

Voluntary Report – Voluntary - Public Distribution

Date: October 15,2020

Report Number: IN2020-0144

Report Name: COVID-19 Impact on Indian Forest Products Sector

Country: India

Post: Mumbai

Report Category: Wood Products

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Report Highlights:

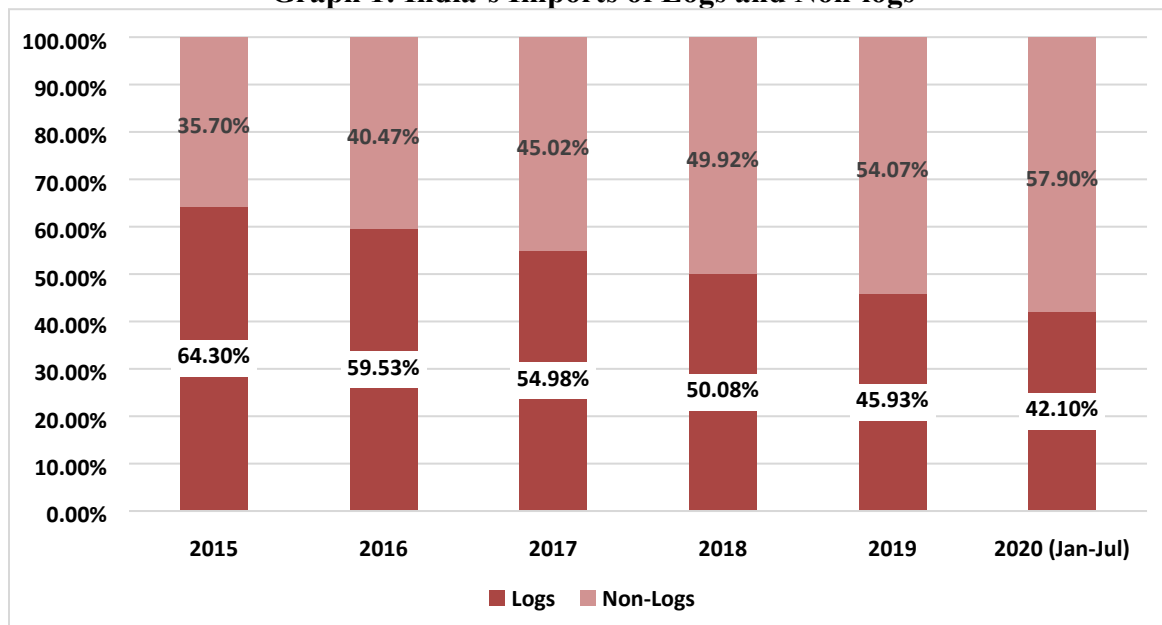
The Indian forest products industry has been hit hard by COVID-19 and the resulting nationwide lockdown as demand from the construction, real estate, hospitality, and tourism sectors is at a virtual standstill. The slowdown in new housing construction has especially reduced overall demand for domestic and imported wood products. India's imports of forest products during January-July 2020 declined by 39 percent to \$804 million, compared to the same period last year. Similarly, U.S. exports of forest products to India declined by 40 percent to \$21.5 million during the same period.

Log vs Lumber Imports

Indian imports of forest products were dominated by logs; however, their share has been gradually declining. A favorable tariff structure supported log imports, but the poor/inadequate processing capabilities of domestic sawmills has encouraged Indian importers to import higher volumes of lumber in the place of logs in recent years. In addition, persistent labor availability issues and rising labor costs are forcing log importers to gradually shift to lumber. In 2019, the import share of logs was valued at \$1 billion, equivalent to 46 percent of total forest product imports.

