materials. Many countries, including the United States, require testing for insects and microbes from their foreign suppliers prior to import. Findings indicate that Sri Lankan exporters have adopted these measures with 80 percent of respondents conducting phytosanitary testing for insects and other pests prior to export.

Unlike many other export sectors, Sri Lankan wood product exporters have paid little attention to adopting modern communication methods with buyers such as email and web-based electronic links. Respondents rely primarily on conventional methods of communication to convey product information and find new information about buyers such as word of mouth (**Fig. 3**).

## Marketing Sri Lankan wood products in foreign markets

The demand for Sri Lankan wood products comes mainly from companies which are already doing business with Sri Lankan exporters. Although producers have the potential to meet international quality standards and penetrate new markets or identify new buyers, most do not invest in marketing or advertising their products in foreign markets. For instance, respondents have a neutral view toward the need for understanding basic marketing concepts such as understanding competitor strength and weaknesses (64%), preparing marketing plans (44%), conducting market research prior to introduction of their products (53.8%), or having a strategic plan for wood product exporting (57.7%). Also, only 4 percent of respondents conduct formal research on clients needs and are reluctant to introduce their products to new buyers. Most respondents seem to rely on a few major buyers with significant bargaining power. In addition, with limited production capacity, Sri Lankan exporters generally serve niche markets (**Fig. 4**).

*Figure 1. — Wood products exported in 2006. Multiple responses possible. (Percent of respondents, n = 26.)*

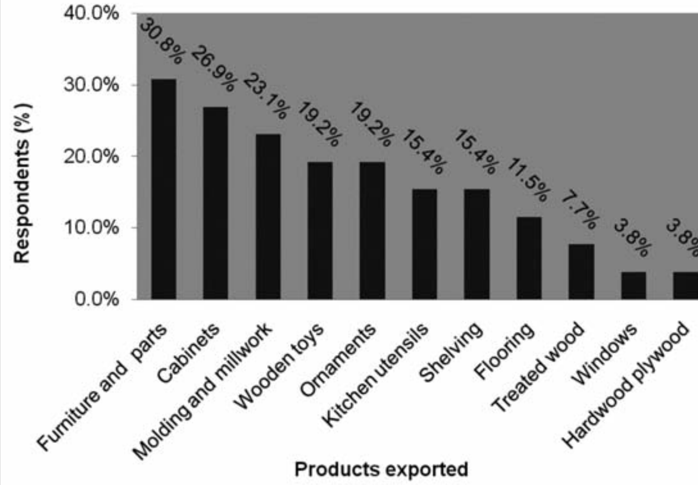



*Figure 2. — Countries receiving exports by sales value in 2006. (Percent of respondents, n = 25.)*

