Network for Certification and Conservation of Forests (NCCF)
(www.nccf.in)

Background Note on Promoting wood based industries in India under Atma-Nirbhar Bharat Abhiyan Yojana (ANBA)

The government announced a special economic stimulus package under the plan called **Atma-Nirbhar Bharat Abhiyan (ANBA) (self-reliant India)** with the aim of making the country independent against the tough competition in the global supply chain and to help in empowering the poor, labourers, migrants who have been adversely affected by COVID-19. It will benefit Indian manufacturers to continue business and sustain their logistics supply chain. Besides, this will also assist in raising their self-reliance by depending less on other countries. **The MSME sector includes wood based industries, having immense potential to develop a green and self-reliant India.**

1. Wood and Wood based Sector in India

Wood processing is largely in the small-scale or "unorganised" sector, where the majority of wooden furniture, joinery and other household products are made to order by small workshops or individual artisans. The demand from various sectors such as housing, furniture, hospitality and handicraft remains strong.

It has been estimated by Forest Survey of India that nearly 85% supply of industrial wood based raw material of wood comes from Trees outside Forests (ToF). India is a net importer of wood. Major imported wood species are meranti, teak and pine.

1.1 Some Facts

- Annual timber imports by India are of the order of USD 441 million
- Furniture imports are of the order of USD 602 million
- Value of furniture exported from India is around USD 807 million
- Indian wood imports are around 3% of Round Wood Equivalent (RWE), China imports 43% of RWE. China operates on trade by volume and is still able to make profits. We are not very well organised in raw material sourcing, planning, import duties, legality, etc.
- Coniferous wood is imported mainly from Germany, Finland, Sweden, Austria, Canada while tropical wood is imported from Myanmar and Malaysia.
- The total growing stock of India's forest and ToF at 5,915.76 of which 4,273.47 mcm is inside the forests and 1,642.29 mcm outside. (ISFR 2019)

Wood based industries in India fall under following different categories, Furniture, Handicrafts, MDF, Particle Board, Plywood, Veneer, Pulp, Paper and Paper products, Packing Boxes, Cartons, Crates, Sawn wood, Wood planks, Toys and games made with paper, Textiles, bobbins, spools, rolls, etc.

1.2 Employment potential of wood based sector in India

MSME sector has tremendous potential for generating employment. This sector plays an important role in realizing higher economic growth in India. Many policy measures taken by the government for creating an enabling environment for industrial growth have started showing their impact on increased flow of foreign direct investment (FDI) and better performance of the infrastructure sector. Landmark initiatives – such as 'Make in India', 'Ease of Doing Business', 'Start-Up India', 'Digital India' and 'Smart Cities' – will provide further impetus to industries, and this sector is expected to be the key driver of economic growth.

Contribution of forestry sector to the GDP of India was 2.6% in 1950s, which came down to 1.7% in 2011 (Source: FAO, 2014). Revival of the wood based industries will contribute significantly in enhancing the contribution of forestry sector to the GDP.

The wood sector has a huge potential of employment generation. For example, there are 26 furniture and furnishing production clusters in India. NSDC Report (2013) provides information that the about 4.11 million workforce being employed by furniture and furnishing sector and is expected to increase more than 11.29 million employees by 2022. Additionally, if we add allied industries to this the number may be even bigger.

India has a great opportunity to be among the top global manufacturers and exporters. Due to several advantages like low cost labour, cost competitive in primary and allied sectors. India is a preferred location for top global retailers in furniture and other wood sector (IKEA, Sonoma, H&M, Otto, Target,)

1.3 Challenges faced by Indian Wood based Industries

1. Indian wood based sector is largely unorganised. There are issues like raw material competitiveness, scale of operation and in-efficient logistics Products are rather poorly designed with average finishing and aesthetics, high per unit cost, low productivity and low product volumes and based on a single plant assembly model.
2. There is a demand-supply & quality gap viz-a-viz goods for Indian consumption and goods of export quality, which needs to be bridged. This requires prior addressing of quality and cost effectiveness issue to compete in the global market.
3. Our import conditions for wood based sector are liberal and rather deficient in technical regulations. There are no regulations applicable to most wood/wood based products except for sanitary and phytosanitary measures. Also, there are administrative complexities in import procedures e.g., issues related to fumigation.
4. An example of liberal import conditions for this sector; furniture falls under open general license. The government has not stipulated any non-tariff barriers on import of furniture, because it will restrict demand and will cause an unnecessary price spiral in the country. Hence, trade is flowing freely into the country for furniture products. We have rather become dumping ground for low quality material.
5. Each state has different transit permit rules for wood and wood based products and there are issues regarding interstate and PAN-India permits.
6. Lack of skilled manpower and machinery in India and our complicated taxation practices and high taxation.

