



Strategic Roadmap for Furniture Sector of India

Detailed Report

October 2021

The first part of the document discusses the importance of maintaining accurate records of all transactions. This includes not only sales and purchases but also any other financial activities that may occur. It is essential to ensure that all entries are properly documented and supported by appropriate evidence.

In addition, the document emphasizes the need for regular reconciliation of accounts. This process involves comparing the company's internal records with external statements, such as bank statements or supplier invoices, to identify any discrepancies. Promptly addressing these differences can help prevent errors and ensure the integrity of the financial data.

Furthermore, the document highlights the significance of maintaining up-to-date financial statements. These statements provide a clear overview of the company's financial performance and are crucial for decision-making by management and investors. Regularly updating these statements ensures that all relevant information is reflected in a timely manner.

Finally, the document stresses the importance of transparency and accountability in financial reporting. This involves providing clear and concise explanations for all significant transactions and ensuring that all stakeholders have access to the necessary information. By fostering a culture of transparency, the company can build trust and maintain the confidence of its stakeholders.

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Executive Summary

Executive Summary

The Furniture industry of India is vital for social and economic development

With India poised to become the third largest global economy by 2030, the Government of India has identified the furniture industry as a key enabler to expand the reach of 'Make in India' goods across the globe. The furniture industry in India is a part of the home furnishing industry and occupies the largest share (~50% in 2019) in the home furnishing market. In FY2019, the Indian furniture market was valued at \$12.6 billion and grew at a compound annual growth rate (CAGR) of 9.4% during 5 years before that.¹ The last decade has led to an inordinate success for the furniture industry in India. The impetus to this industry was mainly provided by increasing urbanization rates, a large share of the younger population, rising levels of disposable income of middle-class society and a strong tourism and hospitality industry. This growth is expected to continue in future also, but due to COVID 19 pandemic the pattern of growth will be different in the short term and medium-long term. In the short term, design, functionality and affordability will drive the growth of furniture products. In the medium- and long-term, growth in furniture products will be driven by changing preference of consumers towards sustainable products along with revival of economic activity of tourism and real-estate industry.

However, in order to fulfil the growing demand, the furniture industry in India would have to play to its strengths and needs to address major impediments to its growth

Indian furniture industry has been marked by four key macro issues, which has prevented the industry from realizing its intended impact on India's economy. Firstly, the Indian furniture market is highly fragmented and has been predominantly driven by the unorganized segment- with 80% share of sales.² Secondly, the furniture industry in India constitutes a small share (less than 1%) in global furniture manufacturing output and about 60% of produce constituted low-value-add primary products such as plywood, plaiting sheets, saw milled products, etc.³ Thirdly, furniture exports are primarily low-value-added products with low competitiveness in the global market. About 3/4th of the furniture exports from India in 2019 consisted of low value add products such as wooden frames & articles, prefabricated furniture goods, articles of bedding, etc.⁴ Lastly, the demand for finished and intermediate products in India is majorly met through imports. This is largely due to lack of cost-effective availability of quality furniture products. Finished and intermediate products have formed a significant proportion (54%) of imports of furniture products in India. Major imported products include beds and sofas.⁵

Recommending a strategic roadmap for the growth of furniture industry in India is the objective of this study

Considering the potential for an expected multi-fold growth, however marred by core limitations of the domestic industry this report aims to derive a strategic roadmap for the growth of the sector. Specific interventions have been suggested by assessing various supply chain and infrastructural challenges across manufacturing, trade, EoDB and policy and regulatory areas which are adding to cost disabilities of India. This has been supported by analysing how such issues were addressed in some other countries.

The study analyses four core issues around availability of raw materials, production processes, high transport and logistics cost and Ease of Doing Business which have hampered the competitiveness of furniture industry

Based on the cost build up analysis of a reference product (a typical 3 shelf particle board-based wardrobe), it emerged that furniture manufacturing in India is about 27% more expensive than importing it from China. Detailed cost comparisons between India and China highlight that on an average, India's inputs - particularly (1) raw material, (2) transport and logistics, and (3) other miscellaneous overheads such as licensing, general administrative expenses, rental lease, etc. are on the higher end of the cost paradigm. Raw materials (primarily particle board) is about 25% more expensive in India. Transport and logistics costs in India are also high, reflecting infrastructural inefficiencies across roads and ICDs/ ports. Other miscellaneous overheads are threefold times larger in India than in China, reflecting higher tax implications, tedious licensing control measures leading to administrative delays, longer duration for seeking custom clearances, etc.

¹ Allied Market Research. May 2020. *Home Décor Market: Global Opportunity Analysis and Industry Forecast, 2020-2027*. IHS Markit.

² Government of India, Indian Brand Equity Foundation (IBEF). *Stylish Homes, Elegant Offices*. New Delhi.

³ Annual Survey of Industries 2017-18.

⁴ ITC Trademap.

⁵ Refer footnote 6.

Some of the reasons underlying these cost disabilities have been summarized below.

