USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 6/21/2006

GAIN Report Number: IN6048

India

Product Brief

Wood and Wood Product Market in India

2006

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Report Highlights:
India's imports of wood and wood products in recent years have galloped ahead due to a rapidly growing economy and depleted domestic forests. Most imports are teak and tropical woods in log form. Recent sourcing problems from traditional supplying countries and the growing demand for new wood products from the burgeoning Indian middle class will likely force Indian users to explore the sourcing of temperate wood species and products. This offers promising opportunities for the US wood suppliers to tap into this nascent but significant import market.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1]
[IN]

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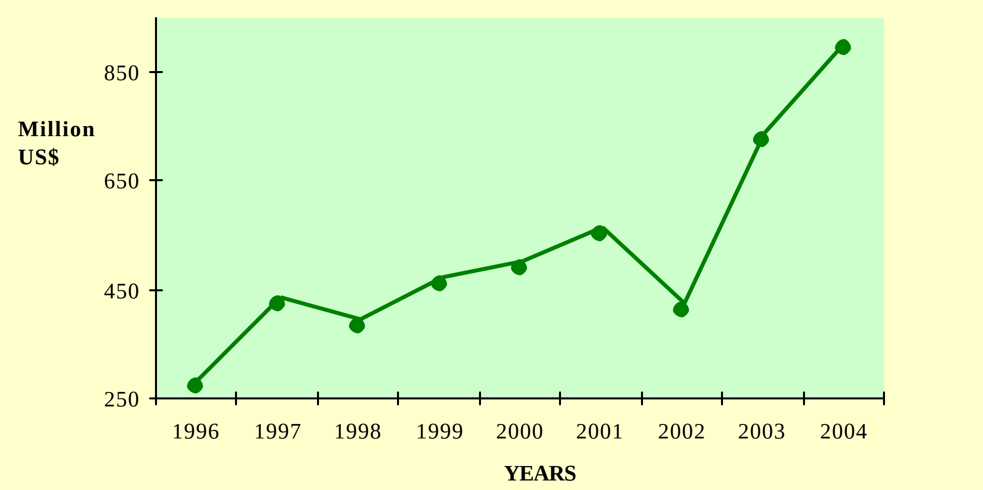
MARKET OVERVIEW

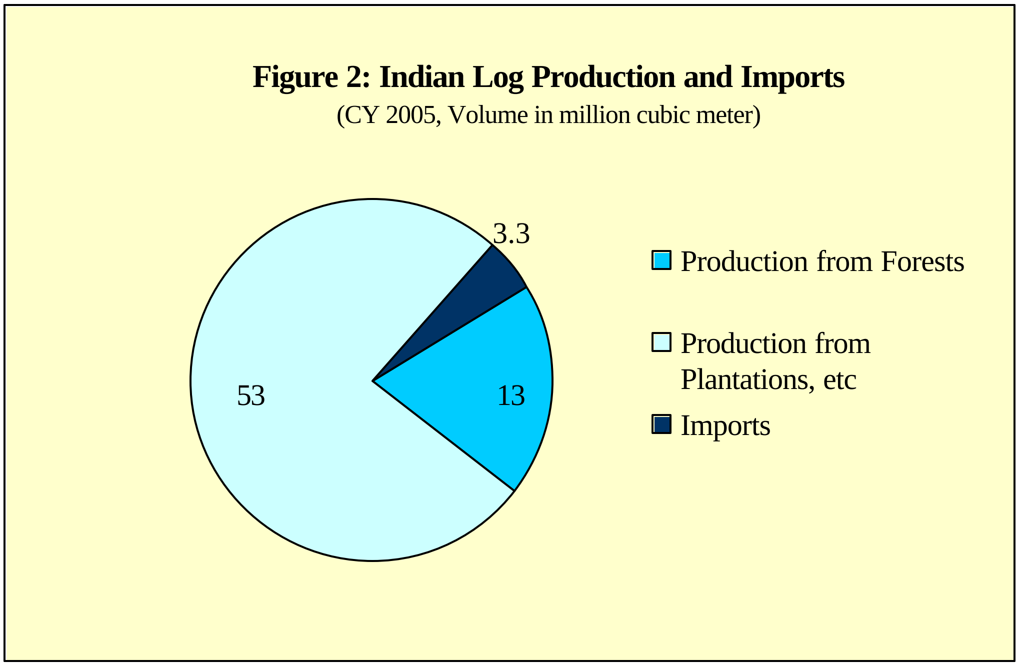
India is a rapidly growing import market for wood and wood products, mainly due to severely depleted domestic forest resources and a growing demand for wood products. India's imports of wood and wood products have grown by 12 percent annually over the last decade (**see Fig 1**). The strong growth in the Indian economy (6 percent annually over the last decade) and a large and growing middle class have resulted in an increasing demand for housing and furniture, and a major expansion in hotel and retail infrastructures; all of which have fueled the growth in wood imports. Market analysts expect that the imports of wood in India will continue to increase at the current growth rate (10-15 percent) in the near future.

