

## EXECUTIVE SUMMARY

*Forestry has an important role in the general development of the country through the utilization of forest produce. Besides providing a variety of raw materials, it protects two other renewable resources i.e. soil and water and keeps the environmental balance. The prosperity of any country depends on its renewable resource. Forest is recognized as a renewable natural resource. Being the renewable resource, forests have to be managed without endangering the resources and conservation of production potential on sustainable basis.*

*It is well known that the residents of forests get only a small fraction of what ultimate consumer pays for forest commodities. Their 10-30 percent of income is spent on meeting the expenses of interest, transportation, taxes and commissions, storage and warehousing charges etc. The chain of intermediaries in Indian agriculture/forestry market is one of the longest in the world. A major portion of the loss in value of commodities is due to wastages in transportation, storage, handling etc. This inefficient operational system is again borne by the grower. Despite efforts made by the government, timber mandies are marked by inefficiencies, dominance of commission agents etc. Therefore, the focus of growth in rural economy has to shift from production to processing and marketing of agriculture produce. Although, some of the state governments have given permission to agencies to operate as private mandies, problems relating to transparency and fair price discovery persist. Therefore, NCDEX/MCX has taken up an initiative to launch a National Spot Market for a number of commodities. Such a national level platform would help transcend regional and state boundaries and pave the way for participation by concerned entities irrespective of geographical locations. The growers would stand empowered by virtue of the electronic platform which would extend the reach to buyers across the length and breadth of the country.*

*Electronic spot markets can be established for standard and non standard products and can conduct auctions or continuous day trading with trade to trade settlements. Spot exchanges, with the permission of the state governments can function as private mandies and/or provide electronic auction platform to existing mandi participants. Buyer and sellers would participate in the spot exchanges only through authorized members. It is proposed that members in turn may seek license from respective mandi samities of the state or get license through exchanges for handling agricultural produce in the state. Electronic spot exchanges need to be accompanied with sufficient warehousing and assaying facilities as conduct of auction and trading for standard products would require pre-assaying and storage at accredited warehouses*

*The Ministry of Environment and Forests, Government of India has taken initiative to explore the possibilities of Futures and Spot market of Timber and Other Forest Products in the country. The Secretary, MoE&F, took a meeting of concerned Ministries/Organizations of GOI, selected State Forest Departments/Corporations, national level commodity exchanges and market regulators for discussing the feasibility of formation of Futures and Spot Market of forest produce in the country. Subsequently, the National Level Committee was constituted which was required to draw a comprehensive road map for starting exchange based electronic spot trading of the selected timber and non-timber forest products.*

*The Regional Centre of NAEB at Agricultural Finance Corporation Ltd., New Delhi was assigned the task to explore the possibilities of exchange based trading of selected timbers under the Annual Work Plan 2007-08, Research Studies “Marketing Study – map and analyze complete marketing chain of selected forest products (five) for establishment of Exchange based Spot Marketing System”.*

The National Level Committee on exchange based marketing evinced interest to ascertain modalities about Teak and Eucalyptus from Valsad circle in Gujarat and Poplar from Yamunanagar of Haryana. Agro-forestry has emerged as a viable strategy for maintaining social, economical and ecological sustainability. It has been adopted on a large scale in the region, as it supplements returns from agricultural cultivation. Eucalyptus and Poplar are the main species preferred by the farmers due to readily available market, availability of good planting material and evolution of appropriate marketing linkages between producers, contractors, buyers and consumers. The demand for agro-forestry based products is set to increase substantially in view of increasing population and the general rate of economic growth.

This Study is confined to field level data/information from Yamunanagar district of Haryana and Valsad Circle of Gujarat. The selected timbers were Teak, Poplar and Eucalyptus from Valsad (Gujarat) and Yamunanagar (Haryana). The study was taken up with following objectives:

- To study the present methods of sale and purchase of timbers in identified states.
- Study the details of the grading and standardization of timber and also its management in the depots.
- Study and analyze the demand and supply for timber species
- To map and analyze the marketing chain of timbers
- Explore the possibilities of spot/exchange based trading of timbers
- To draw a comprehensive road map for starting exchange based electronic spot trading of the timber.

