

ANALYSIS OF CANADIAN WOOD EXPORT TO INDIA AND CHINA

by

Rajat Agarwal
Master of Commerce, Ch. Charan Singh University, 2000
Bachelor of Commerce, Delhi University, 1998

and

Zhiqiang (Evan) Shang
Bachelor of Business Administration
Tianjin Foreign Studies University, 1995

PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In the International Business Program
of the
Faculty of Business Administration

© Rajat Agarwal and Zhiqiang (Evan) Shang, 2004

SIMON FRASER UNIVERSITY

August 2004

All rights reserved. This work may not be
reproduced in whole or in part, by photocopy
or other means, without permission of the authors

APPROVAL

Names: **Zhiqiang (Evan) Shang**
Rajat Agarwal

Degree: **Master of Business Administration**

Title of Project: **Analysis of Canadian Wood**
Export to India and China

Supervisory Committee:

Dr. Hemant Merchant

Senior Supervisor
Associate Professor of Business Administration

Dr. Bert Schoner

Supervisor
Associate Professor of Business Administration
Project Coordinator SIPS

Date Approved:

August 1st, 2004

SIMON FRASER UNIVERSITY



Partial Copyright Licence

The author, whose copyright is declared on the title page of this work, has granted to Simon Fraser University the right to lend this thesis, project or extended essay to users of the Simon Fraser University Library, and to make partial or single copies only for such users or in response to a request from the library of any other university, or other educational institution, on its own behalf or for one of its users.

The author has further agreed that permission for multiple copying of this work for scholarly purposes may be granted by either the author or the Dean of Graduate Studies.

It is understood that copying or publication of this work for financial gain shall not be allowed without the author's written permission.

The original Partial Copyright Licence attesting to these terms, and signed by this author, may be found in the original bound copy of this work, retained in the Simon Fraser University Archive.

Bennett Library
Simon Fraser University
Burnaby, BC, Canada

ABSTRACT

The purpose of this report is to explore the Chinese and Indian markets for wood products as well as investment and sales opportunity for Canadian forest product manufacturers. This report presents information relevant to major Canadian producers of softwood lumber and other wood products, desiring to enter one of these markets. The information includes a summary of market structure, distribution channels and the influences of government policies on logging, production, consumption, and import and export of wood products.

In examining the forest industry in China and India, we have looked into both academic and trade publications. We have also consulted books that are recently published for basic information and conducted interviews with Canadian forest product manufacturers. Internet websites are useful resources to find up-to-date statistics. There's very little official or reliable data on wood consumption in China and India. Data provided in this report is from a variety of sources and it was very often incomplete and inconsistent.

China and Indian markets provide huge potential markets for Canadian forest product manufacturers. Developing a new market is a long-term process, especially the market like China and India where the cultural and business environment is completely different from North America. Building up closer relationship with local customers by having representative, inventory or manufacturing facilities in China to enhance the cultural understanding, to introduce Canadian wood products, to monitor the delivery performance and market changes, is more than just exporting and transportation.

Although import of wood products will continue to increase in the short and medium term, investment should be a strategy for firms to achieve long term success in these two markets.

ACKNOWLEDGEMENTS

We would like to express our extreme gratitude to our senior supervisor Dr. Hemant Merchant for sharing his profound insights and thoughts on this project. We also truly appreciate Dr. Merchant for all the patience and help he gave us throughout this project. Finally, we would especially like to thank Dr. Bert Schoner for the support and guidance he has given in completing this project.

TABLE OF CONTENTS

Approval	ii
Abstract	iii
Acknowledgements	v
Table of Contents	vi
List of Figures	viii
List of Tables	ix
1. Introduction	1
2. International Trade – Trend Analysis	3
2.1 Canada	3
2.1.1 Overview	3
2.1.2 Trade Partners.....	4
2.1.3 Industry Sectors	7
2.1.4 Canada Forest Industry.....	9
2.2 China.....	10
2.2.1 Overview	10
2.2.2 Trade Partners.....	11
2.2.3 Bilateral Trade - Canada-China.....	12
2.2.4 Brief Introduction of Wood Market in China.....	13
2.2.5 Position of Canada in China	18
2.3 India.....	20
2.3.1 Overview	20
2.3.2 Trade Partners.....	21
2.3.3 Bilateral Trade - Canada-India	23
2.3.4 Brief Introduction of Indian Wood Market	25
2.3.5 Position of Canada in India	28
3 Wood Market for India	31
3.1 Wood Market Analysis	31
3.1.1 Market Segmentation by Product.....	31
3.1.2 Market Opportunities.....	37
3.2 Competitive Environment	42
3.2.1 Local Market Dynamics	42
3.2.2 International Competition.....	43
3.3 Distribution Channel	44
3.3.1 Market Logistics.....	44
3.3.2 Import Regulations	47

3.3.3	Private-Sector Customers	49
3.3.4	Public-Sector Customers	50
4	Wood Market for China.....	52
4.1	Wood Market Analysis	52
4.1.1	Market Segmentation by Product	52
4.1.2	Market Opportunities.....	52
4.2	Competitive Environment	55
4.2.1	Local Market Dynamics	55
4.2.2	International Competition.....	60
4.3	Distribution Channel	61
4.3.1	Analysis of product and marketing mix	62
5	Evaluation.....	68
6	Recommendations.....	70
6.1	India.....	70
6.2	China.....	72
7	Appendices.....	74
7.1	Canada Exports of goods on a balance-of-payments basis	74
7.2	India Consumption & Production of Main Wood Products.....	75
7.3	India Import Statistics of Main Wood Products	76
7.4	CHINA'S MAJOR TRADE PARTNERS 2002.....	76
7.5	Canada's Merchandise Exports to China (2002)	77
7.6	World Market Pulp Outlook by Region.....	77
	Reference List.....	78

LIST OF FIGURES

Figure 2-1.....	3
Figure 2-2.....	4
Figure 2-3.....	5
Figure 2-4.....	6
Figure 2-5.....	6
Figure 2-6.....	7
Figure 2-7.....	8
Figure 2-8.....	8
Figure 2-9.....	12
Figure 2-10.....	13
Figure 2-11.....	18
Figure 2-12.....	18
Figure 2-13.....	22
Figure 2-14.....	23
Figure 2-15.....	26
Figure 2-16.....	27
Figure 4-1.....	60
Figure 4-2.....	61

LIST OF TABLES

Table 4-1	63
Table 5-1.....	68

1. INTRODUCTION

Forest Industry is one of the major contributors to Canadian GDP and one of the largest contributing industry sectors to Canada's trade surplus. The United States is the principal partner of Canada in forest products trade, commanding the mammoth share of more than eighty percent. But recent Canada US lumber dispute, where US imposed 32% import tariff on lumber imports from Canada, led many of the Canadian forest product manufacturing companies to lookout for new offshore markets in Asia and Europe.

India and China are two of the largest and fastest growing economies in the world. Together both countries have more than third of the total world population between themselves and also a very strong and growing middle class population, which is responsible for pushing the consumption levels of both countries to new heights. The companies all over the world are targeting India and China as the biggest and expanding markets for their products. These countries are also the major consumers of forest industry products like logs, lumber, wood pulp, newsprint etc.

Despite the size of the market and reciprocity of factors of endowment, the Canada does not share the same intensity of trade with India and China. Even in forest industry, exports from Canada to these two countries are far below the potential.

In this report we will try to analyze the main reason for this discrepancy with special focus on wood industry. We will first try to substantiate the underperformance of international trade between Canada and India and Canada and China and vice versa through the trend analysis of international trade. Then we will do the more specific trend

analysis of trade in forest products between the countries and Canada's respective positions in other two countries.

Then based on our past experience we will briefly describe the domestic forest products market in India and China. Then we will try to analyze the factors affecting the demand and supply these two markets.

Finally, combining our past experience in wood industries in China and India with our current studies, we will put forward some recommendations for the Canadian forest products manufacturers who are trying to enter these markets.

2. INTERNATIONAL TRADE – TREND ANALYSIS

2.1 Canada

2.1.1 Overview

Canada is predominantly a trading country, with its economy being integrated and dependent on the international trading activities. The combined value of Canada's merchandised international trade (exports and imports) equalled more than seventy percent of its GDP in 2003 (Figure 2-1). The export of goods and services, from Canada, accounted for almost thirty seven percent of its GDP in the year 2003. This makes Canada the largest trading nation in terms of exports as a percentage of its GDP. In 2002, Canada also ranked as the seventh largest merchandise exporter in the world, with the total share of 3.9% of total world's merchandise export (Figure 2-2), after United States, Germany, Japan, France, China and United Kingdom. (State of Trade, 2004)

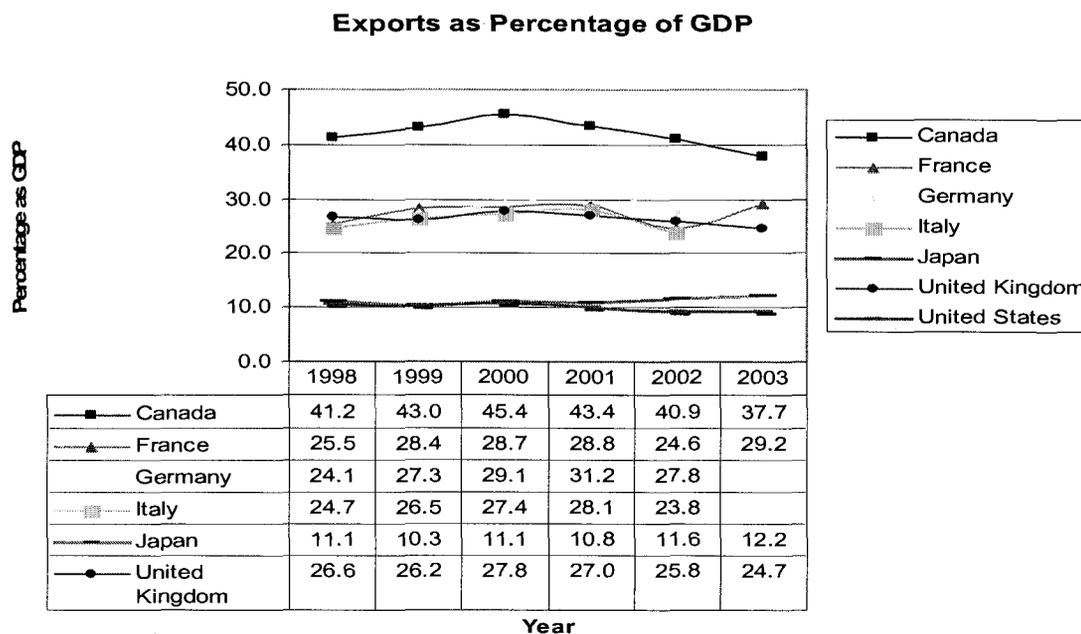


Figure 2-1

Share of World Merchandise Trade - 2002

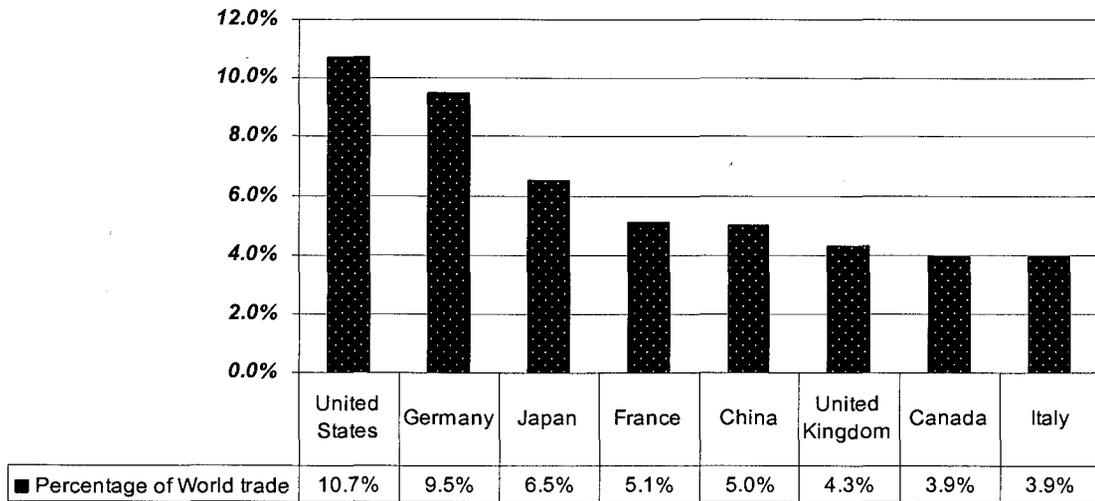


Figure 2-2

2.1.2 Trade Partners

United States of America is the largest and most important trading partner of Canada. US accounts for 86% of Canadian exports and is distantly followed by Japan, United Kingdom and China, each accounting for less than 3% of its exports (Figure 2-3). The import front is again occupied mainly by the United States accounting for 60% of all Canadian imports followed by China, Japan and Mexico each accounting for less than 6% of total imports of Canada (Figure 2-4)(Industry Canada, 2003). Hence, it can be asserted that, in international trade, Canada is heavily dependent on US.

Although, China is the fourth largest destination for goods exported from Canada but its total share was mere 1.25% of a Canadian export's or CAD 4.76bn in the year 2003. At the same time the Canadian import of Chinese goods far exceeded its export and was valued at CAD 18.57bn or 5.5% of the total imports of Canada. (State of Trade, 2004)

India's is ranked further down as the export destination of Canadian goods with the total exports of CAD 760mn or mere 0.2% of total Canadian exports in the year 2003. In the same year Canada imported goods worth CAD 1.4bn or 0.42% of its total import from India placing it as the 20th largest importer of Canadian goods. (State of Trade, 2004)

In the year 2003, on the balance of payment basis, Canada's bi-lateral trade with India and China was tilted in the favour of the two countries. Canada's import from India and China exceeded its export by CAD 663mn and CAD 13.8bn respectively (Figure 2-5) (State of Trade, 2004).

