

**SPEECH ON “EXPORT MARKET CHALLENGES FOR  
INDIAN TIMBER PRODUCTS”**

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**Ladies and Gentlemen,**

I consider it an honour & privilege to address this august gathering of 19<sup>th</sup> Illegal Logging Stakeholder Update in London on export market challenges for India’s Timber Products. I am keenly aware of the vast knowledge and experience embedded in the audience and I am looking forward to a meaningful exchange of ideas.

Before we start, let us have a look at India’s Economy Parameters:-

**India’s GDP Growth**

In 2007-08 India’s GDP grew by 9.3%. Due to the global financial crisis our growth rate in 2008-09 had slowed down to 6.8 per cent. However, India was among the few nations to recover earlier from the crisis. Our growth rate rose to 8.0% in 2009-10 and to 8.5 per cent in 2010-11. Unfortunately, dark clouds have gathered in the global skies once again, and these are casting a shadow on us. The Indian economy grew by 7.7 per cent during April-June 2011. Agriculture, industry and services registered growth rates of 3.9, 5.1 and 10 per cent, respectively, in the first quarter.

**Wood & Wood Based Industries in India**

It may be noted here that the Wood and Wood based Industry play a very vital role in shaping the robust growth of the Indian Economy. This industry has true potential to grow manifolds from the existing levels and is poised for a sustainable growth annually. The last decade has seen India fast become the manufacturing hub for the global markets. The Wood, Plywood & Allied Products Industry is one of

the key sectors having immense potential for gaining from these developments as India is one of the major wood-users in the Asia Pacific region. Asia Pacific region has over 4500 varieties of wood-yielding species & has some of the best known and most highly prized tropical hardwoods.

Indian plywood industry is as big as Rs.5,000 crore equivalent to USD 1 billion. The industry is growing at rapid pace of 10-20% per annum. Approximately 600 units are currently functioning all over the country. There is tremendous growth potential as the players are yet to penetrate majority of the international market.

Panel and plywood products are the main wood products in India. Product categories include veneer sheets, particle board (composite wood core with plastic laminate finish), panel products (fiber board), plywood made from both hard and softwood (veneered panels and laminated woods), and medium density fiber board. Indian particle board and plywood industry accounts for 15% of the total production, producing, some 30 million sqm of plywood and block boards.

At present, the Indian wood & furniture sector is predominantly in the hands of unorganized small units. Fortunately, large corporate houses have started taking interest in production of modern furniture. The furniture market is the second largest wood processing segment after timber & logs, making India a fast emerging market for high-end, value-added imported products. The manufacture of pre-fabricated doors and windows is relatively new and the current market is growing at 10% per annum. The total annual market for timber & furniture in India is estimated to be US\$ 1.25 billion about 90% of which is for wooden products. The branded (higher quality) wooden furniture industry is growing at 15% annually.

### **Wood, Plywood and Panel Industry - US\$157.97 billion global opportunity**

Let me inform you & you all may be aware that global imports of Wood, Plywood and Panel Industry reached to US \$ 157.97 billion during 2010. The broad group of the products exported globally under Wood, Plywood and Panel Industry are Furniture and Parts (41%), Sawn Wood (19%), Plywood (7%), Builders' joinery and carpentry of wood (7%), Fibre board of Wood (5%), balance in Cork & Cork Products, Hard

board of wood fibre, other articles of wood, Parquet Panel and Sandal wood Chips etc., as detailed below:-

<b>Products</b>	<b>Value in 2010 (US\$ Million)</b>	<b>% Share</b>
Furniture and parts	63648	41
Sawn Wood	29761	19
Plywood	11343	7
Joinery & Carpentry of Wood	11140	7
Fibre board	8183	5
Others	33899	21
<b>TOTAL</b>	<b>157973</b>	

**Source: ITC Trade Map**

#### **Global Importers of Wood and Wood Articles (Chapter 44)**

The main importing countries for **Wood and Wood articles** into globally are USA (11%), China (10%), Japan (9.5%), Germany (6.1%), United Kingdom (4.6%), Italy (4.5%), France (4.2%), Netherlands (3.2%), Canada (2.8%), Belgium (2.6%), Netherlands (2.5%), Austria (2.4%) and Rep. of Korea (2.1%).

The major markets for Indian **furniture's** (Bedroom, Kitchen and Office furniture's) in the world are USA, UK, France, Switzerland, Canada and Netherlands. China, USA, Japan, UK, Italy, Germany and France are the leading importers for Sawn wood. France, USA, Spain, Italy, Germany, Russian Federation, Chile, China and Japan are the leading importers for **Cork and Cork Products** in the world.