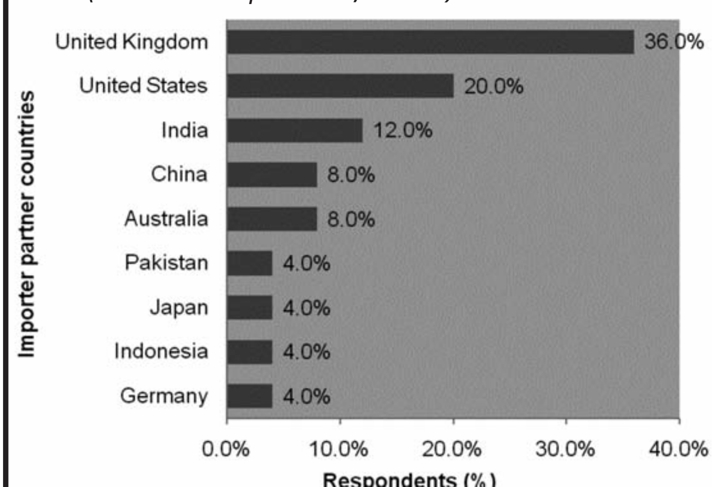



*Figure 3. — Sources of exporting information (n = 26).*

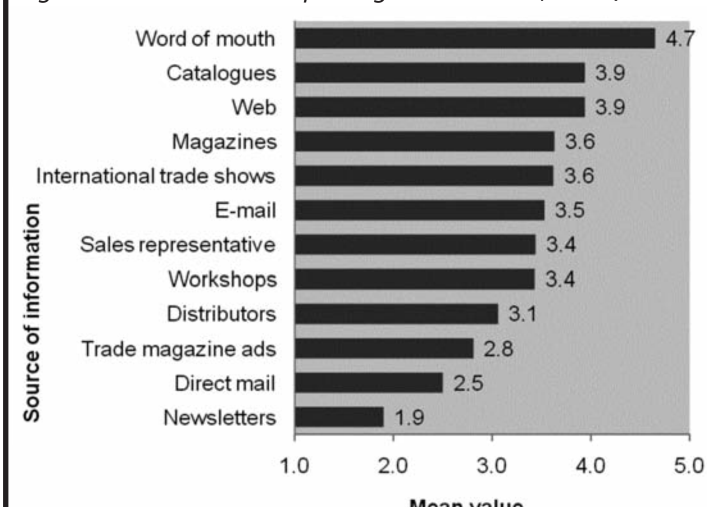


*Figure 4. — Level of agreement on marketing efforts. (Percent of respondents, n = 26.)*

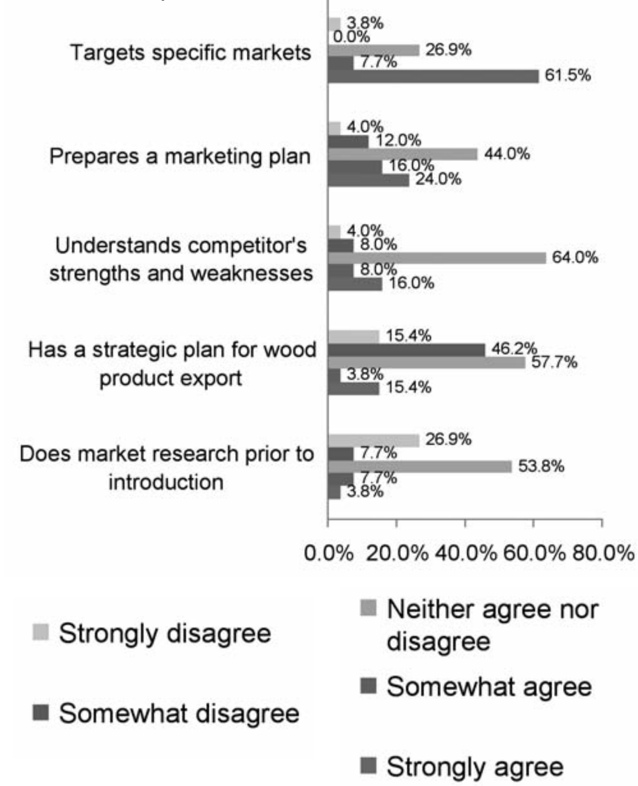
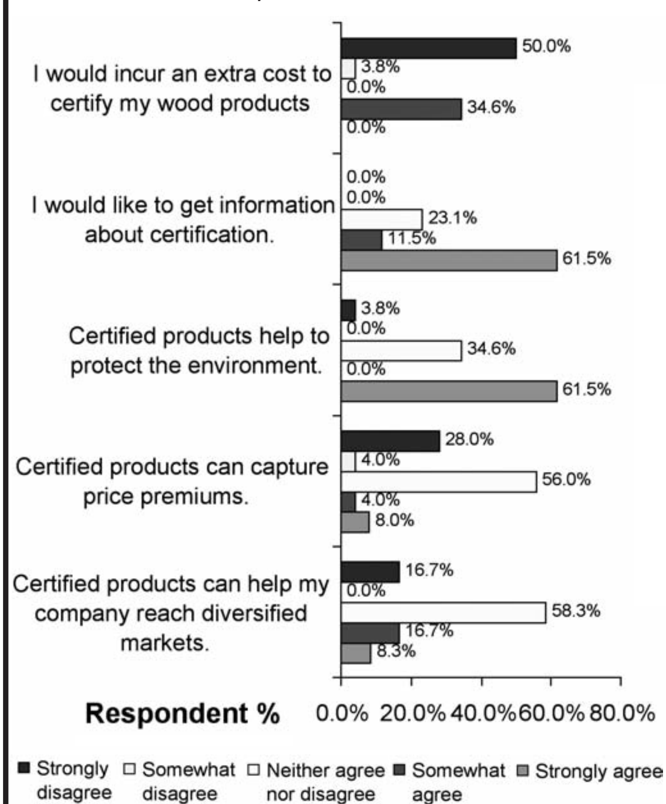



*Figure 5. — Level of agreement on forest certification issues. (Percent of respondents, n = 26.)*




## Export limitations

An understanding of limitations encountered by Sri Lankan wood product exporters can help them to take necessary actions to expand export participation. Respondents gave a low priority for factors such as environmental certification, financial constraints, stakeholder interaction, and buyer reliability as limitations for their business expansion. Instead, they identified inefficient internal and external transportation, lack of supportive government policies, lengthy custom procedures, lack of experienced labor and outdated production technology, and difficulty meeting buyer delivery schedules as major limiting factors for export business expansion (**Table 1**).