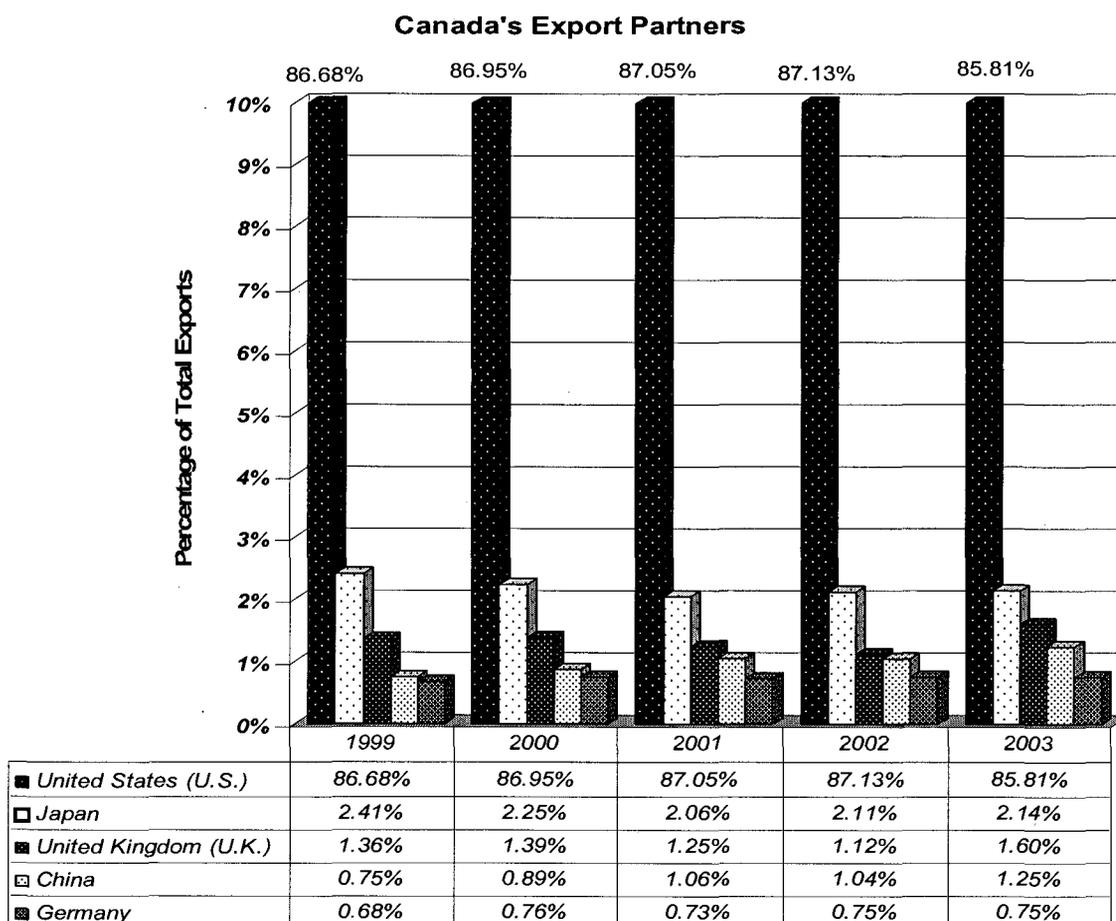


Figure 2-3

Canada's Import Partners

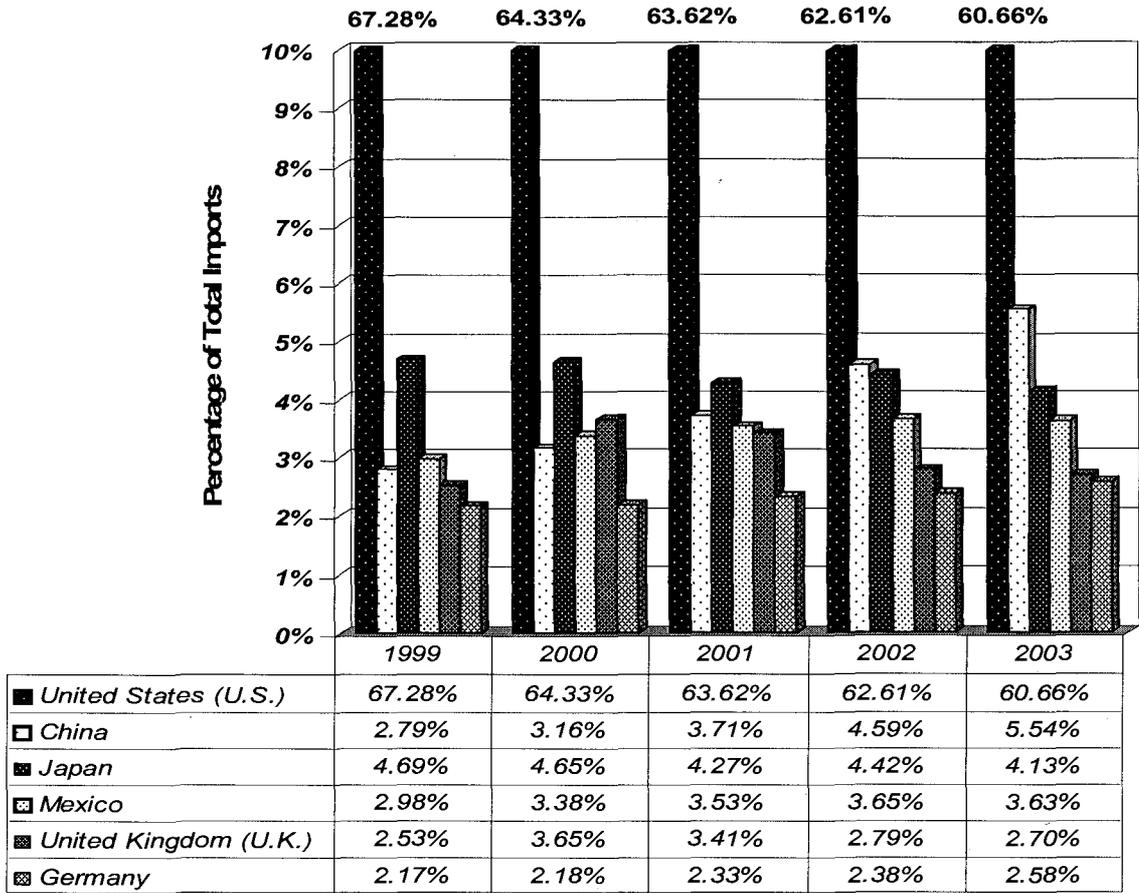


Figure 2-4

CANADA TRADE - INDIA and CHINA

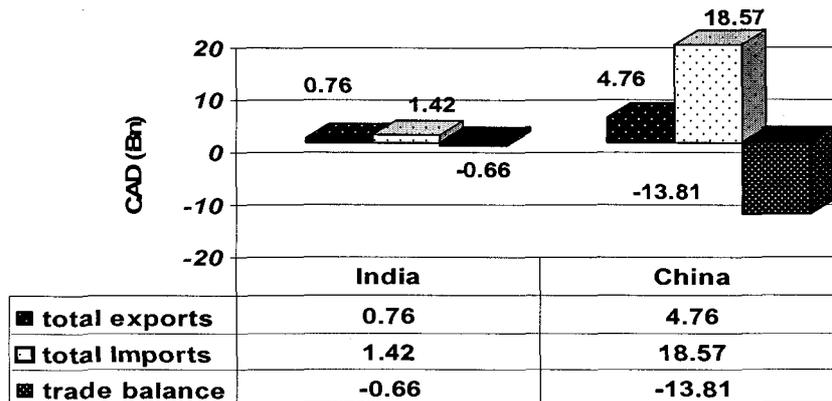


Figure 2-5

2.1.3 Industry Sectors

The machine and equipments and automotive parts constitute almost 50% of total Canadian exports. The other sectors dominating exports are industrial goods, energy product and the forestry products (Figure 2-7). But if we look at the imports of Canada then again they are dominated by machine and equipments and automotive parts, constituting 52% of total Canadian imports. The industrial goods, consumer good, Energy products and Agriculture are the other sectors constituting the major Canadian imports. Forestry Products accounts for just 1% of total Canadian imports (Figure 2-8) (State of Trade, 2004). Thus, if we look at the Canada's international merchandise trade by the Balance of Payment (BOP) basis then forestry products are second only to energy products with merchandising trade surplus (figure 2-6).

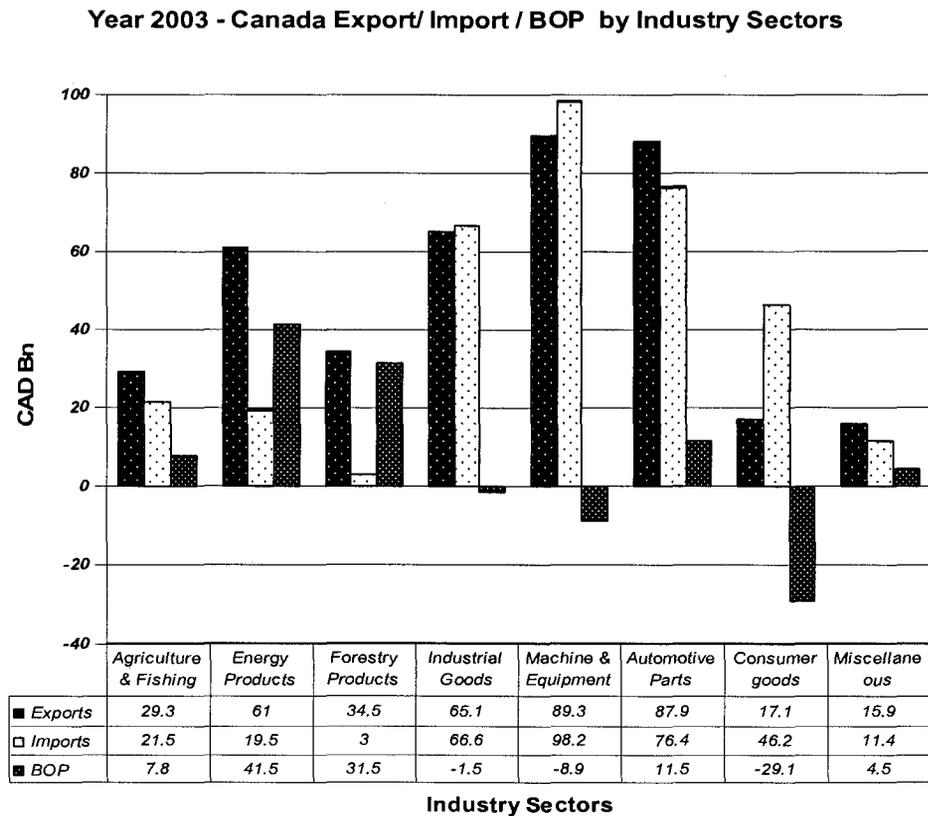


Figure 2-6

Canada Exports 2003 - Industry Sectors

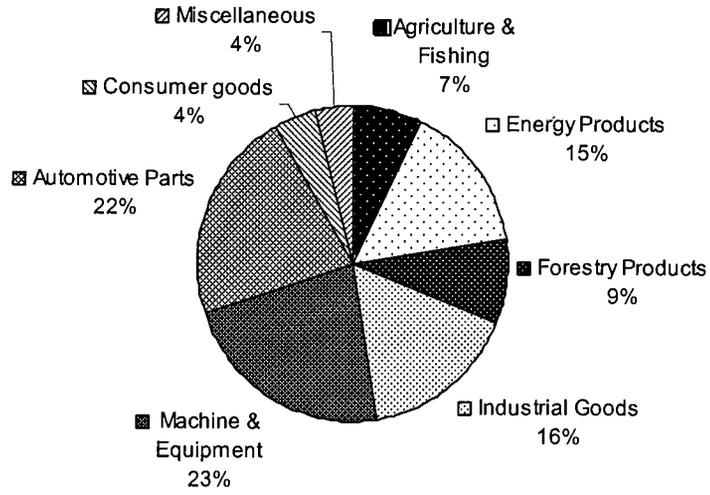


Figure 2-7

Canada Imports 2003 - Industry Sectors

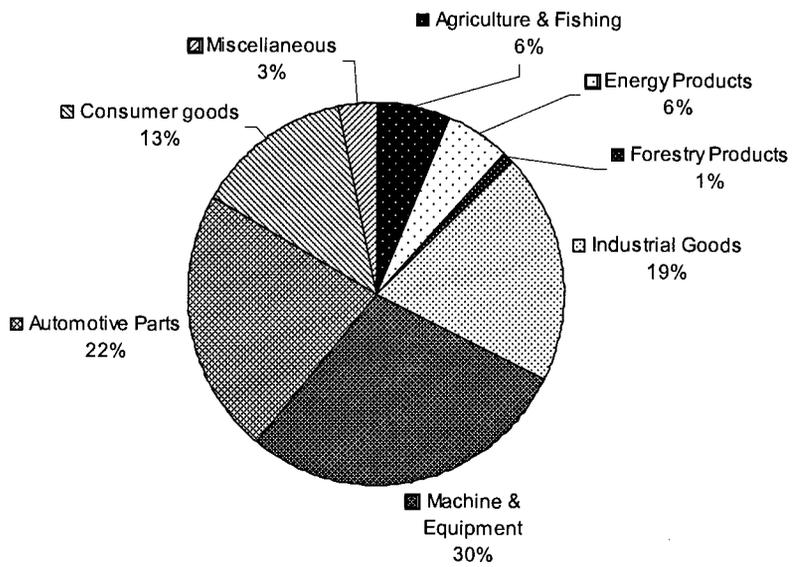


Figure 2-8

2.1.4 Canada Forest Industry

The total land area of Canada is 921.5 million hectares with almost half (417.6 million hectares) of it covered by the forests which accounts for about ten percent of the forests worldwide. Half of these forests (119 million hectares) are managed primarily for timber production, while the remaining are inaccessible or have been allocated for other purposes such as national parks. (Canadian Forest Service, 2004)

The forest industry is a one of the major contributors to the Canadian economy. It generated more than CAD 32.6bn toward the trade surplus in 2002 and created direct employment for about 361, 400 people in Canada. The forest industry is a large and geographically dispersed, it supports nearly 350 rural communities and also a significant employer in large urban centers like Vancouver, Montreal and Toronto. (Canadian Forest Service, 2004)

In 2002, the value of the forest industry's exports was \$42.9 billion, making Canada the largest forest products exporter in the world with 18 percent of trade in international forest products. Major export markets include the United States, the European Union and Japan. In 2001, Canada ranked first in the world in terms of newsprint production and second in the world in production of wood pulp. Canada is the world's number one exporter of lumber and currently ranks second in the world in terms of softwood lumber production with 17.2 percent of the world's exports. (Canadian Forest Service, 2004)

2.2 China

2.2.1 Overview

China is the third largest country in terms of geographic area (9.6 million square meters) and it also has the largest population (1.29 billion in 2002) (Photius Coutsoukis, 2003) in the world. China's international trade has expanded steadily since the opening of the economy in 1979. China's increasing integration with the global economy has contributed to sustained growth in international trade.

While domestic demand remained a major driving force of economic growth in 2003, exports also recorded stronger growth than the previous year. Most analysis of China tends to focus on its export sector but the country's imports have been growing just as quickly as exports. In fact, recent months have seen China's import growth exceeding the expansion in exports. Rising industrial output means that China has had to turn to internal markets to satisfy its demand for capital goods, commodities and other resource-based goods.

Many countries have recently signed agreement with China regarding China's entry into the World Trade Organization (WTO). These countries include U.S and Canada. It seems clear that the entry of WTO of China will make foreign investors enter into China much easier than ever before for many product including forest products. This will provide opportunities for many wood exporting regions such as Canada.

In 2003, China's external trade reached US\$851 billion, ranked the fourth in the global economy. In 2003, exports grew at 34.6% and imports increased by 39.9% while in the first quarter of 2004, exports and imports grew by 34.1% and 42.3% respectively. (China Daily,2003)

2.2.2 Trade Partners

From Figure 2-9, Japan and United States are the main trading partners of China. Japan remained China's largest source of imports which worth 53.468 billion US dollars in the year 2002 (The United States-China Business Council, 2002). Major goods China imported from Japan were automobiles and parts, cameras and films, machinery and electronic products, integrated circuits, other semiconductors. The United States was the second largest source of imports to China. Imported goods were machinery, aircraft, integrated circuits, chemical fertilizers. The third to the 10th largest sources of imports to China were the EU, Hong Kong Special Administrative Region, ASEAN, Taiwan, the Republic of Korea, Russia, Australia and Canada. Total imports from the top 10 trading partners added up to 245.790 billion US dollars, accounting for 83 percent of China's total imports. China's total foreign trade turnover of year 2002 surged 21.8 percent comparing to that of year 2001, reaching 620.768 billion US dollars. (The United States-China Business Council, 2002)

Shi Guangsheng, minister of Foreign Trade and Economic Cooperation, said in a recent speech that *“China's surge of foreign trade turnover was mainly the result of the country's fast economic growth, a better-than-expected world economy and the positive effect of China's membership of the World Trade Organization”*. The minister predicted that China's foreign trade would continue to grow in 2003. (China Daily,2003)