Figure 1: India's Total Imports of Wood & Products

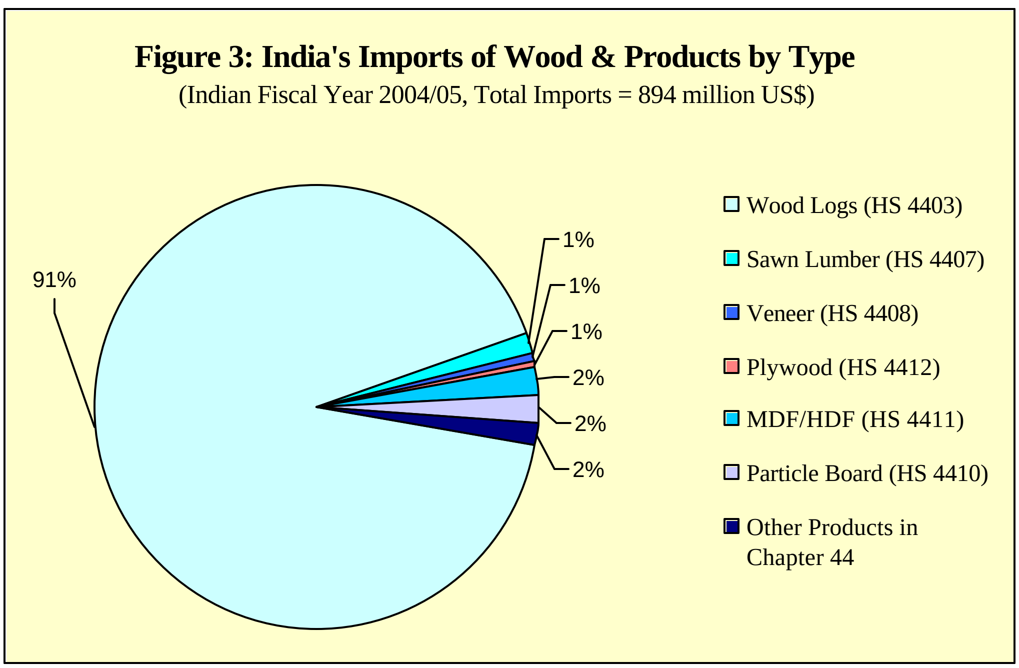
(Indian Fiscal Years 1996/97 to 2004/05)



Indian forests have suffered heavily from the pressures of the country's large population, over-exploitation, and a lack of management. Of the 23 percent of India's land area that is recorded as forest, only 19 percent has actual forest or tree cover. In December 1996, the Supreme Court of India banned the indiscriminate clearing and logging of forests, and limited harvesting of old and damaged trees. Production of the vast majority of the domestic wood is accounted for by plantations - teak, mahogany, rubber wood, poplar, eucalyptus, silver oak, etc. India imports only a small share of its total annual consumption of logs (**see Fig 2**). With domestic forests and wood resources steadily decreasing, imports will increasingly fill the expanding gap between supply and demand of wood in India.



Due to the import tariff structure (*see Appendix 1*), the vast majority of wood imports into India are logs (**see Fig 3**). The preference for importing logs also stems from the availability of cheap labor and the large number of sawmills that are able to extract a higher percentage of usable timber at very low cost. The Indian wood industry, craftsmen, and other wood users are accustomed to teak and other tropical hardwoods. They are perceived to be more resistant to termites, and are able to withstand the hot and humid climate.