According to trade data from the Ministry of Commerce, imports of round logs reached a record \$363 million in 2019, primarily composed of teak logs from Ecuador, Ghana, Brazil, and Costa Rica. Other major log suppliers include New Zealand (Radiata pine) and Malaysia (Meranti). During the first half of 2020 (January-June), combined log imports from Malaysia and New Zealand, India's largest suppliers of wood products, were almost 23 percent of total wood product imports in 2019. Trade sources indicate that Latin American suppliers offered reduced prices at the beginning of the lockdown, almost 7-8 percent lower than average prices due to a slowdown in demand caused by the pandemic. However, prices have returned to pre-COVID levels since then.

Graph 1: India's Imports of Logs and Non-logs



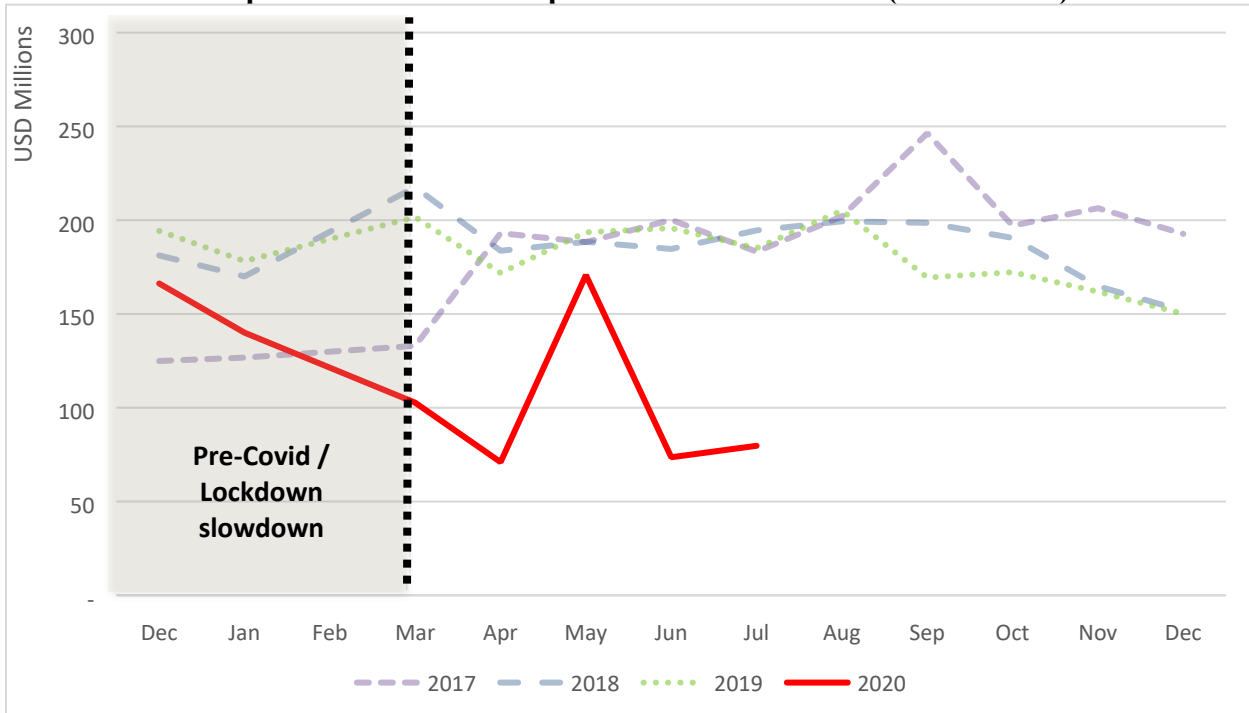
Source: Directorate General of Foreign Trade, Ministry of Commerce

COVID-19 Impact on Forest Products Imports

The nationwide lockdown announced by the Government of India during the last week of March had a significant impact on imports in April. Most log/lumber shipments were stuck at ports, and labor availability became a major issue. The Government of India then introduced exemptions and waivers on charges related to demurrage, detention, ground rent, and storage during the lockdown period. These measures helped normalize the flow of imports and limit financial losses for importers. However, despite these efforts, imports still fell by 47 percent (by value) during the lockdown period between April and July 2020, compared to the same period last year. Similar issues were experienced by Indian furniture