China - Major Trading Partners

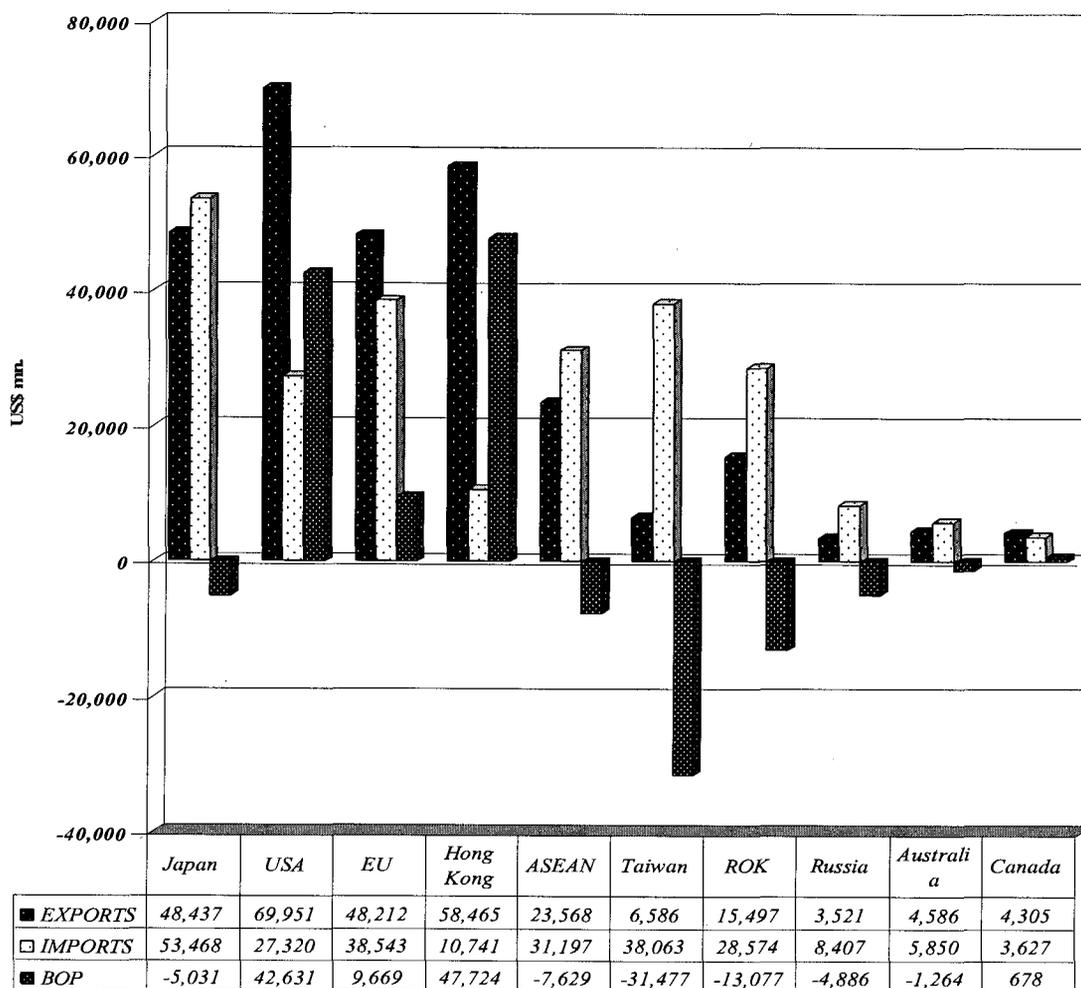


Figure 2-9

2.2.3 Bilateral Trade - Canada-China

Canada is ranked very low as the source of import for China. Exporting to China in 2003 was 3.85bn CAD, 5.9 % increase over total exports for the year 2002. The export to China was only 1% of total exports from Canada (Export Development Canada, 2003)

Merchandise Exports from Canada to China

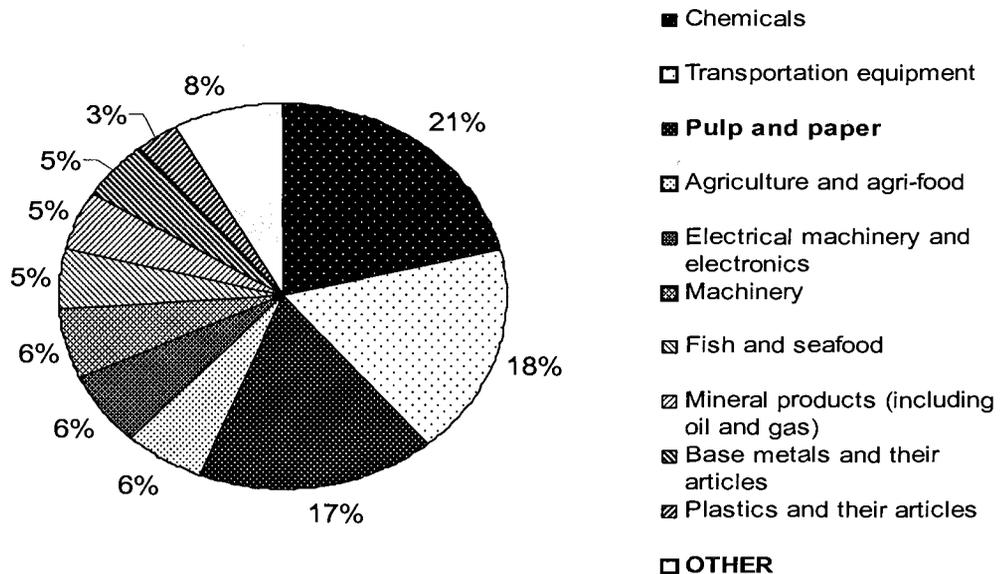


Figure 2-10

From the above figure 2.10, Top three fastest growing major exports, from Canada to China, are auto parts, pulp, and nickel. In May 2002, the Government of Canada launched the Canada Wood Export Program (Canada Wood), administered by Natural Resources Canada. This five-year, \$35-million partnership with the domestic wood industry is designed to respond to the challenges confronting that sector as a result of substitute products, aggressive low-cost competitors and restrictive trade practices (such as the United States' softwood lumber tariffs and the European Union's plant health barriers). (The State of Canada's Forest, 2003)

2.2.4 Brief Introduction of Wood Market in China

2.2.4.1 Local Supply

China is the fifth largest country in terms of the forest area and has a forest area of approximately 133.7 million hectares and the growing stock is 11.8 billion cubic meters.

(Earth Trends.2003) However, given the size of the country and population, the forest coverage is only 13.9% of the total land area and the forest area per capita is estimated at only 0.11 hectares per person. This is approximately one-sixth of the world average. (China Wood, 2003)

Recent decades have witnessed boom in Chinese economy which has perpetuated the boom in construction industry in China and has also increased the living standards of Chinese people. Moreover, China is also emerging as one of the main manufacturing centre for wood products in Asia. Thus, all this factors together have radically escalated the demand for forest products in China.

The domestic supply of wood has kept on decreasing since the implementation of National Nature Forest Protection Program (NFPP), leaving an increasing gap between demand and supply. To fulfil in the shortage, the imports of various forest products have been growing over years. Current domestic supply and demand gap is more than 30 million cubic meter. Within next 3 – 4 years, this gap will increase to 33-43 million Cubic meters per year. (Hina Timber, 2004)

Furthermore, China is also one of the biggest wood product export countries in the world. This will even make China import more wood raw material to support its export of finished products. China's growth in wood products manufacturing and trade over the last decade has been astounding. China is now the second largest supplier of wood products to the U.S market, following only Canada. Total US imports of wood products from China (not including pulp & paper or furniture) jumped from US\$42 million in 1990 to \$842 million in 2001, and are forecast to reach US\$1.0 billion in 2002. China's exports to Europe have also grown, with the focus always on "value-added"

products. One example: Exports of builder's joinery to Europe have doubled between 1999 and 2002, to US\$80 million. China has become the world's leading supplier of wooden furniture, with exports in 2001 valued at US\$4 billion, up from US\$1.4 billion in 1997. (Hina Timber, 2004)

For domestic demand, housing reform, coupled with growing consumer affluence, is fuelling huge interest in new housing and home renovation. This trend is creating a potential new market for Canadian value-added wood products, particularly in interior finishing. China is the third largest consumer of timber in the world and faces a worsening imbalance between supply and demand for wood products. The present consumption level exceeds the annual growth increment of the local forests and total imports by about 50 million cubic metres per year. From 1998 to 2000, Chinese imports of lumber and rough wood tripled. In 2000, Canadian exports of lumber grew 130% year by year to over \$15 million. (Industry Canada, 2003) Timber imports accounted for over 45% of China's timber consumption in 1999. (Robin Lu, 2003) Rising demand for certain value-added wood products will continue. For instance, the increased use of beech, maple and oak hardwood flooring is an emerging market trend. As well, veneers, wood panels, including engineered wood panels such as Oriented Strand Board (OSB) and particle board are widely used in furniture manufacturing.

China has 5,000 wooden flooring manufacturers, producing for both the very large domestic market and export demand. In 2002, US imports of hardwood flooring from China more than doubled, to over US\$13 million, only slightly behind imports from Canada. (China Wood Export, 2003) Due to the rise in wood product exports, and the surging domestic demand, China has become the world's leading market for logs and

hardwood lumber. Chinese imports of US hardwood lumber jumped from less than US\$2 million in 1994 to an estimated \$84 million in 2002. Imports of pine lumber from New Zealand in China/Hong Kong jumped from 28,000 m³ in 1997 to 188,000 m³ in the year ending September 2002. Total log imports in China have exploded in recent years, from just 1.0 million m³ in 1996 to nearly 17 million m³ in 2001 and an estimated 24 million m³ in 2002. (China Wood Report, 2003)

Forest Policy

In line with the Chinese Government and State Forestry Administration (SFA)'s increasing emphasis on plantation tree resources as the core basis of the country's forestry and wood processing industry, in late 2002 the SFA announced new guidelines for management of plantation forests. The business implications are:

- Logging restrictions will bring decreased local supply and demand import wood products
- Introduction of new technologies which bring opportunity for foreign suppliers to cooperate with local business for technology transfer and further cooperation.
- Deregulation in import & export regulation for wood products; together with the China entry into WTO, the import duty and regulation will be significantly decreased, which create favourable condition for foreign suppliers to enter into this market.

2.2.4.2 International Supply

After the deregulation of Chinese import policy and increased liberalization of importing licenses since 1999 reduced import barriers, there is improved access to Chinese market has opened opportunities for all countries exporting wood products. In China, wood use is mainly by construction activity made up of infrastructure and housing components. Main products are lumber, panels, plywood and chips. So most imported logs and lumbers are hardwood rather than softwood. The main wood consumption sectors are construction & decoration, furniture, pulp and paper, rural area housing. Wood usage on construction & decoration and furniture increases by 11 % than that of 2001. (China Timber, 2004))

From figure 2.11, it shows that China import wood product in 2002 reached at 108mn m³, which is the highest in the history. The import value increases by 10 times in ten years. Ratio of imported wood in total wood consumption increased from 18% in year 1993 to 40% in year 2002. (China Wood, 2003) In year 2003, wood market supply is sufficient with increased import. Wood market steps into mature stage. From wood product production and consumption analysis, domestic wood supply in year 2002 is 159 million m³, which is 1.3% higher than year 2001; import wood in year 2002 is 108 million m³, which is 16.6 % increase than 200. (China Wood, 2003) The figure 1.12 shows the major import categories in year 2002 and year 1993. The category of Pulp and Paper is the biggest import category in term of volume and increased by 4.8 times within 10 years. Other categories also significantly increased the import volume from 1993 to 2002, which proves that the increasing market consumption and lack of domestic supply.

China Wood Imports

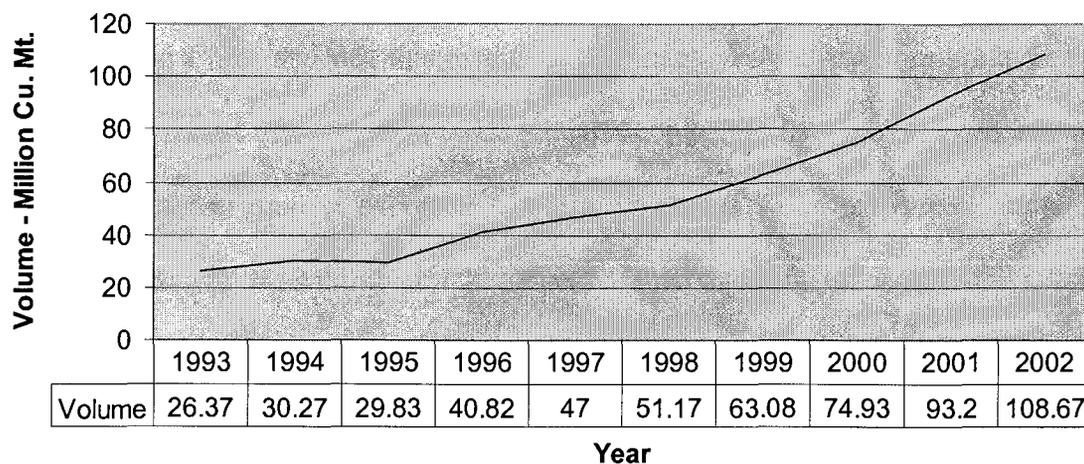


Figure 2-11

China - Wood Products Import

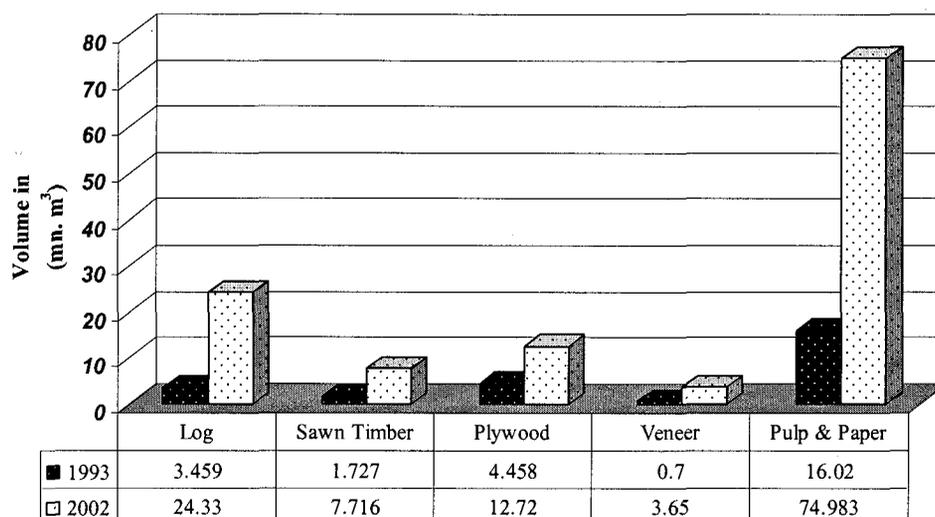


Figure 2-12

2.2.5 Position of Canada in China

China's voracious demand for raw materials has been good for many Canadian companies in the resource sector, including forest products. Most of the attention so far has been on wood products for the Chinese housing market. Many companies are hoping

to cash in on the rapid expansion of the Chinese housing market, and forecast the great potential in this market. However, the reality is that wood frame construction remains a novelty item in China and that this market is still many years away from producing the same kind of success that Canadian forest products companies have experienced in Japan. Canada's top forest product export to China in 2003 was wood pulp, including waste paper, amounting to \$833 million, or 22 percent of total exports. (Industry Canada, 2003) Indeed, a new plan by Beijing on the Chinese forest products sector has little to say about housing but places overwhelming emphasis on the country's demand for paper. (China daily, 2004)

Some of the key players in the Chinese industry include Sun Paper, Yinzhou, Nine Dragon, Lee and Man, Jinxing, Huatai, and Chenmin. These as-yet unfamiliar names could become much better known in the years ahead. Paper was invented in China nearly 2000 years ago, but China's lasting impact on the global paper industry may be yet to come.

Over the last two years, exports of Canadian lumber to China have increased roughly two-and-one-half times. Shanghai, representative of Eastern China, is the main port to import Canadian wood and distributed into Chinese customers. Guang Dong province, as China's largest build material market, is China's largest province for timber import. Most importantly, these two areas, Shanghai and Guangdong, are the major basis of furniture industry and export ports.

There are certain advantages by Canadian companies,

- Reputation of quality – reliable quality and high environmental forestry standard
- Reputation of friendliness - Canada maintain sound relationship with China

- Extensive networking of Canadian immigrants and Chinese Canadian with domestic customers
- Government delegates commercial visits and promotion programs
- Canadian companies network in China

However, there are significant challenges and threats as well,

- Complex market, complex market consumer behaviour and distribution channel
- High level of price sensitivity
- Decentralized government policy and import regulations
- Competition from international suppliers
- People's tradition of living concept
- Lack of skilled workers

In the price sensitive market, price is the dominant force. If Canadian manufactures want to compete in China, they must find a solution to reduce their price or at least keep their price competitive in this market. Through our interview with one company in Canada, they are currently selling lumbers with stains to Chinese market with very low price, which is one third of price of high quality lumber to Japan. Chinese customers will cut the stained lumbers into piece and keep those parts good for use. It can fit into different designs and applications in furniture and interior decoration industries.