Teak has been the main hardwood for many years, and is typically used as a benchmark to grade and price other wood species. Other imported wood species are tropical woods like garjan, marianti, mahogany, and sapeli; plantation timbers like teak, eucalyptus, poplar; and softwoods like spruce, pine, and fir (SPF). India imports small quantities of temperate hardwoods such as ash, maple, cherry, oak, walnut, beech, etc., but mostly as squared logs or in lumber.

India also imports some sawn lumber, veneer, particleboard, etc, but the volumes are very small compared to logs (*see Appendix 2*). It is difficult to obtain a clear picture of India's imports of wood products, as reliable statistics are not available. However, the official statistics indicate that, with the exception of veneers, imports of all other wood products have also increased considerably in recent years.

Domestic wood product manufacturing is highly fragmented and unorganized, with carpenters and craftsmen doing much of the production on-site. India still lacks high-volume production plants that specialize in low-cost and standard-size products, be it in construction, furniture, or furnishings.

COMPETITION

India has a strong preference for teak and tropical hardwoods. Major suppliers include Malaysia, Myanmar, African countries, New Zealand, South Africa, and a few South American countries (*see Appendix 3*). A significant quantity of SPF wood is imported from New Zealand and Canada, and a small quantity of temperate hardwood is imported from Europe and South America. Sources report that it is becoming increasingly difficult to import teak and other hardwood logs from traditional suppliers like Myanmar and Nigeria, due to restrictions on logging by those governments and/or a lack of supplies. Indian importers are exploring sourcing the tropical wood species from new origins (West Africa and South/Central America), and new wood species from non-traditional suppliers (Europe, Canada, New Zealand, and the United States).

Indian industry and craftsmen have little awareness about temperate wood species (including American wood), and the Indian consumers are used to the looks of teak and other hardwoods. The lack of modern wood drying, treating, processing, and warehousing facilities also constrains the increased use of temperate woods. Since these woods come from relatively low temperature environments, the lack of adequate processing facilities often result in problems of warping, splitting, sun cracks, honeycombing, and staining of the logs after they have been sawed into lumber and other semi-finished products in India.

Most temperate hardwoods are imported in lumber form, mainly from Europe, Canada, and New Zealand. European suppliers have a head start in this small but growing market for temperate hardwood, particularly with European beech, ash, maple, and sycamore. There is a general perception in the Indian trade that European suppliers are more flexible than U.S. suppliers in grading, pricing, and arranging shipments of mixed species. Europe reportedly has a comparative freight advantage vis-à-vis U.S. ports, which is a critical factor in a price-conscious market such as India.

OPPORTUNITIES

With wood supplies from traditional suppliers gradually declining, the market for new temperate wood species is opening. The upper middle class consumers, who are moving away from traditional styles and 'teak' finish, are fueling the demand for new wood species, as they furnish their homes in Western styles. These consumers travel overseas, are exposed to international trends, and have higher purchasing power, thereby driving demand for new wood products and finishing styles.