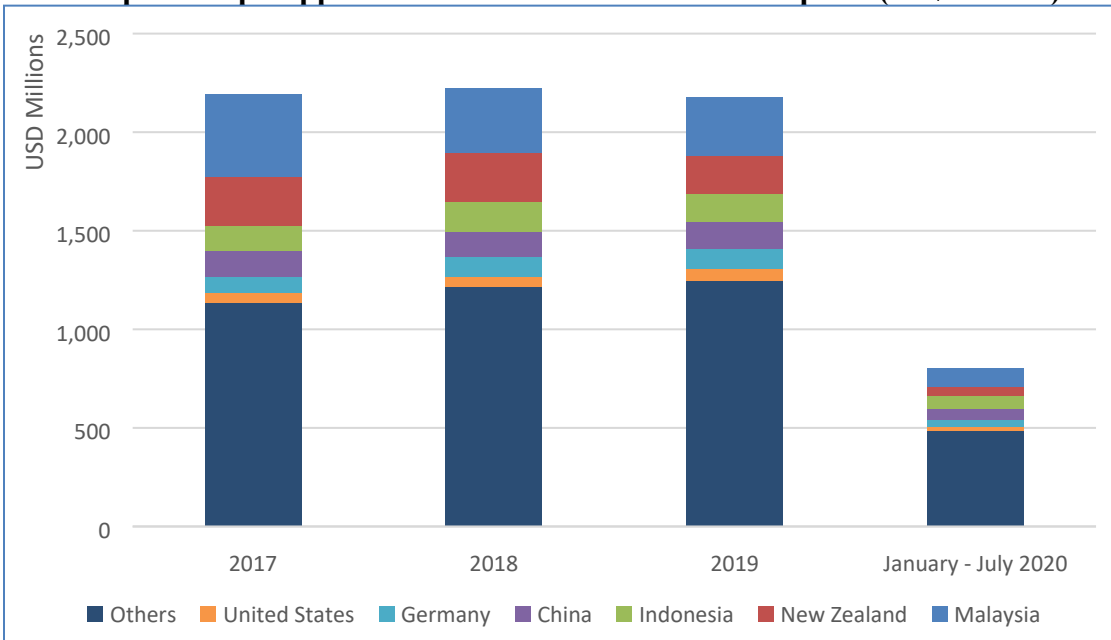
and handicraft manufacturers and exporters. These manufacturers were not in a position to reopen factories due to lockdown restrictions and financial distress caused by multiple financial commitments, including wages, interest on bank charges, rentals, and miscellaneous expenses. This slowdown in manufacturing also contributed to less demand for imported wood products.

Graph 2: India’s Total Imports of Forest Products (US\$ million)