To comprehensively achieve the objectives defined above, following broad methodology was adopted for the study-

Yamunanagar being the hub of timber trade and industry, farmers, manufacturers and commission agents were contacted and indepth discussion was held with them to understand current status and future prospects.

Similarly, the timber merchants, farmers, commission agents at Valsad and Nadiad were contacted and indepth discussion was held with them to understand the current status and prospects of its exchange based trading of Teak and Eucalyptus .

Data, information and perceptions of Exchange based trading of Timbers were obtained through discussions with:

1. Line Departments: Forests, Agriculture, Industry;
2. Saw mill traders and commission agents
3. Scientists in FRI
4. BIS and commodity Stock Exchange in Delhi/Mumbai

The existing practice of grading of timber at depots are based on the natural defects found in the timber like bend, twist, taper, surface cracks, knots live and dry, heart rot, hollowness, shakes etc. The log, which has the minimum defects, is graded in the superior grade. From the data collected from Dang, it is found that the timber is graded into six grades or quality classes. The Forest Department has considered the defects like hollowness or heart rot, twist, knots cracks and taper and made six grades. The grade I will have minimum defects whereas the grade VI will have maximum defects.

*Before the lots are kept ready for sale, the upset price of each and every lot is prepared. Upset price is the minimum expected price that should be obtained in the sale. If the price obtained is less than the upset price the lot is withdrawn from the sale. The Forest Department as well as the Forest Development Corporation has the past record of the average price per cubic meter for a particular combination of the species, grade, girth and length class. The average of the last three sales and the prevailing market trends are considered for the upset price of the particular combination. Earlier this exercise was done for each auction. However, as the frequency of the sale increased considerably, one set of upset is approved for the sale from April to September and another is prepared for the sale in the period from October to March. The Forest Development Corporation follows the same system. The committee decides the upset prices.*

*The study findings suggest that to promote exchange based marketing of timbers, following are the issues which needs to be considered:*

- 1. The available secondary data on timber and timber products in the country is inadequate, inconsistent and marked with serious time lag for a proper analysis required to monitor and assist the industry. Discussions with timber traders, forest sector staff and experts revealed that a requisite and reliable statistical information and market intelligence system which is essential for building up consumer confidence, efficient trade mechanism and marketing strategies does not exist in the country.*
- 2. Data on different aspects of forest sector are collected and stored by different agencies in India and are not maintained by any particular entity devoted to the subject matter. This caused difficulties in comprehending a complete and consistent picture of the sector and related issues. The Indian Council of the Forestry Research and Education (ICFRE) had commissioned a Directorate of Statistics in 1995 which had been renamed as the Division of Statistics, to collect, collate, process and publish statistics covering all aspects of the forest sector at the national level.*
- 3. Reliability and timely availability of data on related aspects is an important factor not only for the trader, consumer, researcher but also for the policy makers to monitor the situation for taking timely decision*
- 4. There is lack of information on product specific and specific database, hence consideration for an economic information and market intelligence system which would give due attention to the timber market's data requirement. There is also lack of mechanism to ensure flow of information from and to national and local traders in terms of product-specific and species-specific information.*
- 5. The data on consumption, price and also trade data from each and every individual is not possible. In fact such information is collected by the association dealing in the commodity for the benefit of their members. Unfortunately the timber sector, particularly the round timber sector is dis-organized.*
- 6. There are no databases which include forest information chain, from felling, production, consumption and price of various timber products to transport, export, imports, forest related taxes and forest based industries and companies are not available at one place.*
- 7. The discussions with the experts revealed that there should not be any restriction and control on the commodity for inclusion in the future. The bulk supply of wood for domestic consumption is from the private sources. There are strict regulations for felling of trees on the private lands under the Forest Acts, even for the transport of timber transit permits are mandatory.*

*Considering all these factors under the present scenario, there is need for coordination of all the stakeholders including traders, consumers, importers, state and central government and the*

experts in the field of data collection, processing and dissemination. Many policy decisions at the levels of the Central and State Governments are required regarding the issue of the felling of trees in the private area, transit rules, and the tax structure on timber.