#### **Exports of Plywood, Wood and Panel products from India**

I am happy to inform you that the exports of wood and wood products from India has reached to all time high of US \$ 453 million during 2010-11 showing a growth of 20% compared to previous year. For the past 4 years, exports of timber products growing an average of Compounded Annual Growth Rate (CAGR) of over 7% from India. The major export destinations for Indian Plywood and Wood Products are USA (23%), Germany (10%), UK (9%), France (7%), UAE (7%), Italy (4%), Netherlands (3%), Australia (3%), Belgium (3%) and Spain (2%), as per the table attached.

<b>Exports of Plywood and Wood Products from India</b>				
		<b>Value: Rs. Million</b>		
<b>Products</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>% Change</b>	<b>Export Destinations</b>
Wooden furniture	11220.45	16207.13	44.44	USA, Germany & France
Other articles of wood	3546.03	4560.69	28.61	USA, UK & Canada
Sawn timber	687.34	831.15	20.92	UAE, Italy & Oman
Veneer	925.47	717.52	-22.47	Turkey, UAE & USA
Other plywood	674.00	566.16	-16.00	Turkey, UAE & Netherlands
Hard board of wood fibre	583.46	486.17	-16.68	UAE, Saudi Arabia & Qatar
Cork and cork products	53.98	116.23	115.34	USA, UAE & Russia
Sandalwood chips	50.57	92.84	83.58	UAE, Malaysia & Saudi Arabia
Decorative plywood	152.92	33.50	-78.10	Nepal, Canada & Turkey
Tea chest panel	1.34	0.98	-26.51	Nepal, Germany & Japan
<b>Grand Total</b>	<b>17895.55</b>	<b>23612.36</b>	<b>31.95</b>	

**Source: MoC Export Import Data Bank**

## **Now I would briefly address the Export Market Challenges for India's Timber Products**

### **a. Globalization**

With the globalization & opening of economy, there are entry of very well known multinational brands in India, many products and services are now delivered to consumers in a similar way across the world and consumers are now aware of trends, tastes and fashions as in other parts of the world. These developments present opportunities to increase efficiency in the delivery of products and services across a much larger global marketplace as well as they also enable firms to gain competitive advantage through overseas market knowledge, product differentiation and the development of local market niches. This globalization is posing big challenges for exports of timber products from India to across the globe. Consumers expect high quality materials at par with international standards particularly with various certifications in place.

## **b. Forest product certification**

Forest product certification was developed during the 1990s as a mechanism to identify forest products that come from sustainably managed forests. Four main elements of the certification process are: the development of agreed standards defining sustainable forest management; auditing of forest operations and issuance of certificates to companies that meet those standards; auditing of the chain-of-custody to ensure that a company's products come from certified forests; and the use of product labels so that certified products can be identified in the marketplace. There are presently more than 50 certification programmes in different countries around the world, many of which fall under the two largest umbrella organizations: the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). The area of certified forests covered by the two main organizations has steadily increased since the 1990s to reach about 350 million hectares in 2010.

Globally a number of barriers to more widespread adoption of certification have been identified. Two of the most important of these are the costs of certification (especially for small forest owners) and the lack of a price premium for certified forest products in the marketplace. Although the latter has been noted in almost all developed country markets for forest products, one benefit of certification is that it facilitates entry to those markets, where prices generally may be higher than in countries where there is no demand for certified forest products.

Although forest certification has so far failed to stimulate widespread changes in forest management and harvesting practices in all parts of the world, it remains an important tool for companies in the forest industry to demonstrate their commitment to meeting high social and environmental performance standards. Indeed, many of the largest forest products companies are certified and can use this to gain competitive advantage by differentiating their products and communicating their superior performance to consumers. The major exporting countries of logs are still to get the forest certification & hence it is difficult to get certified logs.

Due to this, Indian exporters cannot supply certified wood products. Further, this certification adds to the cost of production to a great extent which stands alone, will not be competitive internationally.

**c. Understanding and meeting customers' needs**

Making the wood and wood products more customer-focused and responsive to changing needs is one of our biggest challenges. The wood and wood industry remains very conservative in comparison with many other consumer product markets and it's essential that manufacturers and merchants become more dynamic and attuned to market trends and customer requirements. Globally, the price-conscious customers adopting a more cautious approach to committing to significant home improvement projects. This shift in demand means that quality becomes even more important, as customers purchasing premium wood and wood products have higher expectations of design, finish and durability, as well as service and after-sales support.