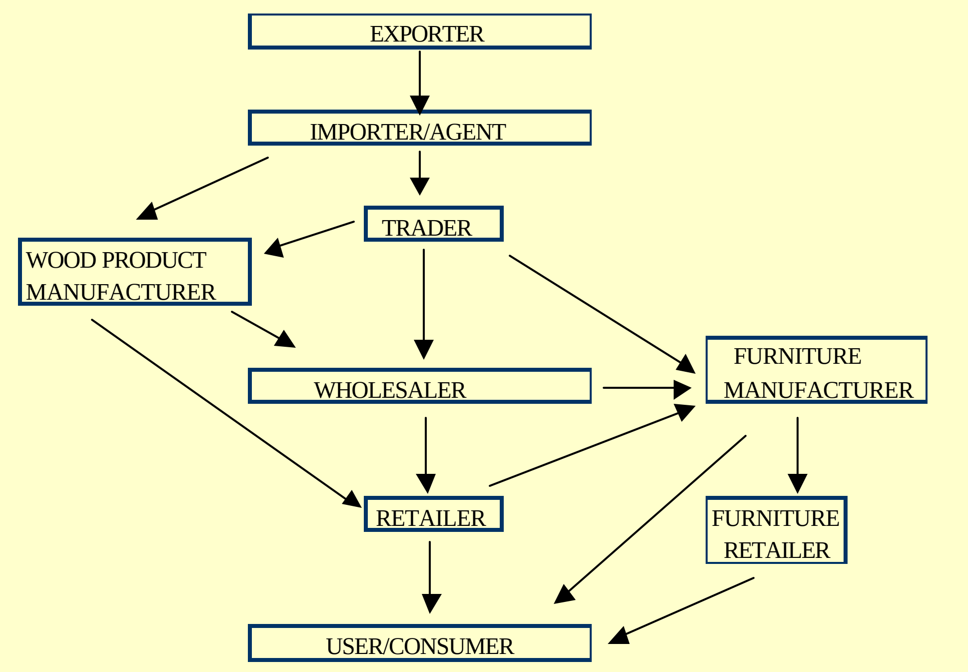
India's growing middle class is also driving the growth of modern housing projects, shopping malls, hotels, schools, and other public buildings. Architects and designers of these modern facilities are increasingly looking for new and non-traditional wood materials and products in order to create innovative styles. Market reports indicate a real promise for imported wood to be used for interior finishing, such as doors, windows, wall panels, moldings, and flooring. The high quality wood furniture market, estimated at $50 million and growing at 15 percent per year, is also increasingly testing out non-traditional wood species.

With the previously prohibitively high tariffs coming down significantly over the last few years (see Appendix 1), imports of lumber, veneers, and other products are becoming increasingly viable. Market sources believe that a further lowering of import duties will challenge the market's current preference for log imports. This, in turn, would create new marketing opportunities for US wood, sawed lumbers, veneers, and other processed wood products. Market sources believe that the basic duty will come down from the current level of 12.5 percent (See Appendix 1) to 10 percent level by next year.

MARKET STRUCTURE & SECTOR PROFILES

The vast majority of Indian wood imports enter in log form, mainly through well-established importers located in the main port cities. The importers may sell the logs directly to a trader at the port, or transport them to major terminal markets for onward sale to local

Figure 4: Marketing Channel



traders/wholesalers. These traders/wholesalers may get some logs sawn into lumber or "sleeper form" (blocks of wood). Retailers procure the logs from the traders and wholesalers, and have them sawn into lumber or into timber with customized specifications. The retailers then sell the sawn wood to local end users such as furniture manufacturers, housing construction companies, etc, who have the wood cut to their final specifications for 'on-site' fabrications.

Plywood- and other intermediate wood product-manufacturers normally procure their raw material locally from plantation growers and traders and small quantity of imported material from importers and traders. The locally-produced plywood and other products are retailed through wholesalers and retailers in the wood market.

Furniture manufacturing units also procure their wood and/or processed wood products from wholesalers and retailers, though a handful procure directly from traders. Furniture manufacturers sell directly to the consumers, mainly as customized and/or ‘on-site’ fabrications.

PLYWOOD & SEMI-PROCESSED WOOD SECTOR

India has a well-developed plywood industry, with about 50 large and medium-scale units and over 2,000 small-scale units that together supply about 350 million sq. meters of plywood per year, of which about ten percent is decorative or veneer. There are about 12 particleboard units, two medium density fibre board (MDF) units, and a number of small hardboard units, altogether producing about 50,000-55,000 tons of particle board, 55,000-60,000 tons MDF, and 120,000 tons of hardboard. For more on the Indian plywood and panel industry, including industry contacts, please refer to the website of the Federation of Indian Plywood and Panel Industries (www.fippi.org).

The plywood industry uses mainly local plantation timber and other softwoods as its core material, although a few units have started using imported softwoods. For the face veneer, they use local and imported teak and other hardwood logs, which are spliced locally. Some of the plywood units use imported veneers, made mainly from teak and temperate hardwoods. However, the comparatively high costs of imported veneers vis-à-vis local products limit their use to manufacturing decorative plywood for the high-end consumers. Most of the particleboard, MDF, and block board units use local timber and agriculture/plant waste.