Furthermore, it could also be concluded from the study that:

1. Timber can be included as one of the commodities in the trade through commodity exchanges after standardization, grading and certification as per the demand driven market.
2. The Association of Timber Growers, Association of Saw Mill owners is also hesitant to adopt exchange based trading. Hence, it needs to be promoted gradually in addition to the existing practice of sale and purchase.
3. The Teak could be promoted in initial stages as it is being sold on the criteria of length and girth. Whereas, it is not advisable to promote Poplar as it is used on weight basis and it has to be peeled within a week for Ply wood manufacturing. Similarly, Eucalyptus for wood industry is also required for peeling within 3 days of harvesting hence for wood industry it should not be considered whereas for other domestic purposes it could be promoted.

The following are the recommendations need to be incorporated:

1. The existing grading criteria should be blended with the market led demand driven grading. The demand driven grading is as per consumer demand from various sectors viz. Infrastructure, Industries etc.
2. The slippers should be promoted at initial phase as there will be less chance of hollowness in it. As the logs have more chances of defects in comparison to the slippers of timbers. Hence, grading can be done more judiciously facilitating better trade.
3. The grading and standardization should focus broadly on its quality parameters such as with knots/without knots. Initially, there should be broad category of timbers grading. It is also recommended to conduct a detailed study on grading and standardization of timbers for exchange based marketing.
4. Teak vis a vis Eucalyptus from Gujarat should be promoted. The Eucalyptus having short duration crop needs more attention as the clones could be developed which may result into standardized produce.
5. It is recommended that Poplar should not be initially selected for trading as it requires its peeling within 7 days after harvesting. Since, exchange based marketing requires time lag hence, it is not advisable to include poplar.
6. It is advisable to include bamboos in exchange based marketing as the large volume of bamboos are used as centering material and are being traded from Yamunanagar. It is recommended to conduct feasibility study of its inclusion in exchange based marketing separately.
7. Efforts are also needed to organize the presently disorganized round timber sector. Hence, It is recommended that the Government of India should take initiative in establishing National Timber Trade Association; with initial assistance from the government and its branches should be established in all the states. As it is not possible to collect data for demand and consumption from individual trader, such associations can publish bulletins compiling the local data.
8. It is also recommended to categorize the timber depot and establish an accreditation agency which could give the accreditation to the depots. The depot should be promoted as warehouse and issue the depot receipt. The farmers or growers could deposit their

*lots and get the depot receipt which could be promoted as per the warehouse receipt prevalent for agricultural commodities.*

- 9. It is also recommended to conduct a study for identifying the feasibility of developing Management Information System (MIS) for the growers. In the present scenario, the role of information technology could not be ruled out. Hence, by application of software, MIS could be developed for individual growers. This could also result in keeping the track of the growers and his produce.*
- 10. It is also suggested to identify and promote awareness and trust building among all the stakeholders.*

*In the timber auction Mandi of Nadiad in Gujarat, the team had experienced an interesting auctioning process. The farmers and other sellers along with their produce assemble at the auction place at around 4.00 A.M. in the morning, where the buyers, commission agents participate in auctioning process. The cart/trolley loaded with logs bears a display board where the buyers quote their prices to the sellers by writing on the display board. If the seller agrees to the offer price, the lot is sold. Otherwise, the sellers repeat the display board and the process continues till the offer price and sellers expected price match. Once the price match, the lots are sold. This market operates from 4.00 A.M. to 10.00 A.M. in the Mandi of Nadiad.*

*Similarly, the team observed the auction of Poplar and Eucalytus in the Mandi of Yamunanagar in Haryana. But, here the sellers and buyers undertake verbal negotiation of price fixation and once the prices are fixed, the lots are sold. It is worth here to mention that the Poplar and Eucalyptus in this mandi are sold in weight rather than in length & girth because these produce are sent to veneer industries and finally to ply board industries.*