2. Recommendations to promote wood based industries:

2.1 Raw Material:

1. Focusing on planning and forecasting sector specific future wood demand. *(NITI Aayog in consultation with MoC&I, MoEF&CC, MoA&FW)*
2. Developing/scaling up multiple raw material sources: forests, trees outside forests (agroforestry, urban forestry, linear plantations, woodlots etc) and imports; *(MoC&I; MoEF&CC; MoA&FW)*
3. Key species used in wood industry include Teak (*Tectona grandis)*, Mango (*Mangifera indica)*, Shisham (*Dalbergia sissoo*), Rubber wood (*Hevea brasiliensis*), Acacia (*Acacia nilotica*), Eucalyptus (*Eucalyptus spp.*), Poplar (*Populus detoides)*, Kahir (*Senegalia

catechu), *Bamboo spp.*, Arjun (*Terminalia arjuna*), Oak (*Quercus leucotrichaphora*), Deodar (*Cedrus deodara*), Salix (*Salix spp.*), Melia (*Melia dubia*), *Albizzia spp.*, Neem (*Azadirachta indica*), *Terminalia spp.*, *Acacia spp.*, Gamar (*Gmelina arborea*), Rubber (*Hevea brasiliensis*), Subabool (*Leucaena leucocephala*), Akashmoni (*Acacia auriculiformis*), Laurel *(Terminalia tomentosa*), Jackfruit (*Artocarpus heterophyllus*), and many more are available.

4. We need to have a uniform wood import policy with necessary technical regulations. We should aim to substitute imports with domestic alternatives as far as possible, over a period of time. *(MoC&I)*
5. Developing PPP and other business models, with farmers, industry, forest departments, etc. and incentivising farmers and tree growers for growing trees. Enhancing wood production by adopting cluster based and industry linked agroforestry plantations. *(MoC&I; MoEF&CC; MoA&FW)*
6. Encourage voluntary certification of wood coming from forests/trees outside forests. Incentivize certification of wood coming from trees outside forest to ensure better markets and price premium to farmers and augment availability of certified raw materials to the industries. This will also contribute towards doubling farmers income. *(MoC&I; MoEF&CC; MoA&FW)*
7. Help farmers, industry, forest departments with insurance for trees, wood and other forest produce at par with insurance for agriculture commodities. *(MoA&FW; MoEF&CC; MoF)*

2.2 Production Clusters & Infrastructure:

1. Local furniture clusters in India are currently operating at 25-30% capacity (*due to raw material constraints; production being export driven; limited availability of resources like staff, machinery, technology*). Scaling up the capacity and infrastructure, re-modelling the domestic furniture business on the concept of aggregation model and developing infrastructure of Furniture Marts in different parts of India to help in maximising their capacity. *(MoC&I)*
2. Potential Wood based MSME clusters need to be identified & scaled up as per market demands and raw materials availability and should not be restricted around ports only. As of now, the focus is on developing infrastructure around it. *(MoMSMEs; MoC&I)*
3. Development of uniform technical regulations using appropriate standards across the manufacturing units for sourcing and quality of products manufactured, whether for import or for domestic markets. For chemical and toxic emissions (like formaldehyde), a regulation should be developed to cut down such emissions to safe levels, for example from wood-based building material, *i.e.* composite wood boards. *(DPIIT, MoC&I)*
4. Set-up export hubs (SEZ) for furniture industry and marts for local furniture products too as for export clusters, to address the domestic demand. *(DGFT, MoC&I)*
5. Attract leading global players to India for investment in production equipment, raw materials, training and in developing best practices. *(DPIIT, MoC&I)*
6. Development of common facility centres and improvement of working conditions, health and safety of workers. *(MoC&I and otherMinistries)*
7. The production equipment in the production clusters to be sourced from Indian manufacturers and if the need be from European and Taiwanese manufacturers. *(MoC&I; MoMSMEs)*