2.3 India

2.3.1 Overview

India is the 8th largest country (in terms of total land area) in the world with the area of 3.30mn sq. km. India also has the second highest population, after China, of about

1.1bn people. In the year 2002 the GDP based on purchasing power parity for India was 2.66 trillion USD; this makes it the fourth largest economy in the world after USA, Japan and China. (World IQ Dictionary, 2003) In the year 2003, the Indian economy grew almost at the average of 7% making it one of the fastest growing economies of the world. India is also the home to the very strong 300mn middle class population making it one of the most attractive developing markets in the world. (World IQ Dictionary, 2003)

India exported merchandised goods worth USD 52.7bn in the year 2002 – 03 while at the same time it imported goods worth USD 61.41bn. The main exports from India were precious stones, gems and jewels, textiles, chemicals and related products, engineering goods and agriculture and allied products. India's import list was mainly dominated by crude oil, pearls, precious and semi precious stones, machinery and gold and silver. (Export Import Databank, 2003)

In the year 2002 – 03 the total imports of wood and wood based products including the wood pulp and waste paper to India accounted for about USD 750mn. These two product sectors represent about 1.6% of total imports of India and the import of wood and wood based products grew 15% from the year 2001 – 02. ((Export Import Databank, 2003)

2.3.2 Trade Partners

The main destinations, based on value, for merchandised export of Indian goods are United States of America, United Arab Emirates, Hong Kong, United Kingdom, Germany and China (Figure 2-13). Canada only ranks twenty first, with total exports

from India to Canada being valued at US \$ 698.27mn or 1.32% of total Indian exports. (Export Import Data Bank, 2003)

The main countries for India to source its imports are again dominated by United States which is closely followed by the Belgium, China, United Kingdom and Germany (Figure 2-14); Canada again is listed down the list at twenty second place with total imports from Canada valued at US\$ 566.29mn or 0.92% of total Indian imports. (Export Import Data Bank, 2003)

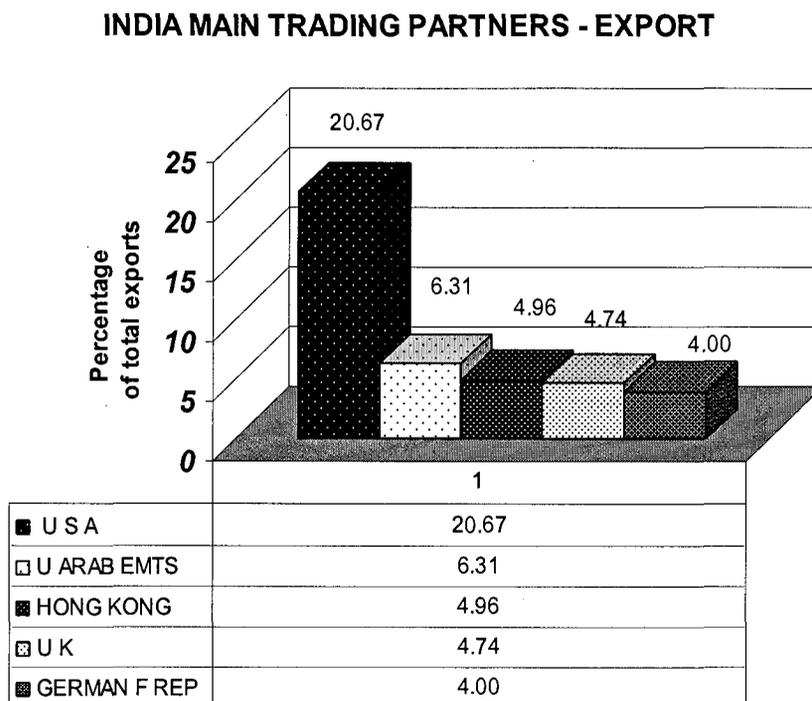


Figure 2-13

INDIA MAIN TRADING PARTNERS - IMPORTS

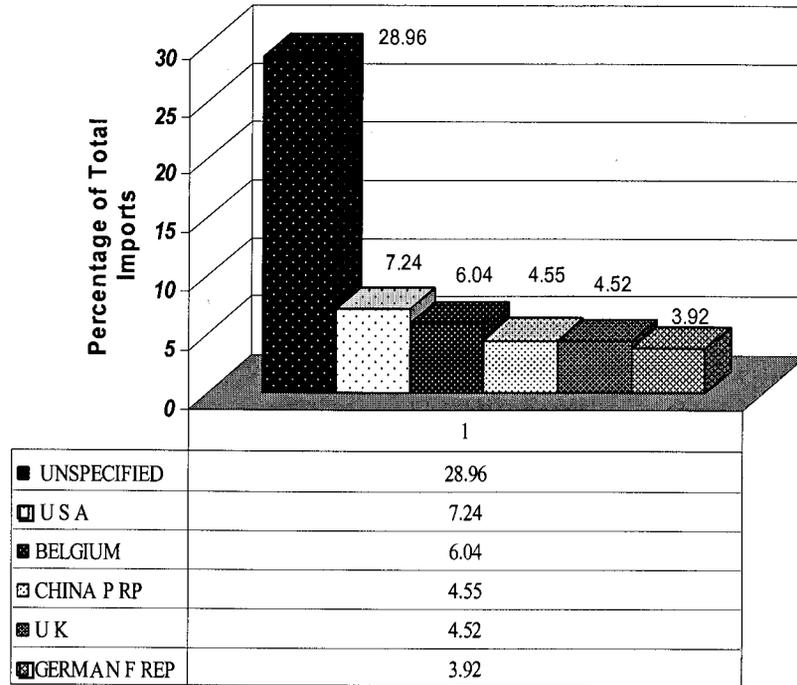


Figure 2-14

2.3.3 Bilateral Trade - Canada-India

The Canada India bi-lateral relations have mostly been cordial and warm. But even after the presence of about one million strong Indian Diasporas in Canada, these bi-lateral ties have seemed not to converge into the strong economic ties. This may be explained by the closed Indian economy till 1990 and presence of developed market like USA near Canada (Dr. K.R.G. Nair, 2004).

But even after the opening up of Indian economy since 1990 the trade between two countries is almost minimal. In the year 2003 the India accounted for less than 1% of total foreign trade of Canada (Industry Canada, 2003). At the same time, Canada

accounted for about 1.3% of total foreign trade of India. (Export Import Data Bank, 2003)

The forest industry is one of the main contributors to the Canadian GDP and it accounted for about 9% of total Canadian exports in the year 2003 (Industry Canada, 2003). India is one of the largest timber consumer countries in South Asia, with the total import of forest products worth US\$ 883mn in the year 2002. This import included wood and wood based products equalling to US\$ 540.44mn and wood pulp and waste paper equalling US\$ 294mn. Despite Canada being one of the largest manufacturers in both product categories, its trade with India was less than 2% of total Indian imports. (Export Import Data Bank, 2003)

Canada is one of the largest producers of softwood lumber and paper pulp in the world. In the year 2002, India imported about 367, 000 cubic meters of coniferous wood and 2.66mn cubic meters of non-coniferous wood, in the form of logs and lumber. The total value of imported coniferous and non-coniferous wood was about USD 400mn. The Canada's share in this sub group was only USD 0.78mn or about 0.2% of total Indian imports. The statistics for wood pulp is different as the Canada supplied about 45% (in dollar terms) of total pulp import to India. For the year 2002 India imported wood pulp totalling about USD 87mn but Canada's share in India's market was USD 40.3mn. (Export Import Data Bank, 2003)

2.3.4 Brief Introduction of Indian Wood Market

2.3.4.1 Local Supply

The total area of India is 3.3 million square kilometers with almost 3.0 million square kilometers of that area in land and balance being covered with water. In 1970, 35% of India's total land area or about 1million square kilometers were covered with forests. But, over the period of time, India witnessed unplanned deforestation, mismanagement of forest resources and illegal logging which resulted in the serious depletion of forest cover in India. Thus, by the year 2000 the forest cover was reduced to only about 21% of total land area or 644,000 square kilometers. (International Tropical Timber Organization, 2003) In the mid 1990's the Supreme Court of India banned all logging in the Indian forests, shutting down all the sawmills operating without licenses and also instructed government not to issue any more new licenses for the sawmills in certain states with dense forest cover. Although, these actions apprehended the illegal and unplanned logging in the country but the growing Indian economy, the 300 million strong middle class population and the traditional wood culture kept pushing the demand to higher levels. The ban on logging and ever increasing demand pushed India from timber sufficient country to timber deficient country which fulfills its domestic timber demand by importing timber from different countries.

Currently, all logging is banned in India except private plantations and some logging with the special permission from the Government. Thus, India has a serious deficit in raw material and cannot meet the growing demand for wood and wood based products domestically. According to International Tropical Timber Information System (ITTIS) the total consumption of logs, sawn wood, veneer and plywood in India was

about 29 million cubic meter while the current domestic production was 23 million cubic meter for the year 2002. The deficit was met by the imports of both soft wood and hard wood. The ITTO also estimates that, by the year 2010, the total demand for industrial round wood in India will rise to 70 million cubic meters and India will need to import about 14 million cubic meter of industrial round wood.

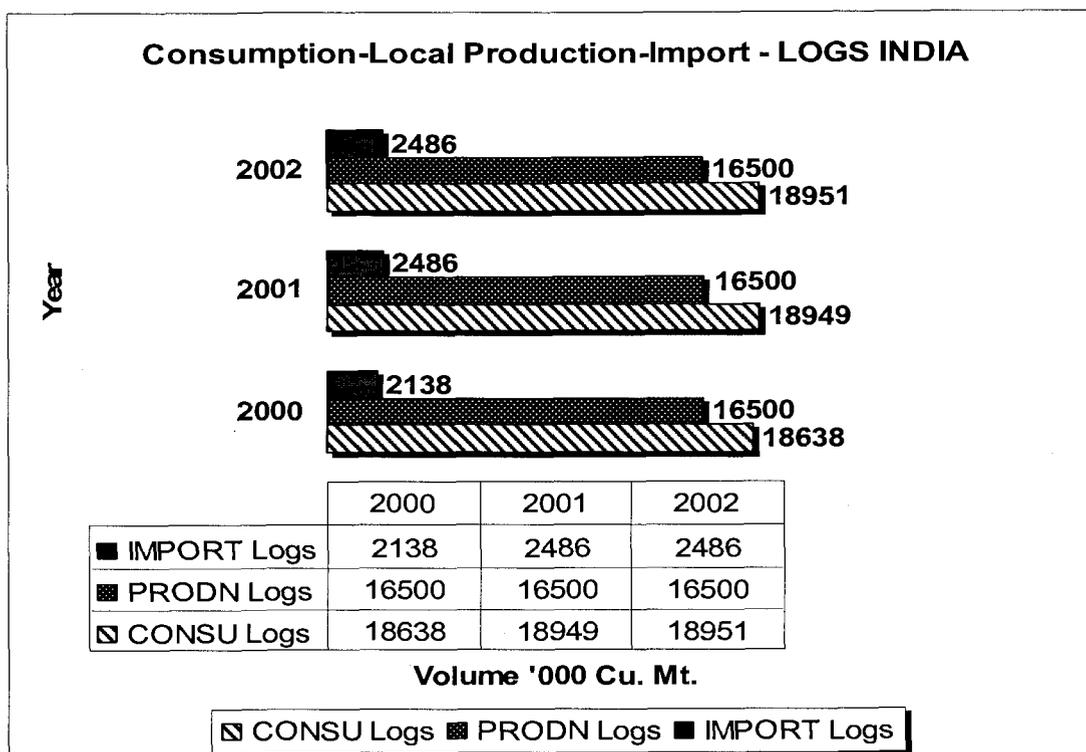


Figure 2-15

2.3.4.2 International Supply

India is one of the largest consumers of wood in South East Asia. According to trade statistics from Export Import Data Bank of Department of Commerce, Government of India, in 2002 - 03, total imports of wood products — excluding pulp, paper and paperboard—to India was valued at approximately US \$412 million or 0.67% of total imports of India but this share risen significantly in the first six months of the

year 2003 -04. From April 2003 to September 2004 India imported wood products (HS 44) – excluding pulp, paper and paperboard – valued US \$363 million or little more than 1% of total imports of India. Logs constituted the majority of imports in wood products in India with sawn wood constituting the just 1% of total logs imports (Export Import Data Bank, 2003).

This large share illustrates the effect of India’s tariff structure, which in effect encourages low-duty imports of logs over reconstituted wood products. Typically, traders import logs, which are then sold to local mills for sawing. The vast majority of logs imported into India consist primarily of teak.

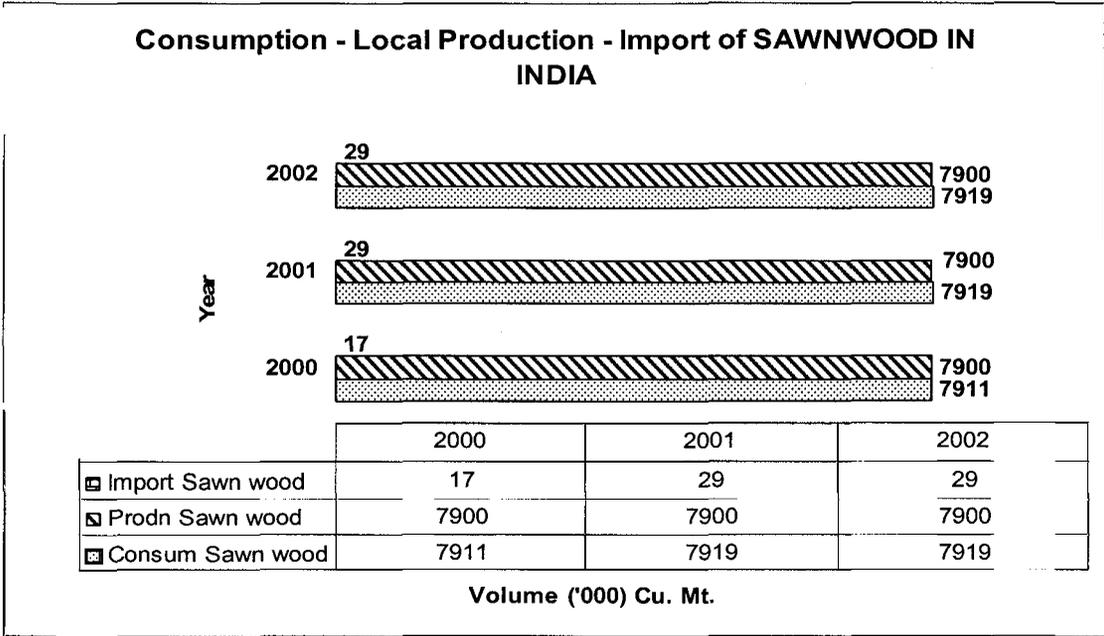


Figure 2-16

Apart from logs, India imports large quantities of sawn hardwood and softwood lumber, particleboard and oriented strand board (OSB), laminated wood, fiberboard and

vener sheets. Imports for these wood products into India have rising significantly and steadily since the opening up of Indian economy in 1990's.

India has a centuries-old tradition of wood use, particularly for interior design and furniture. Based on centuries of tradition, the Indian wood market has a clearly defined preference for hardwoods in which the species of preference is teak. It is estimated that as much as 80% of India's timber consumption is teak, supplied from natural forests in Asia and, increasingly, from plantations in Southeast Asia, Africa and South America. It is against teak that all other timber species are compared. However, during the last few years, teak's pre-eminent position has been eroding—due to the declining quality and escalating prices of teak. There are limited supplies of other species such as sal, shisham, eucalyptus, poplar and deodar. Some private plantations, particularly of rubberwood, also contribute to the domestic supply of lumber.

2.3.5 Position of Canada in India

India recognizes Canada as having knowledge, expertise and technology in forestry, lumber and wood-based products. However, there is still a lack of awareness about Canadian wood species (both hardwoods and softwoods), their properties and applications. Moreover, factors such as high import duties on manufactured primary and secondary wood products, post-duty prices and freight costs, plus the strong historical consumer preference for teak, tend to limit significant increases of Canadian wood products exports to India.