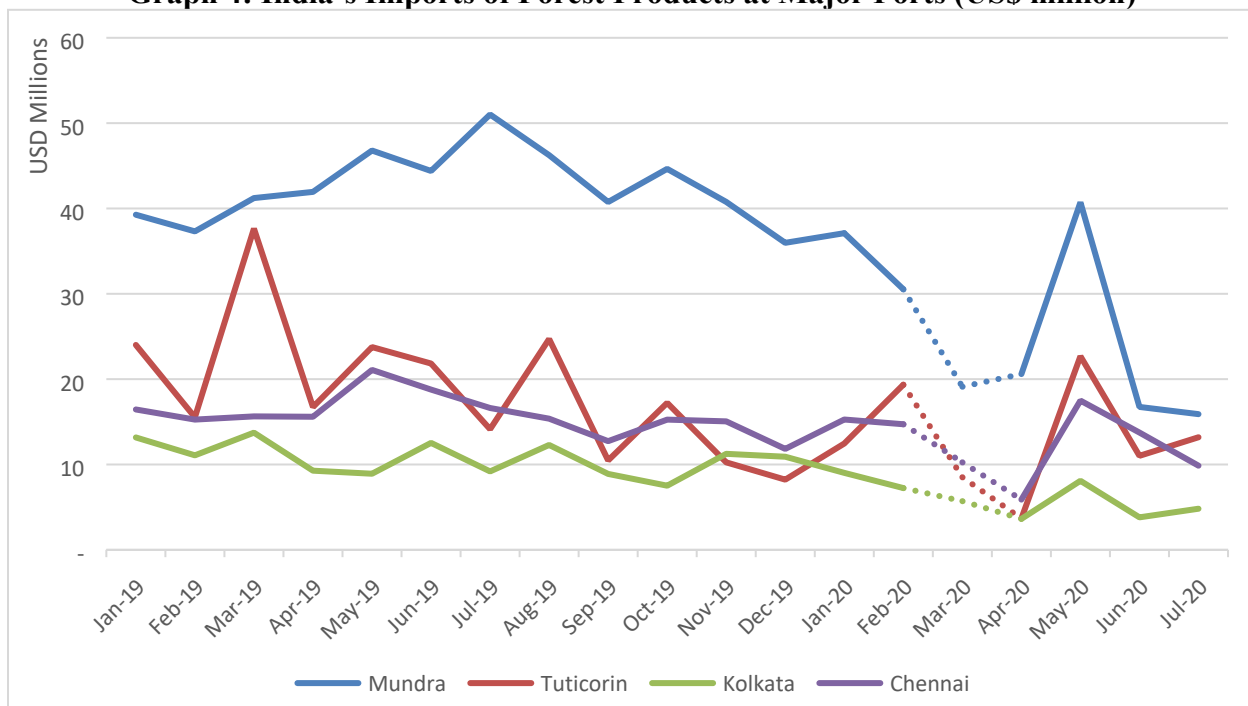
Source: Directorate General of Foreign Trade, Ministry of Commerce

Graph 3: Top Suppliers of Indian Forest Products Imports (US\$ million)



Source: Directorate General of Foreign Trade, Ministry of Commerce

Graph 4: India's Imports of Forest Products at Major Ports (US\$ million)



Source: Directorate General of Foreign Trade, Ministry of Commerce

Lockdown Impact on Demand

Prior to COVID-19, the Indian construction sector was already in a precarious state. The residential property market was struggling due to rising unemployment, a liquidity crunch in the non-bank financial sector, and a decline in new residential projects across major cities. India's real estate sector, which has been undergoing a prolonged slowdown, was hit with a new crisis due to the pandemic, leading to a temporary halt in project launches and sales. The distress caused by job losses and reverse migration has also affected demand for urban housing. The sector has also been affected by the lack of labor as most migrant workers returned to their native villages. Their ability to return to major cities or industrial hubs is limited by the lack of trains/flights and funds. As such, the sector is expected to experience labor shortages for at least the next three months, leading to a rise in labor costs. However, there are expectations that demand will recover slowly, as such, larger developers are poised to gain the most from this recovery as they have enough financial capital to endure the impact of the pandemic.

Another trend emerging due to the pandemic is the rising preference for working from home (WFH), which has weakened investor sentiment towards commercial real estate. Employers are now saving on overhead and rental costs, and evaluating ways to manage and redesign office space to comply with social distancing measures. Due to the shift away from office workspaces and new commercial real estate space, there is rising demand for more functional and flexible homes with rooms that can be easily converted to workspaces.