**d. Increasing competition from other Asian countries**

Indian producers are facing increasingly higher amount of competition particularly from other Asian countries of China and Vietnam and wooden furniture in particular. Since the manufacturing of plywood, furniture/veneers etc. are labour intensive processes in India and whereas a good number of jobs are being created for export of these products. Industries in India are still to be organized & need huge investment & technical support in the form of technology, plant & machineries, education & training. There is substantial quality difference in international products compared to domestic products. This is also a big challenge for Indian Exporters to improve as per international market demand & standards.

**e. Use of Alternative materials to Wood**

Perhaps the biggest challenge for the wood and wood industry as a whole is to position the material as complementary to modern homes, where alternative materials such as metal and glass are now commonplace within shelves, storage units, tables, chairs and other furniture. Customers are including a whole range of different materials, finishes and textures within their homes, and wood and wooden

manufacturers and merchants need to innovate to either integrate these materials within their ranges or design wood and wood products to complement them. The wood and wood products industry in India need to understand and respond to these changing needs if it is to grow and compete with other consumer product suppliers.

**f. Increasing labour costs and Automation**

In India, both wood raw materials and skilled labour are now in short supply. Because labour was cheap in India the wood and wood industry developed using labour intensive production processes. Today however, the situation is different and because of low cost labour is no longer readily available many factories are running at around only 60% of their capacity. To overcome this persistent problem the industry now prefers to have as much automation as possible and is retooling production plant accordingly. This change is driving up demand for high tech wood processing equipment.

**g. Social trends & Domestic Market Scenario**

Social trends changes public opinions, attitudes and lifestyles that occur when income rises. For example, as income increases, people move beyond basic needs and start to seek new products and services that will improve their quality of life, according to their tastes and preferences. Other wealth related factors also affect consumption, such as increases in home ownership (including second homes), trends towards larger homes and greater leisure time, as well as changes in the amount of time spent at home. This creates an additional demand for the domestic market & thus the surplus available for the export reduces. There are lots of pressure on forest land & resources as demand for construction for new homes increases.

Secondly, India is experiencing a rapid phase of urbanization with a change in lifestyles, a growing demand for engineered wood panel products, and a high infrastructure, industry sources expect positive growth for wood products such as plywood, particleboard, medium density fiberboard, oriented-strand board and laminated veneer lumber in near future. Therefore manufacturers are not really willing to export when they have readymade domestic market to cater. There is huge

young population aging between 18 – 40 years in India adopting high quality of life standards with high income group & having more spending power. Therefore, the domestic market is quite strong & housing sector & other relevant industries are booming. This affects exporters to decide between domestic market & export market.

**i. Lack of Market Information**

In India, there is no proper market information system to provide the prevailing price on wood on a day-to-day basis, nor is there any support price fixed by the Government as has been the case in agricultural products. Indian exporters need to participate in every possible wood fairs & exhibitions to get first hand information on market & recent trends. This also helps in upgrading plant & machinery & brings about latest technology in wood industry.

**The other major challenges for the Indian exporters can be summarized as under:-**

- **There has been acute shortage of good raw material as wood is the natural commodity. The customers demand for high quality of products at higher rate for which the exporters need to procure best quality of raw material to ensure quality specification & to meet customers expectation.**
- **For technology upgradation & modernization, huge capital & resources are required which is difficult for small & medium size exporters.**
- **Shipping has become critical aspect as most of the raw materials are imported from African countries where container facility is not available & the cargo has to come in break bulk which involves huge finance & forex risk & also increases transaction cost.**
- **India is still lacking in developing proper marketing strategies to penetrate the international market & to sustain against cut throat competition, as exporters need to have united efforts to meet ever-changing market challenges.**



## **Conclusion**

It may be recalled here that Asia is one of the most interesting dynamic and fastest growing markets in the industry, and China in particular, thanks to its incredible economic prosperity. The region is becoming one of the most important areas in the world for furniture manufacturing. The development of demanding, quality orientated industries such as furniture manufacturing and interior decoration will ensure a steady and promising flow of business among India and other Asian countries for years to come.

Before concluding my speech, I would also like to highlight that there has been very strict legal frame work, rules & regulations for fair trade of timber products in India. The Indian entrepreneurs are required to maintain complete records, to fulfill all the formalities as well as to ensure full chain of custody from forest to final delivery of finished products to overseas customers. Thus there is no scope of illegal trading of timber products in India. The experience of concerned authorities to implement FSC & other certification process in India, has been quite satisfactory & they are impressed with the transparent & straightforward way of doing the business by Indian exporters.

Thank you.