According to Statistics Canada, Canadian exports of wood and wood-based products to India were almost non-existent before 1993 but have grown to reach the \$1-2

million range. However, when compared to other export markets for Canadian wood products, India is still a very small export market. According to Export Import Data Bank, in 2002 Canada share was less than 1% of total Indian wood imports. Canada's total wood exports (HS 44) to India exceeded US \$1.2 million in 2002 – 03. Logs (HS 4403) and sawn wood/lumber (HS 4407) together accounted for roughly 65% of Canada's wood exports to India and totalled \$286, 866 and \$386, 502 respectively in the year 2003. (Industry Canada, 2003)

- In 2001, Canada was the most important exporter of softwood lumber (HS 4407.10) to India. Canadian exports amounted to US \$ 1.12mn in 2002. Spruce, pine and fir represent the most popular Canadian softwood lumber species exported to India. While most softwood shipped to India is in the form of lumber.
- Imports of Canadian high-grade coastal species are mainly used by the Indian millwork industry. Canadian exports of finished wood components such as wood-framed windows, wooden doors and cabinets, and wooden furniture are very low and sales are sporadic.
- Paper and paperboard (HS 48) products represent Canada's second-most important exports to India, in terms of dollar value and market share, with exports totalling just over US \$ 111.76mn in 2003 it the largest supplier. During that same year, India imported approximately US \$58.4mn worth of wood pulp (HS 47), making Canada's second largest supplier of wood pulp to India after USA. (Statistics Canada)
- Malaysia was the largest supplier of wood and wood articles (HS44) to India followed by Myanmar. Canada's share in this product category was very small. (Export Import Databank, 2003)

With a continued shortage of timber in India over the foreseeable future, the expected import of wood and wood-based products from the Canadian marketplace should see continued growth.

3 WOOD MARKET FOR INDIA

3.1 Wood Market Analysis

3.1.1 Market Segmentation by Product

Logs

Since 1995, India has been allowing imports of logs and other wood for use in the domestic market. Earlier, wood imports were allowed against advanced licenses or special import licenses or the re-export of finished wood-products. Today, approximately 90% of India's forest product imports are in log form (ITTO). This is mainly due to the fact that India's tariff structure favours log imports over other manufactured wood products. The prevalence of log imports is also due in part to the make-up of the Indian lumber industry, which is characterized by thousands of small scale mills and low-cost labour.

The market preference in India has traditionally been for hardwoods but this is slowly changing due to the declining quality of traditional teak supplies, and to the increasing prevalence of imported softwoods, such as radiata pine. Moreover, the decreasing availability of teak and other hardwood species at reasonable prices has forced many Indian timber merchants to buy lower-quality teak (with knots) at much higher prices than in the past. This has created a growing dissatisfaction with the quality of hardwood logs, which could lead to a higher demand for new types/species of high-quality woods. Softwood lumber is derived mostly from pine logs imported from New Zealand and some other countries like Russia, Australia etc. Hardwoods are used for the manufacture of high-value end-use products such as decorative panels, furniture,

flooring, door/ window frames, doors, windows and a wide range of decorative applications. Softwoods have tended to be used in low-value applications that, with few exceptions, are not expected to have a long service life. Softwoods are generally used for packaging, crating, pallets, construction form-work, wire and cable drums and, when treated for the creosote, railway ties. With a rise in imports, several softwood species are, however, gaining market shares, replacing hardwoods, particularly for use in temporary building materials (e.g. scaffolding, shuttering) and as joinery in low-cost housing. Good quality softwood is also used in doors, windows, furniture and for other interior decoration purposes.

Sawn Timber

Most of the sawn timber consumed in India is first imported in the form of logs and “squared logs” (cants), which are then sawn into various lumber dimensions before entering the distribution system. Only less than 1% of India’s sawn timber requirement is actually imported in the form of dimensional lumber (Export Import Data Bank 2003) most of this is reportedly high grade hardwood species intended for the furniture industry. The main reason behind this is the tariff duty of 25% on import of sawn timber in India.

Construction Wood

The economic progress of India has led to the boom in Indian construction industry. More number of people is demanding better housing, especially in and around metro cities like Delhi, Bombay, Bangalore etc. Most houses and buildings are constructed with brick walls covered by a thin coat of concrete, which is covered with lime plaster on the interior and exterior. The share of timber in the construction of

residential buildings in India is very low compared to European and/or North American standards.

Most of the wood consumed in residential construction is used for doors, window frames, wall panels, mouldings, interior finishes and furniture. These end uses are suited to mainly appearance-grade, high-value but low-volume wood. Domestic manufacturing is highly fragmented and disorganized, with much of the production of doors, windows and interior finishing products still done by individual carpenters/craftsmen on building sites.

The manufacture of most interior, finished wood products is also on a custom, non-standard basis. The lack of standard sizing in the door and window industry is still a major impediment to the expansion of lower-cost, standard-size, volume-oriented production plants. This problem is expected to improve as more products are coming to the market directly from factory production lines as compared to the traditional, on-site handcrafted process.

With the local shortage of timber in India, and the increase in activity within the Indian construction industry, the import market for timber and finished or semi-finished wood-based building products is increasing.

Prefabricated/Wood-Frame Housing

Currently there are no imports of prefabricated wood-frame houses into India. Despite the country's huge shortage of housing, according to most industry analysts, it is also unlikely that India will adopt wood-frame construction, even using treated wood products.

A principal difficulty facing foreign competitors entering the market is public resistance toward incorporating newer methods of housing construction. Indians are tried and true believers in using brick and cement materials to deal with local concerns of earthquake and humidity damage. Wood-frame construction would, therefore, require considerable marketing efforts to sell in India. Local concerns over the durability of wood construction vis-à-vis earthquake and termite/insect damage must be addressed by a prospective exporter. Also, Indian consumer perceive wood frame construction to be unsafe as it is highly fire prone and not strong enough to be secured from thieves and robberies. The durability issue as it relates to termites is also one that has long plagued the entry of coniferous wood into the Indian market. For that reason, timber-frame construction has not been well established in India. The use of timber for structural purposes in the construction industry is still in its developmental stages, so there is the need to educate the public and key decision makers in India—such as architects, interior designers and merchants. Also, there is lack of technology and know-how for the wood frame construction thus introduction of wood frame housing to Indian market will require large level technology transfer in the form of training programs and workshops.

Furniture and Components

Furniture imports have surged significantly in recent years and it is estimated that India currently imports \$25 million of furniture annually, which is about 3-4% of the total furniture industry (CSILmilano 2003). The trend for imported furniture is witnessed in the large number of retail imported furniture stores opening in major Indian towns in the past few years.

The size of the wooden furniture market in India is estimated at over CAD1.9 billion per year at the retail level, and is growing at about 15% per annum. In its Forecast Report on the Furniture Sector in the Year 2000, furniture market research institute CSILmilano classified India as the 14th largest furniture market in the world.

About 65% of all furniture manufactured in India is of wooden products and about 30% of this segment is said to be of high quality. Teak accounts for almost 50% of the wood used for the manufacture of furniture, while sal, deodar and mahogany account for about 20%, and white cedar, silver oak and pinewood account for the remaining 30% (CSILmilano 2003).

The biggest segment in the furniture market is the household sector, which accounts for about 70% of the overall market where the emphasis is on on-site fabricated furniture using local carpenters or people buy from small furniture retailers who manufacture furniture using the local carpenters. The rest of the furniture sector supplies consist of to the institutional / offices (15%) and hotel (15%) sectors (CSILmilano 2003).

Growth in the furniture market should be boosted by the increasing purchasing power of India's middle-class population and the forecast growth in the residential construction sector. Also, the growing Indian economy will attract more number of visitors and tourists from other countries thus increasing the demand of new large hotels in India.

India's furniture industry as a whole employs around 300,000 workers (CSILmilano 2003). Unlike in several other Asian countries, there are no large integrated furniture manufacturers in India. The furniture industry is classified as a "small scale" industry by the Government of India. The small-scale industry policy is intended to

prevent economies of scale and protect traditionally small, village level industries. As a result, there are thousands of small furniture manufacturers (craftsmen or individual carpenters) scattered throughout India but most are located near urban centres. Much of the work is done by hand and contract work is common, either on a custom basis for individual buyers or for the limited number of retail stores. Branded furniture is still in its infancy and volumes are negligible. In the absence of mass production and standardization, ready-to-assemble furniture concepts have not taken off in India. (CSILmilano, 2003)

Pulp, Paper and Paperboard

India is one of the largest pulp and paper industry countries in the world. It ranks 14th in paper consumption, 13th in pulp production and 19th in paper production. Pulp, waste paper and newsprint account for the largest share of forest product imports into India.

Despite a demand that is growing at an average rate of 7% per year, India's per-capita consumption level of paper and paperboard is currently only at 4 kg, which is very low compared to other developing countries like China (17.2 kg) and Brazil (28 kg), or against the world average of 54 kg. With India's improving state of economic development, the country's per-capita consumption of paper and paperboard is considered to have considerable growth potential (Market Research Centre, 2002).

Based on future projections, and given the present status of captive plantation schemes, Indian per-capita consumption of paper should continue to grow at a rate of 6-7% per annum over the next five years. Further forecasts indicate that the demand for paper in India is projected to reach 6.9 million tones by 2010 (Market Research Centre,

2002). This estimated demand inevitably creates great opportunities for pulp and paper suppliers, as well as companies within the related process technology industry. Domestic Indian manufacturers of paper and paperboard are being increasingly threatened by cheaper imports, which rose to 300, 000 tons in 1997-98 (from 102,000 tons in 1996-97) due to the reduction in tariffs. Demand for paper, paperboard and paper products are mainly for writing, packaging, newspapers and magazines. Export of paper from India is almost negligible.

3.1.2 Market Opportunities

Given the decline in domestic production of industrial timber and the growing demand for wood products, India would appear to represent an enormous potential market for Canadian forest product exporters.

While most of the increase in wood product imports have been in log form, imports of manufactured and finished wood-based products into India have rising significantly and steadily since the mid-1990s. This positive growth trend for imported semi processed/ processed wood products are expected to continue for the foreseeable future.

In the short term, the most immediate opportunities for Canadian companies exist in supplying:

- Hardwood and softwood lumber for the Indian furniture and millwork industry;
- Specialty/value added hardwood and softwood products for high-end interior applications;

- Home and office furniture and components, including pre-cut wood components of various sizes for the manufacture of furniture and kitchen cabinets;
- Wood flooring;
- High-value, appearance-grade softwood lumber (such as douglas fir, hemlock, balsam and spruce) as a substitute for high-priced, appearance-grade hardwoods used in the millwork, joinery, door/windows, furniture and specialty markets;

Strong opportunities also exist to supply rough, kiln-dried, appearance-grade lumber for the manufacturing of products that will be re-exported from India to other Asian and Middle Eastern countries. There is support from the Indian government for this type of value-added industry to increase export sales and create employment in India. Several wood product manufacturing companies have reportedly been created during the past two or three years for this purpose.

Until there is a greater acceptance of composite wood products in India's furniture industry and as a substitute for solid wood, there will be little prospect for exports of particleboard and/or Medium Density Fibreboard (MDF). Eventually, however, there could be a small market for borate-treated OSB, if the product can be delivered at a competitive price.

In the medium to long term, it is expected that there will increasing opportunities to supply products such as structural lumber, engineered wood products such as gluelam construction beams, high-value packaging materials, and finished wood products such as doors, windows, mouldings and flooring.

Canada can offer wood products with higher levels of finished quality than those currently achieved by Indian industry. While some industry experts suggest that Canadian

exporters could also compete for a share of the low-grade lumber market, it is unlikely that Canadians could deliver a utility-grade product to India that could compete with radiata pine logs processed in an Indian sawmill. Similarly, while there is a strong demand for quality veneers, the high price of imported veneers (as compared to the domestically manufactured veneers) is a major impediment to their market growth.

While India offers interesting prospects, existing market acceptance barriers like the current high tariffs on various processed/manufactured wood products, the traditional preference for hardwoods over softwoods and the traditional use of softwood lumber and panels for low-value applications that, with a few exceptions, do not require long-lasting use.

Moreover, the combination of low raw material cost, inexpensive labour and high fibre recovery factors may make it very difficult for Canadian softwood producers to compete in most market segments—particularly given the high import tariffs in effect on lumber compared to logs. The Indian market for processed wood products also has a well-defined price ceiling for all processed wood products being sold on the market. This price ceiling is reportedly very low. The only exception appears to be the highest valued hardwood products that find a ready market (at almost any price) for interior uses among the very wealthy sector of the population.

Treated Wood

Awareness of the need to treat wood products, especially coniferous species, to prevent termite attack is growing. However, the limited current local treating capacity and the resistance from buyers to pay the resulting price premium for the treated product is limiting the use of treated wood in India. In addition, there is a very limited

understanding of acceptable treatment application methods at this time in India. The exporter to India should therefore ensure that this problem is addressed in advance either by chemical treatment or by ensuring that the customer takes the necessary precautions before installing the products in Indian conditions. For example, in the case of doors, in India, the wooden door frame is generally treated for borer and termite protection and thus the door itself may not need treatment. For wood floors, Indian conditions dictate the use of chemically treated plywood to be laid under the wood flooring to prevent borer and termite damage. The importance of this concern in the Indian consumer's mind should not be underestimated.

Wood-Based Building Products

With the growing demand for better-quality products from Indian consumers, architects and interior designers, there is a small but growing market for high-end interior finishing products within India's construction sector. Apart from the housing sector, opportunities exist to supply high-end interior wood products to India's hospitality industry.

The rise in the remodelling sector in India is creating greater market opportunities for various wood building products including wood flooring, wall panels and other wood boards, moulding, and interior trimmings. Moreover, given that wealthier Indians are aware of and open to Western lifestyles, there is an opportunity to target the market with high-quality and value-added wood products (i.e. kitchen cabinets, furniture, doors and windows.)

Until recently, imported wooden flooring was not common in India. No statistical data exists on the current size of the hardwood flooring market in India; the modest amount of wood flooring used goes mostly into upper-class residences and in high-end commercial buildings. Few local flooring product manufacturers have begun to show an interest in this segment.

Within the housing market, prefabricated wood doors and windows are becoming popular in Indian cities but many Indian companies still lack the capability to manufacture high-quality finished wood products.

The scale of ongoing and planned construction works in India's construction sector offers many and wide-ranging opportunities. The current housing deficit is reported to be over 20 million units (13.2 rural and 7.2 million urban)(Market Research Centre, 2002). Many building projects in the area of hotels/tourism establishments are also in the preparation stage and more are planned for the next few years.

Also, India's major cities are increasingly developing westernized housing accommodation for foreigners working in India in the high-technology/communication industries and for the upper middle class Indian population. These companies are demanding more extensive use of wood in the interiors of their corporate offices. These developments present an opportunity to promote the specification of high valued softwoods.

Furniture

There is a huge market for selected imported home and office furniture in India. In recent years this segment witnessed a high growth rate in imports. While a large majority of the imported furniture currently sold in India originates in the Far East

(Malaysia, in particular) and is made of medium density fibre (MDF) boards and particle boards, some high end furniture from Italy, Germany and the United States is being imported as well. It is perceived, by the industry experts, that the Indian market will, in the coming years move away from low value furniture produced in the Far East to those from Europe and North America, which are considered to be offering more durable hardwood and treated softwood furniture with a better “value for money” proposition.

Also, in the long run there is opportunity to supply furniture components and furniture grade lumber. At the present time however, there is marketing and distribution constraint in exporting directly to furniture manufacturers in India since the industry is highly disorganized and composed overwhelmingly of small artisans whose consumption of wood is limited, as is their ability to purchase imported wood. This is however changing as the few large furniture manufacturers have begun importing furniture components and furniture grade lumber.

3.2 Competitive Environment

3.2.1 Local Market Dynamics

The Indian sawmill industry consists of thousands of small, unsophisticated mills located near the ports of entry for log arrivals. Most of these local mills operate with antiquated machinery and a relatively untrained pool of labour. As a result, the output is generally small and of low quality. North-eastern India contains the bulk of the forest resources and produces the vast majority (more than 50%) of the country’s plywood. Commercially, the most important wood products manufactured in India include plywood, veneer and sawn timber sleepers, which account for major portion of national

consumption of industrial round woods. The value addition beyond the plywood or sawn stage is highly indeterminate, given the absence of a licensed, large-scale furniture industry and the complete dominance of informal workers in woodworking and carpentry works.

