

# Out on a limb



**India could become a dominant player in the global forest products trade—if its timber sector becomes more transparent**

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AS WAS apparent at the Cancun meeting of the World Trade Organization (WTO) in 2003, India is emerging as a promising player alongside Brazil, China, Colombia, Malaysia, Nigeria, South Africa and others on issues related to globalisation and as an advocate of tropical-country concerns. Concurrently, India is taking strides and making commitments towards advancing global accords for economic reforms, the liberalisation of trade and commerce, and the implementation of Agenda 21 (the agenda created at the United Nations Conference on Environment and Development in 1992). Parallel to this emergence on the world stage is an awakening interest within India in the conservation of the country's forests for the environmental services and local community benefits they provide, among other objectives. The government recently established a national forest commission comprising eminent persons to review such issues.

However, nothing less than the comprehensive reform of the forest sector is needed if India is to both meet its future timber needs and conserve its remaining natural forest estate. In this, the timber trade can play a substantial, positive role.

## **Forests and timber**

India's forest estate of over 67 million hectares represents about 20% of the country's land area. The national policy sets a target of 33% of land area under forests, but plans to regenerate the degraded forests, reclaim wastelands and raise plantations have so far had limited impact.

There is a growing gap between increasing demand for and an almost static supply of timber. The dynamic demand is attributed to resurgent economic growth, fast-expanding middle and upper income groups, and intensive construction activity spurred by lucrative housing schemes and rapid urbanisation. Timber supply, on the other hand, is constrained by low per capita forest area, forest degradation, massive fuelwood and other rural requirements, and restrictions on timber harvesting. Over one-third of existing forest has sparse tree cover and the predominant

produce is fuelwood. Forest produce is supplemented by supplies from trees outside the forest; these barely cover 2.5% of the land area but are an increasingly important resource for the panel, pulp and paper industries. The

production of industrial roundwood, estimated at little over 15 million m<sup>3</sup>, cannot meet the national need, now or in the future; a recent ITTO review of the Indian timber market\* conducted by the present author in collaboration with national experts and institutions projected that the annual urban consumption alone will grow by almost 8.5 million m<sup>3</sup> during the next ten years.

## **Timber imports**

India already imports industrial roundwood volumes of around 1.7 million m<sup>3</sup> annually, mainly (around 95%) tropical hardwoods from Malaysia, Myanmar and Indonesia and also from Africa and Latin America (ITTO 2003).

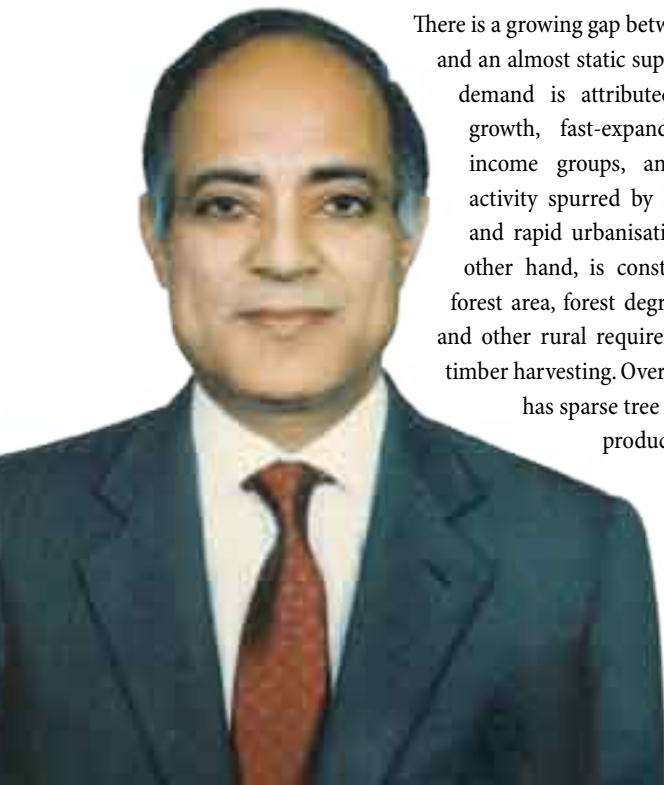
Though much less in volume, imports of sawnwood and plywood have also multiplied. The ITTO review mentioned above suggests that timber imports could triple by 2012, as they have during the last decade.

Tropical timber imports are generally of a high quality and are price-competitive compared to domestically produced timber. Nevertheless, timber substitutes pose a threat to the timber market and reconstituted and composite wood-based materials are also becoming common. In the exterior joinery sector, metals are the main competing material, whereas plastics are serious competitors in interior joinery and furniture, despite their generally inferior environmental performance.

## **Opportunity for the timber sector**

An efficient and dynamic domestic timber industry could head off this challenge: using imported tropical and other timber, it could become a major producer of secondary processed, value-added wood products that could be sold both domestically and internationally.