CONSTRUCTION SECTOR

The Indian construction sector is witnessing a boom, which is fueled by a strong economy, cheaper housing loans, and increased investments in the hotel and retail sectors. Although reliable estimates are not available, the average number of housing “starts” (in the U.S. sense) is estimated at 2-2.5 million per year. The strongest growth is in large multi-unit housing projects that are mushrooming in/around the major cities and urban centers. With increasing tourism, most hotel chains are adding new properties. The retail sector boom is causing a rise in the construction of new malls and retail projects in all major cities.

Most housing and buildings are constructed with brick walls and steel support and are held together by concrete and lime plaster. Due to cost constraints, the share of timber use in a building is quite low (8-15 percent) compared to western standards. Wood is used mostly for doors & windows (including frames), wall panels, moldings, interior finish, and furniture. Most fabrication in a building is done on-site, and is customized by individual carpenters and craftsmen who work on contract basis. The wood in houses and building projects is generally procured by the builder or house owners from retailers or wholesalers, and is based on the carpenter’s specifications. The larger housing and construction projects with standard size and volume requirements procure their wood and/or timber based on the architect’s specifications. However, they are increasingly exploring new wood types and species, thereby offering market opportunities for new imports. A significant share of SPF that are imported into India are used in the construction industry for framework (scaffolding and support structure).

FURNITURE SECTOR

India's wood furniture industry consists of thousands of small furniture manufacturers and, with annual sales of $85-90 billion, employs nearly 300,000 craftsmen. Due to the abundance of cheap and skilled labor, production costs are low. However, the industry is highly disorganized, with small units (100-300 sq. feet workshop area) catering to their customers through a small front shop (100-200 sq. feet) and/or 'on-site' custom furniture manufacturing. In recent years, 10-12 larger furniture production units have emerged, that have factory production lines and a national-level retail presence situated in larger metropolitan cities. There are a few companies importing and marketing furniture directly through their own outlets or via other furniture retailers. There are also a few furniture units exporting to the Middle East and to European countries, but these exports consist mostly of Indian-style hand crafted furnitures. Please refer to www.furniture.co.in for a listing of furniture manufacturers.

The annual consumption of wood per manufacturer is quite small, and is thus mainly procured from retailers/wholesalers to meet the day-to-day requirements. With manufacturers far removed from importers within the marketing chain, most of them are used to the traditional wood species available in the market, and craftsmen have almost no exposure to temperate wood species. With the growing demand from high-end customers for well-made and international-style furniture, there is increasing consumption of non-traditional temperate hardwood and softwood species (including U.S. wood species), mostly by the larger manufacturers. With the dwindling supplies and increasing prices of teakwood and other tropical woods, some furniture units catering to the high-end consumers have started experimenting with non-traditional wood species.

ADVANTAGES & CHALLENGES FACING U.S. WOOD PRODUCTS IN INDIA

Advantages	Challenges
Rapidly declining supplies of teak and traditional tropical woods, both domestically and traditional suppliers, are forcing the market to explore new wood species, including US wood.	The Indian market has a strong preference for teak and other tropical hardwoods, and has little awareness about the variety, quality, and handling of US wood species.
The large and rapidly growing middle class, with higher purchasing ability, is increasingly seeking new wood products and finishings for their houses.	A highly fragmented marketing chain, large number of small manufacturing & processing units, and poor infrastructure (wood processing and warehousing facilities, roads, transportation network, power, etc.).
Many modern housing and public building projects are being built, and the architects are interested in experimenting with new wood species.	Limited contact between US exporters and Indian importers. Indian importers are not aware of available wood species, export practices, and suppliers in the United States.
Declining tariffs offer more opportunities for imports of lumber and further processed US wood products.	US exporters generally not responsive to enquiries from Indian importers. They are also perceived as not flexible enough in meeting the import requirements (small quantities and mixed consignments of more than one type of wood, etc) of the Indian market.

Indian users exposed to US wood consider it to be of better quality compared to competitors.	US wood & products are priced higher than their European and South American competitors.

MARKET ENTRY STRATEGY

- Exporters must have patience and commitment to be successful in the virtually "untapped", but potentially large, Indian market. It is critical for US exporters to survey the existing and potential market for their products, invest time and resources to build contacts, and establish local awareness of their product. They should visit India to gain a first-hand feel of the market, attend local trade shows (*see Appendix 5*), and meet key players before initiating sales. Success in this market depends on good local representation and effective pricing strategy.