India's plywood and panel industry is somewhat better organized than the sawmill sector, although it, too, is dominated by a large number of "backyard" operations that produce small volumes of low-cost plywood. There are, however, a few large- and medium-sized plywood producers still operating after the 1996 harvesting ban.

There are a number of plywood producers that import raw materials duty free, combine them with local wood products and re-export finished products. Most are located in the north-eastern states and the Andaman and Nicobar Islands.

3.2.2 International Competition

Competition is becoming intense within the sector, with many foreign companies exporting the wood based products to Indian market. According to Department of Commerce, Government of India, Malaysia was the largest supplier of hardwood to India followed by Myanmar and Nigeria. New Zealand leads the softwood supply closely followed by Belgium and Italy. Canada ranked 28th overall in wood products supply and 10th among the softwood suppliers (Export Import Databank, 2003).

India buys Asian hardwoods from Malaysia and Indonesia that are affordable; it looks mainly to equatorial Africa (Ivory Coast, Ghana and Nigeria) and the United States for selected species of hardwoods.

Although there is a small local production, MDF is mainly imported from Europe. Veneered panels are becoming popular in India and are imported from the European Union (mostly from Germany and Italy) and the United States. Teak logs are mainly sourced from Burma, Malaysia, Thailand and Africa. In the last few years, imports of radiata pine in log form from New Zealand and Australia have also become very common. Industry observers have estimated that imports of New Zealand pine into India are projected to reach the 1 million cubic meter mark in 2007. This species is well-accepted in Northern India, particularly in the Delhi belt and in the Maharashtra region of the State of Gujarat. Most radiata logs are currently used primarily for lower-quality and low-priced end uses like pallets, packaging, crating and construction form-work. A small quantity of radiata lumber is also used to manufacture inexpensive doors and windows intended for low cost housing units.

3.3 Distribution Channel

3.3.1 Market Logistics

Success in supplying the Indian wood products sector requires a long-term effort and strong commitment to establish a name for one's company and product(s), and to develop the necessary relationships with prime Indian buyers. An effective way to establish this reputation and relationships is to attend sector-specific trade shows in India and to participate in trade missions to the region.

Aside from some high tariffs on sawn wood or value added wood product, establishing viable distribution channels for Canadian wood products is the main challenge to entering the Indian market. Although there are clear opportunities to market Canadian wood to the

Indian market, existing distribution channels are very fragmented or underdeveloped, posing a major hurdle for introducing value-added products. India does not have a nationwide distribution system for most wood or building products; in most cases, the markets are regional.

Major timber handling ports in India are Kandla, Calcutta, Mangalore, Cochin and Tuticorin. Visakhapatnam, Chennai and Mumbai are other centres for log import and trading. From these ports the logs are delivered to a wide range of customers for processing into lumber, plywood and other wood products. The ports of Kandla and Tuticorin are likely to become India's major log handling ports because they have the advantage of long-term storage space. Imported logs arriving in India are transported by road to different parts of the country.

Direct Sales

Due to import restrictions, high tariff barriers, freight costs and price sensitiveness of India market, direct imports are not a viable long-term market-entry strategy for most product categories. The recommended entry strategy is a joint-venture manufacturing agreement, manufacturing under license, technology transfer or other strategic alliance.

Direct sales of certain products requiring limited after-sales service are possible, but most foreign firms operate through collaborative relationships with agents, distributors, manufacturers and partners in India.

Distributors and Wholesalers

There are a number of distributors in India, primarily in New Delhi, Chennai and Mumbai. These distributors vary in size, jurisdiction and product distribution. Canadian companies are advised to work at setting up distribution networks through the few Indian

companies that have retail outlets for wood products. These distributors can be used initially for entering the Indian market. These companies can act as the agents of the Canadian companies in Indian market.

Agents and Sales Representatives

Indian agents and representatives are a vital link in the chain of complex selling processes in India. The Indian marketplace is large and varied, and most Canadian companies find the use of an agent of critical importance to guide them through the maze of often opaque regulations and red tape. Agents and sales representatives are more familiar with the Indian business environment and usually have a well-established network of contacts.

Indian buyers, especially in the public sector, take a long time to formulate their buying plans, while tenders are often delayed due to short-listing problems and complicated qualification procedures.

Joint Ventures and Partnerships

Given that the Indian market is one that is very difficult for companies to venture into on their own, it is highly recommended that Canadian companies enter into strategic alliances with reputable Indian companies to enhance their business prospects. The establishment of strategic alliances and joint-venture relationships has much to offer Canadian manufacturers and suppliers. Business in India is still primarily culturally driven, and good personal relations that can be established through partnerships are vital for success. The Indian partner can further establish valuable connections with government and local officials. The most important step is to find a good local partner who is well-connected in the industry.

There are excellent opportunities to enter into joint ventures with Indian companies to manufacture various wood products, such as particleboard, fibreboard, MDF, plywood and new design furniture, with imported Canadian lumber. Joint ventures with Indian companies are generally formed under the Indian Companies Act, which encourages foreign collaborations to facilitate capital investment, the import of capital goods and technology transfer.

Cultivating partnerships with Canadian firms already established in India can also facilitate access to the Indian market. Companies new to the region can benefit from the resources, knowledge, connections and credibility developed by experienced Canadian exporters.

3.3.2 Import Regulations

Indian authorities use the Harmonized System (HS codes) to classify tariff items. Goods imported to India are controlled by the Import Trade Control Organization, a branch of the Indian Ministry of Commerce. The Government of India's Directorate of Customs and Excise administers and issues all rates of import duties for building products and equipment.

Regarding import duties and tariffs, there are no evident non-tariff trade barriers currently limiting the import of wood products into India. Consequently, nearly all of the wood products are defined as "free", meaning that there are no import permit requirements and these products can be freely imported upon payment of the appropriate tariffs.

However, unlike several other countries, India has a complex tariff system made up of several duty components. Import tariffs follow a cascading structure, with duties increasing at every stage of value addition in processing. This structure reveals India's strategy to continue protecting domestic processors at every stage—saw mills, veneer mills, furniture and wooden article production, paper mills and converted paper articles—and confine imports to essential, scarce raw material.

India still applies high tariffs by international standards, despite the fact that the peak tariff rates have fallen from 355% in 1991 to 30% in 2002. However, countervailing duties and special additional duties are levied in many cases, over and above the basic duties. As well, exporters should be aware that goods shipped to some cities such as Mumbai will attract Octroi Duties (generally ranging from 2% to 8%) over and above customs duties. Finally, customs clearing and forwarding charges also exist for the importer and these may be in the range of 1% to 4%.

India imposes a 5% import duty on all logs and cants. Import duty rates for all other timber products range from 25% for sawn timber to in excess of 30% for sliced veneers and other value-added products. The retention of high duties on processed wood products is reportedly an effort by the government, through pressure applied by timber processors and wood product manufacturers, to protect the numerous small and medium-sized wood processors that are located in key areas of the country.

India will allow duty-free imports of lumber and manufactured products if the imported wood is re-exported in the form of an added-value, finished product. Import of wooden furniture (and parts thereof) is permitted under the Open General License (without an import license). Import tariffs on wood products vary product groups).

3.3.3 Private-Sector Customers

Timber Merchants

Most Indian wood imports, particularly logs, are controlled by a small group of timber merchants (who deal primarily in teak logs from Burma and Africa and radiata pine logs from New Zealand). Architects and interior designers, who specify building materials for large and small projects, source wood from these timber merchants. Timber merchants also square imported or domestic logs into ten-foot sections and sell these to carpenters and other consumers. Timber merchants are the main “decision makers” of what type of wood comes into the Indian market. In most cases, they are both unfamiliar with Canadian wood species and are reluctant to deviate from their traditional teak and hardwood business. However, with the right marketing and exposure, over time, it is believed that some timber merchants will be more willing to consider importing Canadian wood, particularly as they see an increase in interest from their customers.

Indian buyers can not generally pay the premium prices that are offered by importers but have the capacity to purchase large quantities of lower-grade products. However, in many applications such as high-quality furniture and flooring, there continues to be a consumer preference for either high-quality solid hardwood or appearance-grade timbers that can be supplied by hardwood saw logs.

Architects and Interior Designers

Potential buyers of wood and wood-based building products include Indian architects and interior designers engaged in the design of commercial buildings, upper-end hotels, residential buildings, embassies and government buildings. In addition to providing the concept and design, most of these architects and interior designers also take

the responsibility for material procurement and overall project execution. In this respect, they purchase wood from timber merchants and in turn sell it to the project owners by way of hiring carpenters and craftsmen to create and install the finished goods.

These customers are increasingly sourcing different types of wood, as the traditional supply and quality of teak and other hardwoods is declining. Some of the internationally travelled architects who work on large projects estimate that the use of wood for interiors in India is much higher than in Europe.

Geographically, some of the key areas for to consider in India are:

- Northern India, particularly Punjab, Haryana and New Delhi, which has a “house culture” that uses wood extensively;
- Mumbai which has a large business community and high-density residential areas;
- South India, Bangalore and Chennai, where consumers are willing to pay for quality.

3.3.4 Public-Sector Customers

Government Organizations

The central government in India remains the one of the most important consumer of construction materials in India, having the primary role of social planning and development and being the sponsor of all public works and projects. The major government department involved with the construction industry is the Ministry of Urban Development, along with its subsidiary development bodies including the Housing and Urban Development Corporation (HUDCO), National Building Organization, the Ministry of Works and Housing, and the Central Public Works Department (CPWD). But

selling to government bodies is a very complicated and cumbersome process and is not advisable for Canadian companies in the initial stages of their business with India.

4 WOOD MARKET FOR CHINA

4.1 Wood Market Analysis

4.1.1 Market Segmentation by Product

Canadian manufactures are currently targeting the Chinese customers in different sectors including furniture, construction, millwork (doors & windows), interior decoration (floor, moulding) and other wooden frame materials. Since Canadian wood exports to China are mainly softwood, Canadian manufacturers are trying to North American wood-frame house construction system, which is also the goal of the Canadian forest industry and local and federal governments. (Export Development Canada, 2003)

4.1.2 Market Opportunities

Governments of both countries are actively working with local businesses to promote the program, which is usually facilitated by experienced Chinese Canadians. The Council of Forest Industries (COFI), as well as other industry associations, has organized market development program in support of the introduction of this construction system.

The main reasons why China is viewed by Canadian manufacturers as market with great potential include the following analysis:

- China's large population, developing economy, major re-building programs and limited domestic supply of wood fibre create the potential for a large volumes market for coastal wood products. E.g. Increasing demand of Chinese furniture industry, Strict regulation to protect forest (logging ban)

- Due to the rise in wood product exports, and the surging domestic demand, China has become the world's leading market for logs and hardwood lumber.
- China imports of softwood logs skyrockets from \$50 million in 1997 to 1 billion in 2002. Softwood logs from Russia accounts for over 85% of China's import in 2002. (Hina Timber, 2004) Since Canada also manufacture softwood log and timber, so Canadian manufacturers are prepared to compete with Russia suppliers and other international suppliers for this market.
- China's low cost labour makes it a natural market to import lumber products for re-manufacture and re-export
- China has a long history of importing coastal wood products with the result there is a certain market preference for the coastal species
- Recent experience indicates that China has already developed to the stage where it is importing the full range of lumber products including the high quality appearance grades.

Beyond this usage, there are opportunities for other softwood species:

- Hemlock shop lumber for furniture
- Cedar & treated SPF for decking
- Douglas fir, hemlock & SPF door and window stock
- Pine & Hemlock railway ties and packaging grades
- Hemlock and SPF lumber for construction applications (concrete forming and scaffolding)
- Hemlock slicing flitches and veneers for high-end architectural millwork
- Spruce musical instrument lumber and blanks

Implications of China's Accession to the WTO also bring the opportunities for importing wood products.

- Tariffs for light-weight coated paper will drop on average from 15% to 5% by 2004;
- Non-tariff trade barriers such as quotas and import permits are largely gone;
- The business environment will be further improved and will encourage more international capital inflow; and
- Uncoated kraft paper and paperboard will see a significant drop in tariffs, from an average of 14% in 2001 to an average of 3.5% by 2004

Regarding market opportunities, with the developing of Chinese economy and expansion of middle class base, Chinese people have a continuing preference for solid woods, particularly like western maple, birch, oak, pine wood, for which Canadian companies have the resources to produce top quality products. Canadian manufacturers are capable of making the upper end of the market, as a result, Canada is best represented in China with value added wood products and not commodity lumber and logs. While the segment of this market is relatively small, it is the segment with greatest long term potential.

Admittedly, through the years of promotion by governments from both countries, there is substantial market for Wood-frame housing with great potential. Even in some exclusive areas of the larger Chinese cities entrepreneurs and developers have built high-end wood frame housing using mostly imported material. Current researches have identified the market potential proven by increasing target customers and macro

environment in China. However, since Chinese customs and traditions and coupled with other reasons, it looks that the potential market is far from reaching in the next five years, although the program has already implemented for over five years since 1990s.

4.2 Competitive Environment

4.2.1 Local Market Dynamics

There are two sources of competition in the Chinese market for wood products. The first is from domestic production and the second is from international suppliers.

As discussed in the previous section, China is one of the large wood producing countries in the world and historically China has been self-sufficient in wood. Until 1998, the domestic supply of wood supplied over 90% of China's requirements. Only marginal supply was imported. The major advantages of domestic supply was lower prices due to inexpensive labour costs, low costs for transportation, easy payment terms, and the familiarity of products, distribution systems, and business culture. These advantages made it very difficult for imported wood products to compete especially given the proliferation of both tariff and non-tariff trade barriers.

However, rapid economic growth and the corresponding boom in house construction caused a dramatic increase in the demand of wood at the same time as China's limited forest resources were restricted due to an environmentally necessary logging ban. In addition, years of over cutting, has resulted in few high quality, old growth trees and a corresponding decrease in domestic log quality. Long logs with large

diameters are rarely seen on the market. The increased gap between domestic supply and demand combined with the decreasing quality of the Chinese timber that is available creates an opportunity for foreign suppliers. China now has an increasing shortage of timber and needs to import wood products to meet increased market demand. However the low cost of labour and manufacturing still provides financial incentives to manufacturing wood products in China from imported raw materials.

Since domestic production is just one of the sources of competition for Canadian wood products. Canadian wood suppliers are not predominantly competing with Chinese producers rather they are competing with other foreign suppliers. The increased potential for wood imports into China is the honey that is attracting large numbers of representatives from firms and regions wishing to increase their exports of wood products. . Many of the countries that are trying to increase their wood exports to China have either set up sales agents in China or signed cooperation agreements with China for promotion. Countries such the United States, New Zealand, Australia, Russia, and Sweden all have either their own offices in China or Chinese partners.

Another way to look at the market dynamics is defining by the geographic demand. China can be geographically classified into six large regions, the Northeast, Northwest, North, South, Southeast, Southwest regions. GDP values are still lower in western regions compared to the east. However, the difference in economic growth will gradually be reduced on new economic development strategy promoted by Chinese government recently.

China's forest is primarily distributed in three major regions: the Northwest, the Southwest and the Southern provinces. These regions account for 81% of the total forested area in China and 87% of the commercial area. (Cohen & Lee, 2000) The implication of geographic difference will be discussed later in our distribution channel analysis.

Pulp & Paper

China is one of the fastest-growing export markets for pulp and paper products in the world. China is the world's only developing country that is also a major net timber importer. There are business opportunities through export sales of pulp and paper and wood products, the transfer of technology, and investment. Canada exported to China approximately \$616 million of such products in 2000, an increase of 58% over the previous two years.

On average, paper production in China uses 20% wood fibre and 35-40% recovered paper, with the balance based on non-wood fibres, mainly straw. The processing of straw fibre, however, requires substantial amounts of water – another increasingly scarce commodity in China – and is very damaging to the environment. China's pulp imports have grown about ten-fold since 1992, and Canadian companies have participated in this boom. Like all good things, this windfall will not continue indefinitely and the Canadian forest products industry should prepare for new ways of doing business in China. First and foremost, the industry should consider investment opportunities in China's pulp and paper industry, especially as the process of domestic consolidation picks up pace.