India has over a billion people and is expected to take the mantle of the world's most populous country from China by about 2040. India's urban population already exceeds the population of the entire European Union, and a massive movement of people is taking place into new townships and existing urban centres. With this urban growth comes the need for extensive household and commercial construction countrywide, which requires greatly increased wood volumes.



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Per capita timber consumption is quite low, but with the Indian economy poised to grow at 7% per year and higher, this is likely to also increase in coming years. At the same time, rural populations will also grow, as will their demand for fuelwood—or possibly charcoal, a product of fuelwood—along with the risk of degradation in natural forests.

All this and the potential for re-exporting timber products after adding value to them suggests an opportunity both for the Indian forest sector and for the tropical hardwood timber trade. Trade liberalisation should provide India with opportunities to vie for value-added timber markets around the world. It could become a very competitive player by making use of the innovations, technology and market skills so abundant in the country.

### **Strategic location**

India has another advantage: its physical location between dynamic markets in East Asia, the oil-rich Middle East and Europe. If this is coupled with appropriate eco-labelling and certification, the Indian timber industry should have little difficulty in putting finished products into the display rooms of Castorama, IKEA and Kingfisher, for example. The shelves of Home Depot and other retailers in the USA should also be within reach: such companies already source over 40% of their wood products from China, mostly manufactured with imported timber. Bamboo and rattan furniture and wooden handicrafts could also find significant market niches in the industrialised countries.

India can count on its strategic location not only as a potential exporter but also (and importantly) as an importer of tropical timber. Outsourcing from near and far is becoming more common as part of the globalisation process, with importers taking advantage of diverse timber types, comparative prices and the overall balance of trade. Timber has already started rolling into India from Africa, Latin America and Oceania. India's growing demand and the ability of the tropics to supply timber suggest the possibility of much more mutually beneficial trade across the oceans; the medium-term potential for tropical timber exports to India could be as high as 10 million m<sup>3</sup> per year. This is a challenging prospect for ITTO producer countries, which collectively export to the entire world barely 14 million m<sup>3</sup> of tropical industrial roundwood per year.

### **Data shakeout**

Consumption, production and price data are prerequisites for the serious evaluation and monitoring of the timber industry and its prospects. These data are not readily available in India, either coherently or from any single source. Secondary data sources are plagued by discrepancies, serious time lags and a general lack of robustness. Even in the case of production data, validation mechanisms do not exist. The international trade data are relatively reliable in terms of collection and dissemination but also suffer from a lack of clarity and appropriate categorisation.

Sadly, India has been unable to respond regularly to the ITTO/FAO/UNECE Joint Forest Sector Questionnaire; the country's forest-sector statistical system and institutions are in urgent need of modernisation. India's timber market is dispersed and disorganised, suffering from shrouded statistics and a lack of economic intelligence. The fact that it is still relatively prosperous (although with diminishing market share) is due to trade and economic reforms and the consumer appetite rather than to the professionalism of the sector.

### **What needs to be done**

There is scope for converting the current weaknesses of the Indian timber sector into exciting opportunities for tropical timber trade and marketing. Measures are needed to organise the timber industry, to build multi-stakeholder, private-public partnerships and international alliances, to raise awareness about the comparative advantages and environmental appropriateness of wood and wood products, and to draw upon the inherent competitiveness of such products in the market. None of that can be done unless there is a willingness to open up and provide readily accessible and reliable economic information, market intelligence and an efficient forest-sector statistical system.

Globalisation has come to stay, warts and all. How can India remain unaffected, since WTO agreements are legally binding? Indian timber tariffs are mostly quite high (except for logs, chips and particles), and non-tariff barriers and custom duties also need to be further reduced (IIFM 2003). That would help make the value-adding timber industry more competitive as an exporter and allow it to flourish as it should.

A visionary approach is needed; in an expanding economy with wide-open market opportunities, a complacent, business-as-usual approach simply will not do. The pressures of globalisation and the evolving policies of a player in the international arena are unlikely to let sector stalwarts lie low. The sooner there is solid support for the development and implementation of a strategic vision in the timber sector, the sooner will India play the role that it merits in the global timber marketplace.

### **References**

IIFM (Indian Institute of Forest Management) 2003. National forest policy review. In: *An overview of forest policies in Asia*. FAO-EC, Bangkok, Thailand.

ITTO 2003. *Annual review and assessment of the world timber situation*. ITTO, Yokohama, Japan.

\*Review of the Indian Timber Market (PPD 49/02 (M)) is part of ITTO's ongoing program to bring more transparency to the tropical timber trade and to report on trends, prospects, constraints and opportunities for the trade. It can be obtained from: Amha bin Buang, [emi@itto.or.jp](mailto:emi@itto.or.jp)