8. For supply of industry ready raw materials at competitive costs and of good quality, investments have to be made in the Sawmill Industry and Wood Processing Industry on PAN India basis for Wood Drying & Seasoning equipment and Wood Treatment equipment. At present Suppliers of these equipment are very small in number and the availability of efficient technology needs a discussion and revisit. (*MoC&I; MoEF&CC)*
9. Relaxing regulatory and license regime for setting up/capacity expansion of wood/bamboo based industries and bringing in single window and time bound approval system *(MoC&I and otherMinistries)*
10. Wood products are governed by internationally acceptable voluntary certification schemes FSC and PEFC and in order to enhance exports, it is necessary to become part of these schemes. NCCF scheme is endorsed by PEFC and needs to be leveraged by the government as well as industry. (*MoEF&CC; MoC&I)*

2.3 Skill Development & Capacity Building: *(Ministry of Skill Development and Entrepreneurship; National Skill Development Corporation; Furniture & Fittings Skill Council)*

1. Availability of cheap labour in abundance. But there is dearth of skilled labour. Need for prioritisation of industry related skill and trainings, capability building programs and workshops.
2. Integration of young workers under Skill India Initiative with intensive participation from industry and industry training professionals.
3. Supporting traditional knowledge, local skills and values on wood, plantation and supply chain by agencies like Forest Corporations by setting up local industry facilities and skill development.
4. Identify individuals and companies with experience in establishing wood products manufacturing facilities and furniture production facility to scale up industry think tank.
5. Making sector competent and eligible to offer competitive wages as compared to other employment options.
6. Wood sector requirements as covered under Furniture and Fittings Skill Council, should focus on such professionals. NCCF is ready to be part of this skill council. Also, if there is a requirement, we can also become a sector skill council with the support from the government.

2.4 Government Policies:

1. Need to minimize/eliminate imports of wooden furniture from China. (*Sudden ban could have negative impacts on market; Chinese furniture is a consumer driven demand; we need to have quality and cost effective alternatives*). *(MoC&I)*
2. To curb import from China, custom duty on import of wood has been increased from 20% to 25%. There is still scope for further increasing import duty without violating WTO conventions. Recently import duty on bamboo for agarbatti (incense stick) has been increased from 10% to 25%. *(MoC&I, MoF)*
3. India is a favoured destination for dumping of illegally harvested wood. We need to bring in place checks and balances to ensure curbs on import of illegal wood. In due course we may think of bringing in regulation for legality of wood like EUTR/FLEGT in EU and Lacey Act in USA. (*MoC&I; MoEF&CC)*

4. Promoting "green public procurement" by focusing on Due Diligence, Responsible Sourcing and Forest Certification in government's procurement policies. *(MoF; MoC&I; MoEF&CC)*
5. Public Procurement Division, Ministry of Finance has notified for use of National Regulations/ National Standards/ Building Codes in case of Public Procurement. The procuring entity should prescribe the Indian Technical specifications and Quality Certifications, wherever these exist. Central Ministries should create enabling policies to promote Voluntary Sustainability Standards. In due course, guidelines or amendment in legislations could be affected to make it a mandatory arrangement. *(MoF; MoC&I)*
6. There should be uniform transit and transportation policy for wood and wood products PAN India. It may also cover harmonization of requirements of no felling and transit restrictions for the species listed out for industry use by Government. (*MoEF&CC)*
7. Regular training, capacity building for Custom officials. *(MoF)*
8. Government may think of MSP for important tree species to promote tree planation and develop a domestic raw material bank. Promulgation of The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance 2020 should give a boost across states for industry linked agroforestry plantations. *(MoA&FW)*
9. Liberalization of wood and wood based industry through some guidelines for private sector involvement in few selected states having considerable timber availability both from forests and trees outside forests and/or lease based plantations by Forest Development Corporation in degraded forests. This will help scaling-up production, promoting domestic manufacturing units and in long term contribute to reducing imports. *(MoEF&CC)*
10. There are no major environmental, social and health safety requirements in the import of furniture. However, while exporting the same have to be followed being a requirement in the exporting nation. (For eg: if there are complications during import of leather as part of the furniture, the leather is declared as polyurethane (PU); similarly, there are compliances to be followed for Formaldehyde emissions) *(DPIIT, MoC&I)*
11. Like national forest certification scheme, a national scheme on Formaldehyde emissions should also be developed at par with international best practices. (CARB scheme currently in use depends on Chinese labs for sample testing) *(DPIIT, MoC&I)*