- The local importer or agent should be a technical and financial interface with the users of the wood or wood product, and should also provide warehouse facilities. Exporter should look for an exclusive arrangement with the importer/agent who can market their products to potential users. Consider the following before selecting an importer/agent:
  - ✓ US firms should evaluate all prospective importers/agents, and thoroughly research the more promising ones. Check the potential agent's reputation via local industry/trade associations, potential clients, bankers, and other foreign companies.
  - ✓ Determine who their potential customers are, and where in India these customers are located.
  - ✓ Recognize that agents with fewer principals and smaller set-ups often are more adaptable and committed than those with large infrastructure and big reputations.

- Due to the vast regional diversity in India, it is common to appoint more than one importer/representative covering specified regional markets. FAS-New Delhi maintains listings of potential importers, and assists US exporters in meeting members of the Indian trade.

- The key to success for exporters in this market is to focus on 'reasonable' entry pricing for their products. Exporters should make efforts to identify a specific consuming sector (plywood & processed wood, construction and/or furniture), and in collaboration with the local importer/agent, devise an appropriate marketing outreach program to reach target consumers.

- US exporters may be able to use the USDA's Supplier Credit Guarantee Program to extend the credit period beyond the normal duration of 90 days, in order to make US wood more competitive in India.

- In a market where the presence of US wood is almost negligible, an aggressive market promotion program targeting importers, manufacturers, craftsmen and users is critical for the success of the efforts of any individual US exporter. The USDA wood cooperators should target key sectors and identify the various types of wood suitable for different uses in these sectors. The cooperators should identify and educate the decision makers in the target sectors about the quality, variety, and use of US woods. Methods to do this include distributing promotional material and technical literature, conducting trade seminars and workshops, distributing samples to actual users, conducting media campaigns, and organizing trade delegations, both buyer missions to the United States and trade missions to India.

MARKET ACCESS

Wood and wood products can be imported into India without quantitative restrictions.
Imports of logs, sawn/sized wood, and saw dust from the Pines species from the United States are prohibited due to phytosanitary reasons.
Imports of other wood species in log form require an import permit from the Ministry of Agriculture, which has specified the import requirements in the "Plant Quarantine (Regulation of Imports) Order 2003" and its amendments (see www.plantquarantineindia.org/PQO_amendments.htm).

Imports of wood logs with bark are allowed based on a phytosanitary certificate issued by the exporting countries' certifying agency (USDA's Animal and Plant Health Inspection Service, for example), inspection of the consignment by a duly authorized plant protection officer at the port, and fumigation, if required. Imports of sawn or sized wood without bark, fumigated by methyl bromide (48 gm/cubic meter for 24 hours) or kiln dried (56 degrees centigrade for 30 minutes) prior to export, and accompanied by a treatment certificate, are allowed entry without a phytosanitary certificate. These shipments are cleared only after inspection by an Indian plant protection official and fumigation, if required. Imports of processed wood products such as plywood, particleboard, veneer, etc., are exempted from these requirements.

Imports of fuel wood and wood in log form (HS 4401 to 4403) attract an import tariff of 5.1 to 9.4 percent, whereas other wood products attract tariffs of 17.3 to 36.8 percent (see Appendix 1).

POST CONTACTS FOR FURTHER INFORMATION

- If you have additional questions regarding this report, or need assistance exporting to India, please contact the Office of Agricultural Affairs, New Delhi, at the following address:

Agricultural Counselor
Foreign Agricultural Service
Embassy of the United States of America
Chanakyapuri, New Delhi, India 110 021
Ph: 91-11-24198000 Fax: 91-11-24198530
Email: agnewdelhi@usda.gov

- The following reports may be of interest to the US exporters interested in the Indian market. The reports prepared by this office can be accessed via the FAS Homepage www.fas.usda.gov by clicking on the icon "Attaché Report" and typing the report number in search option 3.