U.S. Forest Products

Lumber prices in the United States for hardwoods and softwoods during the lockdown period reached record highs due to strong domestic demand. This sharp rise in prices affected the ability of Indian importers to purchase U.S. lumber. For example, the price of U.S. softwood Southern Yellow Pine rose by more than 200 percent. Consequently, Indian importers choose to import more softwood supplies from other countries. According to Ministry of Commerce data, imports of U.S. hardwood logs in January-July 2020 have increased by 95 percent to US\$ 2.67 million

Table 1: U.S. Forest Products Exports to India

Area/Partners of Destination And Commodities Exported		January - December Cumulative To Date Values in Thousands of dollars							
		2015	2016	2017	2018	2019	Jan - Aug 2019	Jan - Aug 2020	
Partner	Product	Value	Value	Value	Value	Value	Value	Value	Period/Period % Change (Value)
India	4407 - Wood Sawn, Chipped	14,551	10,595	25,570	20,121	27,556	21,493	7,151	-67
India	4403 - Wood In The Rough	17,355	11,012	14,063	20,126	16,030	12,056	7,532	-38
India	4408 - Veneers And Sheets	1,391	1,430	3,225	4,076	4,381	3,205	1,857	-42
India	4418 - Builders Joinery	145	559	140	61	1,646	186	4,025	2,069
India	4416 - Wooden Casks	1,189	722	1,036	1,436	1,339	992	1,705	72
India	4415 - Wooden Cases	144	171	160	56	960	396	265	-33
India	4409 - Wood Shaped	504	934	618	1,442	731	647	201	-69
India	4401 - Fuel Wood	139	1,460	147	802	708	403	1,345	233
India	4411 - Fibreboard Of Wood	1,444	484	558	425	341	158	32	-80
India	4414 - Wooden Frames	42	11	30	143	178	29	38	28
India	4417 - Tools, Broom Handles	137	187	129	39	113	113	0	--
India	4421 - Articles Of Wood	28	278	163	367	73	56	36	-36
India	4420 - Ornaments Of Wood	54	175	111	125	46	46	18	-61
India	4419 - Tableware Wood	15	54	28	58	26	26	0	--
India	4410 - Particle Board	58	97	73	29	21	10	42	305
India	4412 - Plywood	60	35	21	14	11	11	0	--
India	4413 - Densified Wood	48	12	0	48	0	0	0	--
Grand Total		37,304	28,216	46,070	49,369	54,159	39,828	24,246	-39

Notes:

1. Data Source: U.S. Census Bureau Trade Data
2. Product Group : Harmonized

The Way Forward – Slow and Steady

Trade sources indicate that a revival in demand has already begun at a slow pace, as orders have picked up since July. Initially, there was pent-up demand, delayed shipments, and pending orders that led to a spike in imports in May thanks to the government’s relaxation of lockdown restrictions. Trade sources indicate that demand from saw millers for softwoods, especially Southern Yellow Pine (SYP), has increased significantly as SYP lumber prices have declined since the beginning of the lockdown. In addition, the easing of lockdown relaxations has allowed previously stalled construction projects to resume.

India’s domestic furniture sector is valued at nearly \$10 billion, and is facing a raw material crisis which is leading to higher costs of critical inputs. Furniture manufactures’ demand for imported wood products should grow significantly as domestic prices for Indian species such as Acacia and Mangowood, two of the cheapest species available, have risen by 40 percent. Furniture manufacturers prefer importing softwoods species as hardwoods are more expensive, and softwoods can be finished (stained) to appear similar to hardwoods. There are also positive signs of increasing wood utilization in farmhouses, country homes, resorts, villas and bungalows, which will continue to grow ow in the long-term.

The size and thickness of Indian logs is relatively lower than imported ones, as such, less lumber is extracted after the cutting/processing process. As a result, mills are considering using imported wood

species, especially softwoods. The demand for newer species is driven by a variety of manufacturing uses, including doors, windows, doors and window frames, indoor and outdoor furniture.

The demand for certification by international retailers/buyers is prompting Indian exporters to look at viable alternative species not only for the domestic furniture and interiors market, but also for re-exports of value-added products (handicrafts and tools). Indian exporters of wooden handicrafts and other wood products increasingly face strict traceability norms in the European Union and United States, which are affecting their exports. These norms require the disclosure of the timber source to discourage illegal logging globally. The U.S. hardwood and softwood industry is well placed to supply certified wood products, as the species used for commercial purposes in the United States are sustainable and legally harvested.

Attachments:

No Attachments.