## Forest cerification and wood products exports

Certification is designed to promote sustainable forest management (SFM) practices. The certification process involves an evaluation of management planning and forestry practices by a third party in accordance with the predefined criteria and indicators. Primary goals of forest certification are to address social and economic concerns of forest management and harvesting with an emphasis on environmental protection (Pinchot Institute for Conservation 2006). A second component of certification is chain-of-custody which tracks certified wood material from the forest to the end consumer.

Forest management certification and chain-of-custody certification are not widely adopted in Sri Lanka. Costs associated with obtaining certification and a lack of foreseeable economic benefits to the company is the factor that restricts the adoption of certification by respondents. Respondents do not believe that providing certified products will help them diversify markets nor do they believe that certified products can capture price premiums in the marketplace to offset costs. A majority (62%), however, believe that certification can help to promote sustainable forestry (**Fig. 5**). None of the respondents said they are willing to incur the cost of certification but all said they would like to be better informed about certification and implications for their companies.

In 2005, of the 16 large plantations in the country, four were certified under the Forest Stewardship Council (FSC) forest certification program (Perera et al. 2006). Seven wood product respondents had also obtained FSC chain-of-custody certification (Perera et al. 2006). For the four respondent manufacturing companies with chain-of-custody certification, the major driving force for obtaining certification was buyer requests. These manufacturing companies purchase their raw materials primarily from privately owned domestic forest plantations that have obtained FSC certification.

Demand for Sri Lankan certified wood products, especially for furniture, has been increasing. European markets are the primary buyers of Sri Lankan certified wood products. At present, a number of exporting companies including furniture manufacturers are planning to obtain FSC certification to meet the certified wood demand (Sri Lanka EDB 2007).

## Conclusion

Sri Lanka wood product manufacturers face internal and external constraints in improving and expanding their

*Table 1. — Wood products export limitation factors (means, n = 26).*[a]

| Export limitations | Mean value |
|---|---|
| • Bad transportation infrastructure | 5.0 |
| • High shipping/handling cost | 4.9 |
| • Inefficient custom procedures | 4.8 |
| • High export duties/tariff | 4.8 |
| • Lack of skilled workers | 4.8 |
| • Lack of production technology | 4.5 |
| • Inadequate, inefficient, and unreasonable sea cargo transportation | 4.4 |
| • Lack of information on buyers | 4.4 |
| • Lack of government policies to encourage new investments | 4.1 |
| • Lack of government policies to encourage existing exports | 4.1 |
| • Difficulty in meeting buyers required delivery schedules | 4.0 |
| • Research findings are not readily available for the investors | 4.0 |
| • Lack of flexible forest policy regulations | 4.0 |

[a] 5-point Likert scale: 1 = Strongly disagree; 3 = Neither agree nor disagree; and 5 = Strongly agree.

presence in international markets. Outdated production technology is a constraint to producing quality products in higher quantities for international markets, although exporters could consider working together to form exporter groups, co-ops, or associations that could meet larger product volumes. Government investment incentives or subsidies as well as attracting foreign investment may also alleviate constraints. Facilitating research to understand current and future export markets will be essential if Sri Lankan exporters seek to identify and target lucrative markets.

In addition, more than 90 percent of respondents currently export non-certified wood products due to the high costs of certification and no foreseeable benefits to the company. Formation of exporter groups may help reduce certification costs by obtaining group certification. Exporter manufacturers could negotiate with plantation companies to obtain certification for both plantations and production which would allow manufacturers to fulfill certified raw materials and chain-of-custody requirements. Also, the development of awareness programs to educate Sri Lankan exporters about the potential benefits of forest certification is an endeavor that could be led by government agencies and academia.

Sri Lankan exporters also need to transition from conventional methods to modern electronic methods of communication to exchange and find new information. Development of websites to promote products and information is another essential requirement for Sri Lankan exporters to compete internationally.

Furthermore, government institutions could be urged to partner with industry in taking the steps necessary to strengthen the wood products export sector by modifying policies and regulations regarding wood and wood product transportation and custom procedures. In addition, exporter groups and government institutions can conduct workshops to educate and train managers and employees to minimize waste, improve quality, introduce new designs, and maximize labor efficiency. Despite the challenges, wood product manufacturing and exporting in Sri Lanka have shown a gradual increase over the past decade and have tremendous growth potential.

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