Report Number	Report Title
IN5107	Exporter Guide
IN5080	FAIRS Annual
IN5021	Trade Policy Monitoring Annual
IN6103	Forest Product Market in India

❖ For information on Indian wood trade statistics, please see the website of the Directorate General of Foreign Trade (http://dgftcom.nic.in), and then clicking on the icon 'Export Import Data Bank'.

KEY INDUSTRY & GOVERNMENT CONTACTS

1. Timber Importers Association India Ltd.
E.S. Patanwala Marg, Ghorupdeo, Reay Road
Mumbai, India 400 033
Ph: 91-22-23740140/1/2 Fax: 91-22-23738895/9988
Email: somaiya@vsnl.com
Contact: Mr. R.T. Somaiya, President

2. Federation of Indian Plywood and Panel Industry
12/22, First Floor, East Patel Nagar
New Delhi, India 110 008
Ph: 91-11-25755649/25862301 Fax: 91-11-25768639
Email: fippi@fippi.org
Contact: Mr. B.K. Bannerjee, Secretary

3. All India Veneers Manufacturers Association
Krishna 710, 224 AJC Bose Road
Kolkatta, India 700 017
Ph: 91-33-22405045/5392/5542 Fax: 91-33-22406106
Email: aivma@rediffmail.com
Contact: Mr. Manor Beria, Secretary

4. Indian Institute of Architects
5th Floor, Prospects Chamber Annexe, Dr. D.N. Road, Fort
Mumbai, India 400 001
Ph: 91-22-22046972/2218491 Fax: 91-22-22884805
Email: iia@vsnl.com Website: www.iia-india.org
Contact: Mr. Divya Kush, Jt Honorary Secretary

5. Directorate of Plant Protection, Quarantine & Storage
Department of Agriculture and Cooperation
Ministry of Agriculture, Government of India (GOI)
NH – IV, Faridabad, India 121 001
Ph: 91-129-2413985 Fax: 91-129-2412125
Email: ppa@nic.in Website: http://www.plantquarantineindia.org
Contact: Dr. P.S. Chandurkar, Plant Protection Advisor
Issues: Phyto-sanitary issues on imports of wood

6. Ministry of Environment & Forests (GOI)
Paryavaran Bhawan, CGO Complex
Lodhi Road, New Delhi, India 110 003
Ph/Fax: 91-11-24361147/24360419
Email: envisect@nic.in Website: http://envfor.nic.in
Contact: The Secretary
Issue: information on domestic forest resources and forest policy of India.

Appendix 1: India's Import Tariffs on Wood & Products (Chapter 44)

S. No.	ITC HS Code	Basic Duty (BD)	Countervailing Duty (CVD) /1	Special Countervailing Duty (SCVD) /2	Total Duty inclusive of education cess (TD) /3)
1	44.01	5.0	0.0	4.0	9.4
2	44.02	5.0	0.0	0.0	5.1
3	44.03	5.0	0.0	4.0	9.4
4	44.04	12.5	0.0	4.0	17.3
5	44.05	12.5	0.0	4.0	17.3
6	44.06	12.5	16.3	4.0	36.8
7	44.07	12.5	0.0	4.0	17.3
8	44.08/4	12.5	16.3	4.0	36.8
9	44.09	12.5	16.3	4.0	36.8
10	44.10	12.5	16.3	4.0	36.8
11	44.11	12.5	16.3	4.0	36.8
12	44.12	12.5	16.3	4.0	36.8
13	44.13	12.5	16.3	4.0	36.8
14	44.14	12.5	8.2	4.0	27.1
15	44.15	12.5	8.2	4.0	27.1
16	44.16	12.5	8.2	4.0	27.1
17	44.17	12.5	8.2	4.0	27.1
18	44.18/5	12.5	8.2	4.0	27.1
19	44.19	12.5	8.2	4.0	27.1
20	44.20	12.5	8.2	4.0	27.1
21	44.21	12.5	8.2	4.0	27.1

/1: CVD is equivalent to domestic excise tax and is applied on the CIF value plus BD
/2: SCVD equivalent to sales tax and other local taxes is applied on the CIF value plus BD plus CVD
/3: Education Cess of 2% applicable on total basic duty plus CVD
Total Duty= (BD+CVD+SCVD)*1.02
/4: CVD appliable to all products under the code, except veneer sheet for match box/splints (44081030, 44081090,44083130, 44083930 & 44089020)
/5: CVD of 16.32 percent charged to flush doors (44182010 & 44182020).