8. Recognize voluntary certification schemes and standards as co-regulation and deemed compliance where certification criteria include legal requirements of technical regulation. This can help in monitoring and review of trade policies and in developing sector specific interventions, incentives, etc. Government is supporting such private voluntary certifications as Global GAP etc. to enhance exports – same approach is essential in wood sector since several buyers demand compliance to voluntary certifications especially benchmarked with PEFC. *(MoC&I; MoEF&CC; MoA&FW)*

12. Address issues regarding arbitrary increase in port logistic costs, increase in insurance cost of business, besides several other administrative decisions taken by the government to augment revenue. *(MoF; MoC&I)*

2.5 Technical Regulations, Certification, Standardization of Wood/Wood Products and Procedures:

1. DPIIT, MoC&I, as the line Ministry, should facilitate streamlining export-import provisions covering timber legality, toxic chemical emissions levels, phytosanitary and sanitary measures for wood and wood based products going out of/coming into India by

bringing in suitable technical regulations equivalent to the international best practices. These regulations should be independent but should have direct linkage with the provisions in the EXIM policy. *(DPIIT, MoC&I)*

2. In line with international trends, voluntary certifications covering regulatory requirements within its standards should be considered as deemed compliance and encouraged to reduce regulatory burden. *(MoC&I; MoEF&CC)*
3. Government may make it mandatory for Annual Plan of Operations (APOs) under Compensatory Afforestation Fund Rules, 2018 to incorporate provisions for Certification. *(MoEF&CC)*
4. At present the government is not regulating certification of forests or trees outside forests in India and it may not be feasible to do so; therefore, voluntary certification of such forests/ToF should be incentivized as being done in case of good agricultural practice (GAP) certification by Ministry of Agriculture & Farmers Welfare/APEDA. *(MoA&FW; MoEF&CC)*
5. Build / expand certified source of wood plantations in India. NCCF has developed country specific schemes for Forest Management and Trees outside Forest (ToF), that are internationally benchmarked and offer immense potential to provide certified raw material in the country. *(MoEF&CC; MoA&FW)*
6. Chain of Custody certification should be used to improve traceability of wood and wood based products and ease trans-border movement across states as also exports. Indian exporters of wood products increasingly face strict traceability norms in European Union and United States, which is affecting their trade. The norms require disclosure of the source of timber to discourage illegal logging globally. *(MoEF&CC, MoC&I)*
7. Tackle issues related to restrictions due to CITES and address its impact on trade. (*MoEF&CC*)
8. Availability of NCCF-PEFC certified raw material in India is likely to increase substantially in near future. Many of the multinational retailers like IKEA dealing with wood based items like furniture are insisting on only FSC certification. All such organisations should be obliged to source from locally certified sources first before relying on imports. It is informed that globally PEFC has better coverage in terms of forest area certified. More than 325 million hectares of forest area (or 800 million acres) are managed in compliance with PEFC's internationally accepted Sustainability Benchmarks. *(MoC&I; MoEF&CC)*
9. Endorsing and propagating idea of safe and sustainable furniture and allied in the Indian Green Building sector, viz. Indian Green Building Council (IGBC), Green Rating for Integrated Habitat Assessment (GRIHA) etc. via a credible third-party certification schemes with the likes and on the lines of Business and Institutional Furniture Manufacturer's Association (BIFMA), or Indoor Air Quality (IAQ) certifications. *(MoC&I and other Ministries)*
10. NCCF is willing to develop indigenous, internationally benchmarked standards, on sustainable furniture, low-emitting furniture products and allied products. Such sustainable and low-emitting furniture products have high demand in international market and huge potential for domestic consumption as well as most of the Original Equipment Manufacturer (OEMs) are bidding to provide high value, safe and environmentally favourable product to green buildings across the world and in India. (*MoC&I)*