In 2003, China consumed 48 million tons of paper and paperboard, accounting for 16% of the world's total consumption. The China Paper Association predicts that demand will rise to 70 million tons by 2010. There are currently over 3500 factories producing paper and paper products in China, with an overall production capacity of about 43 million tons a year. China is a net importer of paper products, amounting to 17 million tons in 2002. (China Wood, 2003)

Need to mention that the government plays an important role in the supply and demand dynamics. One example is the 200 billion Yuan (C\$33 billion) "National Plan for Building a Complete Industrial Chain between the Forestation and Paper Making Sectors by 2010", which includes a goal of planting five million hectares of fast-growing trees mainly in the southeast, and the establishment of large-scale paper mills close to the reforested areas. (China Daily, 2004) The six-year plan envisages the creation of new production capacity sufficient to churn out 5.5 million tons of wood pulp. Beijing is counting on private investment to fund most of this new capacity, and will encourage the consolidation of the Chinese industry, as well as joint ventures with foreign investors. (China Daily, 2004)

It is no surprise that reforestation is a major part of the new strategy. China has very limited forest that can be used for logging. Following the devastating Yangtze River flood of 1998, China banned logging of its natural forests and launched a nationwide campaign, known as the Natural Forest Protection Program, to return farmland in ecologically delicate areas to woodland or grassland. As a result, the paper industry has been forced to minimize the use of domestic wood pulp, and to turn increasingly to imports lumber and other wood products.

Wood-frame housing

The main construction materials used in China have traditionally been brick and concrete. In the past wood was commonly used for special constructions particularly for the construction of palaces and temples. Wood was a common building material for the elite including the emperor, relatives of royalty and Buddhist monks. Wood was also used in the countryside to construct low cost rural housing. It was particularly common in North Eastern China where logs were used in the construction of residences given the abundance of raw material. In Southern China round wood and bamboo were also used in the construction of housing. Wood-frame housing is still a new development in China, having previously been discouraged due to the shortage of timber resources. Canadian manufacturers are actively promoting the western style of wood-frame house by bringing Canada wood products and expertise in construction into Chinese market. Canadian manufacturers believe that the target market for wood-frame houses is the high quality North American style of housing affordable to high-income families with annual salaries exceeding US\$18,000. (Anonymous, 2004)

While most houses in China do not use wood for structural purposes, wood product construction still account for a significant portion of total wood consumption in China. Currently wood is used in construction in two main ways: first it is used as a building material in construction for concrete forming, windows and doors in urban buildings and beams, rafters, and joists in rural housing; second it is used as interior decoration such as flooring, moulding, and wall panels. Since the market spending is very fragmented and currently little information could be found for the specific usage and consumption by categories, it is difficult to get the reliable information for the actual

usage. However, it is safe to say that as China market become more and more market oriented, Wood consumption in different industry segments has become market driven.

4.2.2 International Competition

The following seven countries currently export softwood lumber to China: Russia, New Zealand, Canada, USA, Brazil, Chile and Finland. There are other competitors coming from log exporters and new comers. Russia timber still makes up the bulk of the softwood lumber imports with New Zealand pine second and Canadian as their foreign supply country. China has only recently become a focus for exports of wood products from Canada; other countries are better established as suppliers in Chinese market. (David Cohen, Lily Lee)

Since it’s difficult to get the statistics of import data for major forest products, here we give China import volume of log and sawn timber in year 2002.

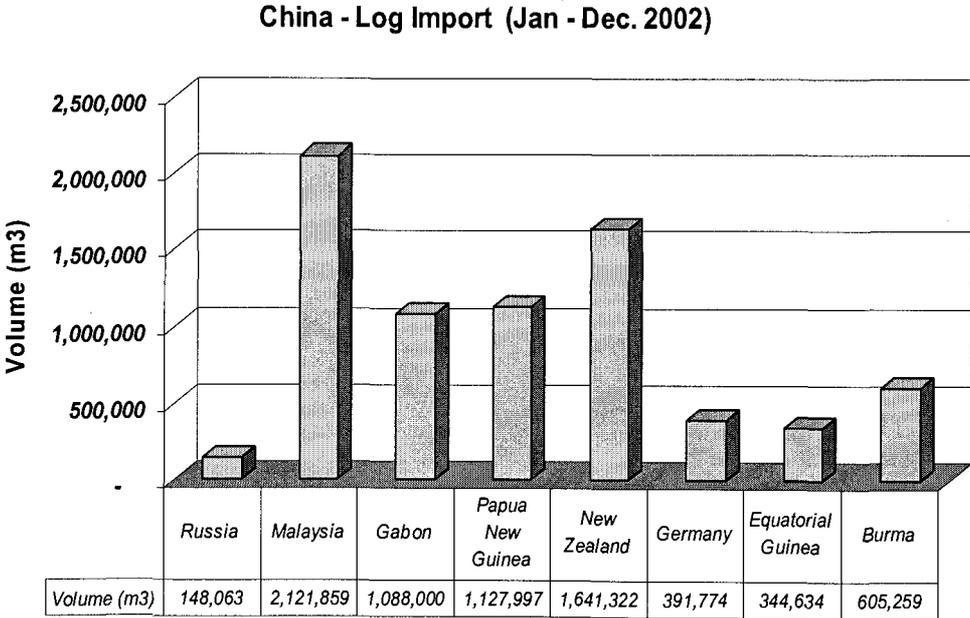


Figure 4-1

China Sawn Timber Import (Jan. - Dec.2002)

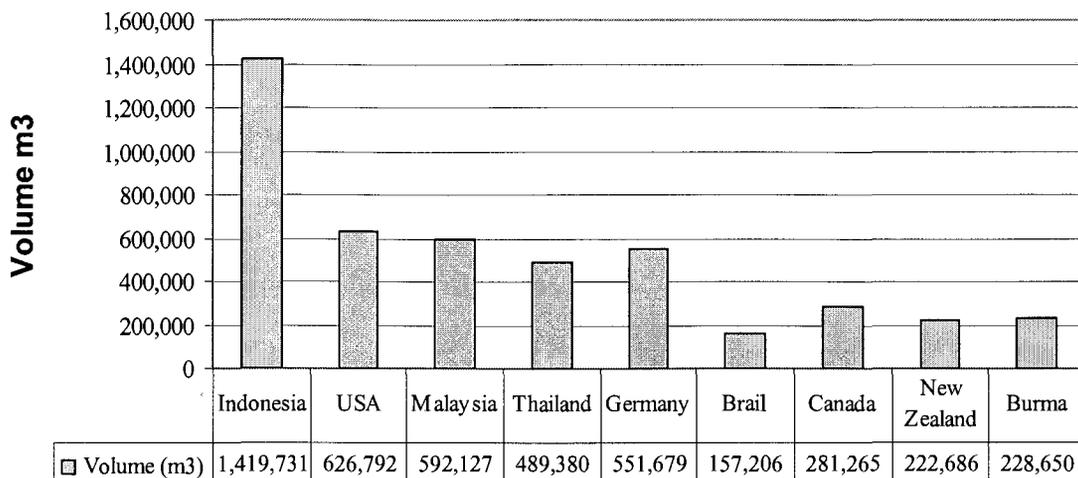


Figure 4-2

Since 1997, trade in softwood and hardwood logs and lumber between Russia and China has exploded, due to the major devaluation of the ruble and new government-imposed restrictions on China's log harvest. The expansion of log and lumber imports through the main Sino-Russian land ports has grown dramatically, moving from approximately one million m³ per year in 1997 to about 10 million m³ in 2002 – and now represents approximately 65% of Chinese log and lumber imports from Russia. (Canada Wood Bureau, figure 4-1). Other international manufacturers are from New Zealand and Indonesian, South America and North Europe. (Robin Lu, 2003, figure 4-2)

4.3 Distribution Channel

Regarding distribution channels, there is no structured system of distribution channels. Each city or region has its own wood market resulting in thousands various sized wood markets in China. However, poor communications contributes to very

localized markets. The variety of distribution chains combined with poor market communications and little accurate market information leads to high levels of frustration for a western exporter trying to understand the distribution system and markets as well.

(Hina Timber, 2004)

The majority of imported wood products are landed in the coastal regions and some large inland cities, such as Beijing. Few wood products are shipped to medium size urban land regions. The main reasons for such distribution are geographic advantage, the location of importers, the standard of living and the location of the demand centres. There are major ports of entry of wood imports, the port of Guangzhou (sea port), that mainly transferring goods from Hong Kong, the port of Shanghai (sea port) and the port of Suifenhe (an inland port), which mainly handling goods from Russia. The majority of imported wood is distributed to other coastal cities by railway and highway network. The transportation among the coastal regions is easy and cost is low due to the existing infrastructure as a result of the recent economic growth. The developed coastal regions can afford higher priced imported wood products and demand is relatively high in these areas.

4.3.1 Analysis of product and marketing mix

Since our analysis is concentrated on export market analysis of Canadian softwood lumber in China, including those products used in infrastructure and construction projects and any size that is demanded in China. Other products for interior usage are in residential and commercial buildings, like hotel or office. These include

products such as doors, windows, flooring, moulding, wall panels, kitchen cabinets, furniture, etc.

Choosing certain areas within China as target market is a very important strategy since Chinese market is so significant and diverse to be treated as a single market. A product-market matrix may help to outline the picture of possible market.

	South & East Coast	Western Interior
Softwood Lumber	I. Moderate Demand	II. Increasing High Demand
Interior Usage Products	III. High Demand	IV. Potential moderate-high Demand

Table 4-1

The key product groups on the product side of the matrix represent the product and the region. The key product groups on the matrix are softwood lumber and Interior usage wood products. The factors on regional side are the markets in south and east coast and the western interior of China. The reasons for selecting these two product categories are two fold. First these two products represent a significant proportion of current Canadian export to China. Second, the manufacturers of these two product categories have shown great interests in exploring the Chinese market. The selection of the two markets is to include the wealthiest region of China as well as the area that has been officially targeted for further economic growth. This indicates these two areas have the best opportunity of increased use of wood products.

Following are some important data for each region:

South & East coastal region

- Most economically developed region with a higher standard living and higher income than the rest of China
- Relies on imported wood products and less impacted by logging ban
- Construction projects focusing on residential housing
- High demand for hardwood for interior decoration
- Higher density of population and living area per capita is relatively small
- More high-rise and medium-rise residential buildings that use less wood in construction but still use wood in interior finish

Western interior region

- Economy is expected to grow fast with the backing of government policies
- Historic reliance on domestic wood supply which is strongly impacted by recent logging ban
- Infrastructure projects focusing on transportation and communication requiring wood for concrete forming
- Possible demand for interior decoration as more new houses built
- Less density of population and housing space per capita will be relatively larger
- More medium-rise and low-rise residential building that could use more wood material in construction

I - Moderate demand of softwood lumber products in coastal regions

Infrastructure projects are still occurring but at a much slower pace than previously. Residential housing is the major focus for construction in these developed coastal regions. Because of the relative high density of population, living space per capita

is smaller than in the interior and high-rise concrete apartments are the most popular home building in the urban areas. These structures usually use a very small amount of wood in construction. However, in rural areas, the wealthier farmers have both the land and the financial resources to use wood material for house building. Lumber will continue to be in demand, but the demand will drop compared to the recent past when the building boom was fuelled by massive government infrastructure projects. For homeowners and buyers, quality is becoming an important issue. Shortages of domestic lumber caused by the logging ban are having little impact in the coastal region due to increased availability of imported wood products. The price has not escalated due to the myriad countries targeting China as an export market for wood products combined with the easing of tariff and non-tariff trade barriers.

II - Increasing high demand of lumber in western interior region

The official policy and strategy for western development strategy promoted by the Chinese government will lead to rapid economic growth in this region in very near future. The growth rate should mirror what has occurred on the Chinese coast during the past 10-15 years. Large amounts of infrastructure projects are already scheduled or started. Demand for wood products will increase to higher than historic levels. The smaller population density of the west compared to the coast indicates a potential for larger house and more low-rise buildings. A higher ratio of wood to other building material used in residential building is anticipated. The logging ban will result in a declining domestic production of softwood lumber on the western market. This creates opportunities for BC lumber exports in western China, a region often overlooked for the more glamorous and competitive southern coastal region.

III - Immediate high demand of interior usage products in coastal region

Housing reform has been pushing the residential construction boom in the south and east coastal regions. Because the houses built in China have little interior finish, the first thing most house buyers do after purchasing a house is to decorate the inside of their new houses with moldings and other interior trim. Wood and wood products, especially those made from hardwood species, is the preferred material for interior decoration. Wood floors molding, wall panels, doors, windows, and kitchen cabinets are in high demand by new house owners in urban areas. Although Chinese customers prefer hardwood species for decorating materials, softwood species can compete in this market on price, service, and quality. Customers in the coastal regions are well informed on many imported hardwood species including Canadian maple, oak, and beech. However, market share for softwood could also increase if customers have an opportunity to learn more about BC softwood species.

IV - Potential increasing demand of interior usage products in western region

The western region is less developed than the coastal region. Based on government strategy, infrastructure will be emphasized with residential construction lagging by several years. Therefore, the demand for wood products for construction will be higher than for interior decoration. This development strategy will most likely follow the pattern of the coastal region. However, the experience obtained from coastal development should allow the west to grow at a faster pace and in a shorter period of time. This could result in the housing boom following infrastructure development in just a few years but with a smaller demand on the coast. Due to a lower population density and the lack of existing infrastructure for single family house construction in the west,

there may be a greater opportunity for promotion of platform frame construction in this region.

The results of the analysis of the Products and Market matrix indicate that the potential market for lumber products will be in the newly developing western interior region. However, the greatest potential for interior usage products will continue to be in the south and east coastal regions. However, the factors of demand and supply do not create profitable export ventures unless the competition is considered.

5 EVALUATION

		INDIA	CHINA
Demand Factors	Market Structure	<ul style="list-style-type: none"> Highly unstructured and complex with absence of any national or regional level organization Lack of flow of information to dealers, suppliers and retailers. 	<ul style="list-style-type: none"> Complex and fragmented moving from controlled to free market structure. Increasing participation by many internet based B2C trading companies.
	Consumer Preference & Main Species of Timber Used	<ul style="list-style-type: none"> Mainly Hardwood - Teak, Sal, Shisham, Mahogany etc. Some quantities of softwood like radiata pine, Chir, Deodar etc. 	<ul style="list-style-type: none"> Mainly Hardwood – Mahogany, Rosewood, Meranti, Teak etc. Large Quantities of softwood - Hemlock, Cedar, fir, SPF, Pine, Spruce, etc.
	Applications of Timber	<ul style="list-style-type: none"> Mill work – Doors, windows, frames Furniture Interior Decoration Veneer for plywood 	<ul style="list-style-type: none"> Mill work – Doors, windows, frames (high quality) Furniture Interior Decoration Veneer for plywood
	Demand Driving Regions	<ul style="list-style-type: none"> Northern India – Delhi, Punjab, Western U.P and Haryana Western India – Bombay, Gujarat Southern parts of India – Bangalore, Hyderabad, Madras. 	<ul style="list-style-type: none"> Eastern China – Shanghai(main port of wood import and export) Southern China – Guangdong Province
	Nature of Market	<ul style="list-style-type: none"> Majority market - Price Sensitive Medium size market – Quality and High End Products 	<ul style="list-style-type: none"> Majority market - Price Sensitive Big Market – Quality and High End Products
	Expected Growth	<ul style="list-style-type: none"> Slow and Steady Growth Huge Potential for future 	<ul style="list-style-type: none"> Fast growth (increasing export of furniture\ wood items) increasing domestic demand in construction and decoration
Supply Factors	Local Production/ Availability	Unchanging – not able to meet the local demand	Annual timber production will decline by 10-15 million cum
	International Supply	<ul style="list-style-type: none"> Increasing dependence on imports to fulfil demand Most imports are of hard wood 	<ul style="list-style-type: none"> Increasing dependence on imports to fulfil demand Most imports are of hard wood
	Canada's Competitive Position	Very small share of Indian wood market (Logs and Lumber)	Canadian softwood lumber ranks 3 rd after Russia and NZ

Table 5-1

Some of the factors that create the gaps between supply and demands are changeable, which means that any possible alteration in one of the factors could reduce or exacerbate the gap.

Changes on the supply side:

- Dimension lumber can be changed to specific sizes to meet customers needs
- The higher cost of production can be lowered by reducing the processing steps.