Appendix 2: India's Imports of Wood Products by Category
(Value in million US$)

Item\Year*	1996/97	2003/04	2004/05
Wood Logs (HS 4403)	246.7	667.7	820.24
Sawn Lumber (HS 4407)	4.84	12.32	13.24
Veneer (HS 4408)	6.43	3.6	4.9
Plywood (HS 4412)	4.17	4.2	5.08
MDF/HDF (HS 4411)	0.68	13.07	17.5
Particle Board (HS 4410)	3.61	13.25	16.76
Other Products in Chapter 44	3.92	9.54	15.82
Total (Chapter 44)	270.35	723.68	893.54
Wooden Furniture under HS 9403	0.47	25.04	37.88
Total Wood Products	270.82	748.72	931.42

* - refers to Indian fiscal year (April/March)

Source: Directorate General of Commercial Intelligence and Statistics, GOI

Appendix 3: India's Imports of Wood Products@ by Country in 2003 & 2004
(Value in million US$)

Country\Year*	2003/04	2004/05
Malaysia	326.94	314.70
Myanmar	170.31	220.69
Cote d'Ivoire	38.51	58.31
Papua N. Guinea	0.04	56.63
Gabon	20.49	36.00
Benin	6.61	20.45
New Zealand	12.42	19.65
Ecuador	4.66	18.04
South Africa	6.07	11.54
Costa Rica	6.49	10.83
Ghana	3.34	9.64
Germany	6.00	8.80
Sri Lanka	2.49	6.99
Nigeria	22.62	6.58
United States of America	2.82	2.30
Others	93.87	92.39
Total	723.68	893.54

* - refers to Indian fiscal year (April/March).
@ - Excludes wooden furniture under HS 9403 as countrywise break-up not available.

Source: Directorate General of Commercial Intelligence and Statistics, GOI

Appendix 4: Domestic Wood Marketing Structure

Whether supplied by imported or local timber, the wood marketing system is multi-layered. Domestic forest timber is auctioned by state forest departments and purchased by local timber merchants. The local merchants also procure plantation timber from local plantation owners/growers. The major plywood manufacturers may procure the logs directly, or buy them through timber merchants. The timber is transported to major consuming centers in log form by trucks. These logs are then sold to smaller traders and wholesalers who maintain stocks. The remaining marketing chain is identical to that of imported logs (Figure 4).

Appendix 5. Wood and Wood Products Exposition in India

1. Indiawood, Bangalore, India

Indiawood has grown impressively since its inception in 1999. The 2004 edition with 223 exhibitors from India & abroad, with an area of over 10,000 sq. meters, set a new benchmark for woodworking industry shows in Asia. Indiawood has emerged as India's most established international woodworking trade show.

Contact: **PDA Trade Fairs**
PDA House, #32/2, Spencer Road, Frazer Town
Bangalore - 560 005, India
Phone: 91-80-25547434
Fax: +91-80-25542258
Email: pdaexpo@vsnl.com
Website: www.indiawood.com & www.pdatradefairs.com

2. PanelExpo, New Delhi, India

An International Seminar & Exhibition on Plywood, Panel Products, Furniture, Laminates, Bamboo, and Woodworking Machinery was successfully organized in 2003 and in 2005 in New Delhi. The 3rd edition of Panelexpo will be held in April 2007.

Contact: **Federation of Indian Plywood and Panel Industry**
12/22, First Floor, East Patel Nagar
New Delhi, India 110 008
Ph: 91-11-25755649/25862301
Fax: 91-11-25768639
Email: fippi@fippi.org

3. Inside-Outside Mega Show, Various Locations in India

Inside-Outside Mega show is an event for interior design, furniture and furnishings, and building and construction industries, held in various locations in India twice or three times in a year, including in New Delhi.

Contact: **Business India Exhibitions**
201, Dalamal Towers, Free Press Road, Nariman Point
Mumbai, India.
Tel: +(91)-(22)-22882536/22882537/22882538/22882539
Fax: +(91)-(22)-22882540