11. In addition to this, India needs to develop a fully equipped laboratory with large chamber testing equipment to enable the Indian manufacturers test their product domestically and reduce the cost of courier and lab test charges outside the country. *(DPIIT, MoC&I)*

About NCCF:
Network for Certification and Conservation of Forests (NCCF) is a not for profit organization of India. We have adopted a well-defined institutional mechanism to ensure collaborative & streamlined efforts for development of globally benchmarked and India specific sustainability certification standards for various constituents of our natural resource base, policy advocacy, conservation and improved wood-based supply chain with legality and tractability elements and making consumers aware about sustainable product options.

NCCF's Certification Standard for Forest Management, first ever Indian Scheme of Certification, has been endorsed by the Programme for the Endorsement of Forest Certification (PEFC), a globally recognized certification organization giving it an international recognition. Many State Forest Departments have initiated action for certification of few forest divisions. Recently, Uttar Pradesh Forest Corporation (UPFC) has taken up certification of 41 forest divisions with an area of around 4.5 lakh hectares using this scheme.

As part of the NCCF-PEFC FM Scheme, FM Certification looks after certification of wood/timber from forests. Chain of Custody Certification provides independently verified assurance that certified wood contained in a product originates from well-managed forests, entire flow of material from forest to consumer is monitored and documented to demonstrate its origin. In addition, the Due Diligence System (DDS) minimizes risk that timber comes from illegal harvesting and enables companies to demonstrate alignment with regulatory requirements. The CoC certification is available worldwide for all wood and wood based companies covering plywood, pulp-paper, packaging, furniture, handicrafts, MDF, textile, construction, etc. that manufacture, process, trade or sell forest-based products.

NCCF has also developed a certification scheme for Tress outside Forest (ToF), the first of its kind not only in India but anywhere in the world, which is ready for launch. This focuses on certification of wood coming from non-forest lands, agroforestry, farmers, small holders, etc. Large scale adoption of this certification will certainly contribute to the government's resolve to double the farmers' income.

Managing various aspects of wood based industries requires inter sectoral coordination by the concerned Ministries, State Governments, Industry, Industry Associations and other stakeholders. NCCF has drafted a background note with some suggestions for revival and long term sustainability of the wood based industries.

Please reach out to us for any comments and suggestions, for further fine tuning of the recommendations:

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Please see abbreviations at annexure

Annex

List of Abbreviations

ANBA - Atma-Nirbhar Bharat Abhiyan Yojana
APOs - Annual Plan of Operations
BIFMA - Business and Institutional Furniture Manufacturer's Association
CITES - Convention on International Trade in Endangered Species of Wild Fauna and Flora
CoC - Chain of Custody
DDS - Due Diligence System
DGFT - Directorate General of Foreign Trade(DGFT)
DPIIT - Department for Promotion of Industry and Internal Trade
EUTR - European Union Timber Regulation
EXIM - Export and Import Bank of India
FDI - Foreign Direct Investment
FLEGT - Forest Law Enforcement, Governance and Trade
FSC - Forest Stewardship Council
GAP - Good Agricultural Practices
GRIHA - Green Rating for Integrated Habitat Assessment
IAQ - Indoor Air Quality
IGBC - Indian Green Building Council
MoA&FW - Ministry of Agriculture & Farmers Welfare
MoC&I - Ministry of Commerce and Industry
MoEF&CC - Ministry of Environment, Forest and Climate Change
MoF - Ministry of Finance
MoMSMEs - Ministry of Micro, Small & Medium Enterprises/Development Commissioner
MSME - Micro, Small & Medium Enterprises
MSP - Minimum Support Price
NCCF - Network for Certification and Conservation of Forest
OEMs - Original Equipment Manufacturer
PEFC - Programme for the Endorsement of Forest Certification
PU - Polyurethane
RWE - Round Wood Equivalent
SEZ - Special Economic Zone
ToF - Trees outside Forests
WTO - World Trade Organization