Changes on demand side:

- The log preference is gradually switching to lumber because of a global shortage of good quality logs and the cost-effective of importing lumber than imported logs for both quality consistency and easy transportation
- Increased attention to quality rather than price
- Decreasing domestic production of softwood is because of the logging ban
- Increased use of softwood for interior decoration

All the possible changes could provide opportunities for Canada forest products industry to increase its market share in the China and India market.

6 RECOMMENDATIONS

6.1 India

The export of Canadian wood to India is very small as compared to other countries. Also, in India the Canadian softwood is facing stiff competition from low priced softwood from other countries like Russia, New Zealand and Australia. Although, in India there is preference for hardwood like teak, sal etc. but the softwoods also commanded the big market share till 15 -20 years ago. In the late 1970's the Indian reserves of softwood in the northern and north eastern states depleted and softwood supplies started to dwindle but the hardwood supplies continued from the Indian forests. This resulted in the softwood losing its market share to hardwood. Also, during that period the import of wood into India was almost negligible due to the closed economic policy of Indian government. Even, when the import of wood into India was liberalized, the trend of preference for hardwood continued in the Indian market. But recently, due depleting supplies and high prices of quality hardwood there is a tremendous potential for good quality Canadian softwood to get substantial market share in Indian market.

India is a complex, decentralized market, requiring patience and commitment to be successful. Indeed, it is a market that ultimately can be very profitable. While India is an extremely large and growing market, the uncertain nature of the local commercial environment also requires companies to approach the market with caution. Personal visits to the marketplace and participation in wood and wood products trade fairs and exhibitions are highly recommended.

For firms seeking longer-term prospects in the Indian market and especially for those hoping to sell to public-sector entities, a manufacturing presence in India can be very important. This can range from an import-and-assemble arrangement with an Indian manufacturer to licensing agreements and joint ventures with well-established local partners.

Newcomers to India need to be aware that, although attempts are being made to stamp out corruption, it remains pervasive. Government scandals frequently centre on contracts being awarded to close colleagues and friends involved in the supply chain.

We recommend that Canadian forest product manufacturers, intending to enter Indian market, take into consideration the following points:

The Canadian manufacturers should initially try to enter the Indian market through the export channel and may also try to appoint exclusive agents in different Indian markets like Delhi and Bombay.

India is a very price sensitive market and initially to compete with lumber companies from other countries and to enter Indian markets, the Canadian manufacturers should try to position their products competitively with other products.

Indian wood industry uses out dated and inefficient technology for the processing of wood and lumber. The Canadian forest products manufacturers have the opportunity to enter the Indian market and lead the Indian timber industry to modernize. At present, no foreign company has any substantial presence in Indian market, thus any Canadian company entering the Indian market will definitely have the first movers advantage.

The company entering the Indian market should have the patience and long term mind set. Initially, things might take time to move and having an Indian partner will definitely help in establishing the company's presence in India.

The Canadian industry with the government help from both countries should try to educate and tell Indian wood importers/ distributors about the quality and other advantages of Canadian wood / lumber products.

6.2 China

As China moved into the further steps of economic development, represented by “facing west strategy” and promoting forest protection policies (e.g, logging ban), the gap between increased demand and decreased supply of wood products will become more challenging. Furthermore, this significant market potential will be focused by international players who are competing intensively in this market. However, the opportunities for Canadian wood products do exist.

The size and diversity of China require market segmentation and targeting. Especially in this price-sensitive market, selecting the right product to the right region is crucial to compete in this developing market. This will further bring challenges for cost reduction of Canadian wood products.

Lumber products should focus on emerging western inland region. Chinese government puts the development of the western interior region as its long term strategic planning target and offers preferential policies to attract foreign investment. With the huge potential of this area, there will be more and more large infrastructure projects. The

area is currently relying on domestic sawmills which have shortage in the near future due to the forest logging ban, so there's great potential to provide alternative material.

Brand Canada's wood products through an enhanced and coordinated industry presence, market development and promotional activities in Chinese market. Improve market access by offering technical support on issues such as building and fire codes, training and product testing against foreign standards, as well as by providing input into product standards in offshore markets.

There are other recommendations as below,

1. Building customer relationship and focus on key loyal distributors. Set up own distributor if possible
2. Provide value added service by building supplier-manufacturer-designer-constructor model
3. Long term strategy and be patient
4. Government promotes and collaborates with provincial governments and draws on the expertise of federal departments to maximize efficiency and avoid any duplication of effort.

7 APPENDICES

7.1 Canada Exports of goods on a balance-of-payments basis

	2000	2001	2002	2003
	\$ millions			
Exports	430,033.1	421,518.8	414,305.1	401,187.9
Agricultural and fishing products	27,673.5	31,130.4	30,917.0	29,320.6
Wheat	3,608.9	3,807.2	3,037.3	2,828.6
Other agricultural and fishing products	24,064.6	27,323.2	27,879.7	26,492.0
Energy products	53,157.8	55,748.6	49,542.0	61,271.1
Crude petroleum	19,165.9	15,370.2	18,795.3	20,694.9
Natural gas	20,536.8	25,595.1	18,359.4	26,582.2
Other energy products	13,455.1	14,783.3	12,387.3	13,994.0
Forestry products	42,755.3	40,196.4	37,197.9	34,502.7
Lumber and sawmill products	18,913.7	18,035.0	17,761.1	16,473.3
Wood pulp and other wood products	8,920.9	6,769.1	6,450.4	6,316.5
Newsprint and other paper and paperboard products	14,920.7	15,392.3	12,986.4	11,712.9
Industrial goods and materials	68,124.2	67,981.9	70,232.5	66,587.7
Metals and metal ores	5,951.6	5,698.6	5,842.9	5,776.1
Chemicals, plastics and fertilizers	23,179.9	23,888.0	24,302.7	23,301.6
Metals and alloys	20,717.1	20,370.3	22,214.3	20,291.1
Other industrial goods and materials	18,275.6	18,025.0	17,872.6	17,218.9
Machinery and equipment	110,280.3	102,947.9	97,303.8	89,238.3
Industrial and agricultural machinery	19,570.9	19,975.4	20,281.0	18,869.4
Aircraft and other transportation equipment	20,926.0	24,883.6	22,784.1	21,151.7
Other machinery and equipment	69,783.4	58,088.9	54,238.7	49,217.2
Automotive products	98,112.5	92,866.3	97,030.3	87,941.4
Passenger autos and chassis	51,502.0	48,529.2	49,815.4	43,557.2
Trucks and other motor vehicles	18,174.1	17,342.9	17,857.1	16,182.0
Motor vehicle parts	28,436.4	26,994.2	29,357.8	28,202.2
Other consumer goods	15,224.0	16,290.8	17,669.1	17,124.6
Special transactions trade	7,980.0	8,119.1	7,939.8	7,261.6
Unallocated adjustments	6,725.5	6,237.2	6,472.9	7,940.2
Data Source: Statistics Canada				

7.2 India Consumption & Production of Main Wood Products

India Consumption (1,000 m³)

Country	Species	2000	2001	2002
Logs	All	18638	18949	18951
	Coniferous	2688	2881	2881
	Non-Coniferous	15949	16068	16070
Sawn wood	All	7911	7919	7919
	Coniferous	1107	1114	1114
	Non-Coniferous	6803	6805	6805
Veneer	All	16	16	16
	Coniferous	0	0	0
	Non-Coniferous	16	16	16
Plywood	All	314	312	312
	Coniferous	10	11	10
	Non-Coniferous	304	301	

Data source: ITTIS, <http://www.ittis.org>

India Production (1,000 m³)

Country	Species	2000	2001	2002
Logs	All	16500	16500	16500
	Coniferous	2500	2500	2500
	Non-Coniferous	14000	14000	14000
Sawn wood	All	7900	7900	7900
	Coniferous	1100	1100	1100
	Non-Coniferous	6800	6800	6800
Veneer	All	15	15	15
	Coniferous	0	0	0
	Non-Coniferous	15	15	15
Plywood	All	310	310	310
	Coniferous	10	10	10
	Non-Coniferous	300	300	300

Data source: ITTIS, <http://www.ittis.org>

7.3 India Import Statistics of Main Wood Products

Country	Species	2000	2001	2002
Logs	All	2138	2486	2486
	Coniferous	188	386	386
	Non-Coniferous	1950	2100	2100
Sawn wood	All	17	29	29
	Coniferous	8	14	14
	Non-Coniferous	9	15	15
Veneer	All	1	1	1
	Coniferous	0	0	0
	Non-Coniferous	1	1	1
Plywood	All	6	5	5
	Coniferous	0	1	1
	Non-Coniferous	6	4	4

Data Source: ITTIS, <http://www.ittis.org>

7.4 CHINA'S MAJOR TRADE PARTNERS 2002

(all figures in million US \$)

COUNTRY	TOTAL	CHANGE	EXPORTS	CHANGE	IMPORTS	CHANGE
Japan	101,905	16.2%	48,437	7.8%	53,468	25.0%
USA	97,181	20.8%	69,951	28.9%	27,320	3.9%
EU	86,755	13.2%	48,212	17.9%	38,543	7.9%
Hong Kong	69,207	23.7%	58,465	25.6%	10,741	14.0%
ASEAN	54,766	31.7%	23,568	28.3%	31,197	34.4%
Taiwan	44,649	38.1%	6,586	31.7%	38,063	39.2%
ROK	44,071	22.8%	15,497	23.8%	28,574	22.2%
Russia	11,927	11.8%	3,521	29.9%	8,407	5.6%
Australia	10,436	16.0%	4,586	28.5%	5,850	7.8%
Canada	7,932	7.6%	4,305	28.7%	3,627	-10.0%

Data Source: chinadaily.com.cn (1-9-2003)

7.5 Canada's Merchandise Exports to China (2002)

Category	Value (CAD mn.)	Percentage of total exports%
Chemicals	847	21
Transportation equipment	761	18
Pulp and paper	715	17
Agriculture and agri-food	267	6
Electrical machinery and electronics	249	6
Machinery	236	6
Fish and seafood	207	5
Mineral products (including oil and gas)	195	5
Base metals and their articles	194	5
Plastics and their articles	135	3
OTHER	320	8
ALL EXPORTS	4126	100

Data Source: China Economic Statistics

7.6 World Market Pulp Outlook by Region

Top Markets	CAD bn 2003	Market Pulp Outlook by Region % share of export (2003)	Export Outlook (% Growth)		
			2003	2004 (f)	2005(f)
US	2.8	41.2	-6.3	13	7
Europe	1.3	19.1	-5.3	12	6
China	0.8	11.8	20.2	37	16
Asian NIEs	0.6	8.8	-1.4	27	14
Japan	0.5	7.4	-8.2	15	9
ASEAN-4	0.3	4.4	4.3	32	23
Total	6.8	100.0	-2.9	18	10

Source: EDC Economics. 2003 actual, 2004 and 2005 are forecast.

Asian Newly Industrialized Economies (NIE) are Hong Kong, Singapore, South Korea and Taiwan. ASEAN-4 are Malaysia, Thailand, Philippines and Indonesia

REFERENCE LIST

- Anonymous Canadian manufacturers (2004), Personal interviews regarding Market Opportunity – Wood Frame Construction
- Asia Pacific Bulletin (2004), Position Canada in China's Paper Chase, Retrieved Feb.27, 2004 from: <http://www.asiapacificbusiness.ca/apbn/pdfs/bulletin147.pdf>
- Canadian Forest Service, 2004, Forest Industry in Canada, Retrieved April 27, 2004 from: <http://www2.nrcan.gc.ca/cfs-scf/industrytrade/english/View.asp?x=11>
- China Daily, 2003. Shi Guangsheng: China strictly implements WTO commitment, Retrieved June 1, 2004 from: http://www.chinadaily.com.cn/en/doc/2003-11/07/content_279312.htm
- China Daily, 2004, China opens up huge market of forestation, paper making, Retrieved June 1, 2004 from: http://english.people.com.cn/200402/17/eng20040217_134973.shtml
- China Economic Statistics Yearbook, 2002 (in Chinese)
- China Wood Export, 2003. 2002 Imports Increased, Retrieved Feb. 04, 2004 from: <http://www.chinawood.org/english/news/newsview.asp?newsid=244>
- China Wood, 2003. 2003 China Wood Export, Retrieved March. 01, 2004 from: <http://www.chinawood.org/english/chukou/3.asp>
- Cohen, David, and Lily Lee, 2000. A China market profile for Wood Products, University of British Columbia
- CSILmilano 2003, The Furniture Industry in India, Retrieved May 25, 2004, <http://www.csilmilano.com/furniture/WdIndia.html>
- Daowei Zhang, Junchang Liu, James Granskog, and Jianbang Gan, 1998, China: Changing Wood Products Markets, Forest Product Journal. Vol 48(6): 14-20
- Earth Trends.(2003). Country Profiles: China. Retrieved June 1, 2004 from: http://earthtrends.wri.org/pdf_library/country_profiles/Pop_cou_156.pdf, http://earthtrends.wri.org/pdf_library/country_profiles/For_cou_156.pdf, http://earthtrends.wri.org/pdf_library/country_profiles/For_cou_124.pdf
- Export Development Canada (2003) B.C. Exports set to rebound in 2004, Retrieved March. 01, 2004 from http://www.edc.ca/docs/news/2003/2003_news_e_1797.htm
- Export Import Data Bank (2003) – Ministry of Commerce and Industry – Government of India. (<http://commerce.nic.in/eidb/default.asp>)
- Forest Industry Suppliers and Logging Association - <http://www.fisla.com/>

- Hina Timber, 2004, Market Information, Retrieved June 1, 2004 from:
<http://www.chinatimber.org/w/doc/wwood.asp>
- Industry Canada, 2003 - Canada's Business and Consumer Site – Trade Data Online,
 Retrieved Feb.27, 2004 from: <http://strategis.is.gc.ca>
- Industry Canada, 2003 - Canada's Business and Consumer Site – Trade Data Online,
 searched for Import Exports and Trade Balances by product, Retrieved May
 20,2004 from:
http://strategis.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=HS6&cacheTime=962115865#tag
- ITTIS, International Tropical Timber Information System (n.d.) Databank. 2003,
 Retrieved May 20, 2004 from [http://www. Ittis.org](http://www.Ittis.org)
- ITTO, International Tropical Timber Organization, Retrieved May 25, 2004 from:
www.itto.or.jp
- Dr. K.R.G. Nair, 2004, *India-Canada Relations: A shining example of unrealized potential*, Centre for Policy Research, New Delhi
- Market Research Centre, 2002, The Wood and Wood-Based Products Market in India,
 Department of Foreign Affairs and International Trade, Government of Canada.
- Photius Coutsoukis, 2003. CIA WORLD FACT BOOK, Retrieved March. 01, 2004 from
http://www.theodora.com/wfb2003/china/china_economy.html
- Robin Lu, 2003. Welcome to China, Retrieved March. 01, 2004 from:
<http://www.forintek.ca/public/pdf/ExploringNewPath2003/Robin%20Lu%20BCWOOD%20AGM%203%20OCT%202003.pdf>
- State of Trade, 2004, Content of Statistical Annex, Department of Foreign Affairs and
 International Trade, Govt. of Canada. <http://www.dfait-aecci.gc.ca/eet/trade/stateoftrade2004-en.asp>
- Statistical Databases of Food and Agriculture Organization of the United Nations,2003,
 Retrieved May 25, 2004 from: <http://faostat.fao.org>
- The State of Canada's Forest, 2003, 13th annual report on the state of Canada's forests,
 Retrieved March. 01, 2004 from <http://www.nrcan-rncan.gc.ca/>
- The State of Canada's forest, 2003, Natural Resources Canada, Retrieved June 01, 2004
 from: http://www.nrcan-rncan.gc.ca/cfs-scf/national/what-quoi/sof/sof03/overview_e.html - Accessed June 1st 2004.
- The United States-China Business Council, 2002. China's Trade Performance, Retrieved
 May, 15, 2004 from <http://www.uschina.org/statistics/chinas-trade-performance.html>
- World IQ Dictionary, 2003, Definition of Gross Domestic Product, Retrieved May 12,
 2004 http://www.wordiq.com/definition/Gross_domestic_product