1 Issues around availability of suitable raw material at competitive price	
Inadequate scale of commercial forestation practices	<ul style="list-style-type: none"> • Issues in National Forest Policy 1988 and Draft National Forest Policy 2018 • Inadequate focus on agro-forestry, TOFs and PPPs • Challenges in utilizing Bamboo for commercial production
Inadequate domestic availability of certified wood	<ul style="list-style-type: none"> • Inadequate scale of certification infrastructure
High cost of imported raw materials including wood, fabric etc.	<ul style="list-style-type: none"> • High import duty rates on raw material leads to incremental costs and low export competitiveness. • Challenges with duty drawback adding to cost burden.
2 Issues around production processes	
Lack of regulations to enforce emission std. in furniture mfg.	<ul style="list-style-type: none"> • Inadequate enforcement and awareness regarding carcinogenic nature of formaldehyde emission. • Lack of awareness and need of standards among the industry and consumer (E0 standards)
Small scale supply of intermediate products (e.g. FSC certified board)	<ul style="list-style-type: none"> • Uncertainty in assured demand of such products. • Inadequate policy framework and incentives to attract investors and facilitate large scale manufacturing of such products.
Inadequate skill development ecosystem	<ul style="list-style-type: none"> • Inadequate infrastructure for up-skilling in new market trends and international practices • Inadequate academic-industry participation to develop skill development eco.
3 Issues around high transport and logistics cost	
Overdependence on costly alternative of roadways	<ul style="list-style-type: none"> • Inadequate integrated planning of multi modal transport network and industrial infrastructure • Inadequate fiscal support incentives such as free or subsidized freight charges, etc.
Location of furniture clusters away from ports	<ul style="list-style-type: none"> • Location of clusters away from urban and semi-urban areas
4 Issues around Ease of Doing Business	
Lack of dedicated policy and nodal Ministry for the industry	<ul style="list-style-type: none"> • Lack of a National furniture policy that covers aspects ranging from textile, metal to forestry • Multiple registration and compliance requirements as industry is governed by a gamut of policies and regulations
Operational challenges (labour laws and import related requirements)	<ul style="list-style-type: none"> • Manual processes, annual renewals leading to cumbersome business environment • Delays in procedures for assessment of duty and import clearance
5 Other issues impacting cost competitiveness	
Other regulatory hurdles	<ul style="list-style-type: none"> • High taxation in terms of GST • Archaic Plant Quarantine laws mandate Phytosanitary Certification for processed final product • Delays in CAROTAR Procedures and undue burden on importers

The study also draws learnings from some of the market leaders (countries) which have successfully solved similar challenges to enable the growth of furniture industry

This study analyses best practices/ development strategies adopted by China, Poland, Romania and Vietnam to overcome similar operational and regulatory hurdles faced by the furniture industry. As a result of these strategies, the furniture industry in these countries has grown manifold (from the perspective of exports, employment generation, output and value addition) between 2008 and 2018. Some of these strategies have been enumerated below.

Table 1: Best practises relevant to challenges faced by Indian furniture industry

Key challenges	Best practise/ Development strategy	China	Poland	Romania	Vietnam
Issues around availability of suitable raw material	Supporting commercial forestation and sustainable forest management	✓	✓	✓	✓
	Easing imports of raw materials and semi-finished goods	✓			✓
	Promoting certification of local varieties of wood suitable for furniture sector			✓	✓
Issues around production processes	Support for upgrading / renovation of existing technology	✓	✓		
	Development of infrastructure for up -skilling in market trends			✓	✓
	Reinforcing academic-industry participation to develop skill development ecosystem		✓	✓	✓
	Diversification and product development by promoting use of alternate sources	✓			✓
Issues around high transport and logistics cost	Development of furniture clusters to promote economics of scale	✓	✓	✓	✓
Issues around EoDB	Creation of a national policy framework	✓	✓	✓	✓

Ingredients of the strategic roadmap for India's furniture industry have been derived

With the above backdrop, the furniture industry in India is currently marred by various supply chain challenges like unavailability of suitable raw material at competitive price, inefficient production processes, high transport and logistic cost, etc. To address these challenges, we have identified specific recommendations premised on stakeholder consultations and learnings from international experiences across short, medium - and long-term horizons. These recommendations will impact three critical enablers of growth of this industry: 1) increasing consumption demand, 2) strengthening domestic manufacturing capability and 3) enhancing competitiveness of domestic industry (including focus on exports). PwC provided the inputs for developing this report.

In the following Figure 1, specific interventions with a time horizon of short (0-1 year), medium (1-3 years) and long term (more than 3 years) in terms of the implementation timelines have been summarized.

Figure 1: Recommendation and specific interventions

Expected implementation time horizon	Recommendations	Specific interventions	Impact footprint on growth enablers				
			(1)	(2)	(3)		
Short term (0-1 year)	Enabling ease of raw materials and finished goods imports in the short term	Reducing import duty rates on certain raw materials	✓	✓	✓		
		Reducing import duty rates on finished goods	✓				
		Amending Plant Quarantine laws for easing imports of processed materials		✓	✓		
		Simplification of Rule 7 of Customs duty drawback	✓	✓	✓		
	Addressing internal trade barriers to reduce operational costs	Reduction of GST rates to reduce prices and stimulate consumer demand	✓				
	Enabling proper use of Free Trade Agreements	Amending legal provisions for proper use of FTAs	✓	✓	✓		
Medium term (1-3 years)	Supporting commercial forestation and sustainable forest management	Implementing measures to enhance Ease of Doing Business (EoDB)		✓			
		Ensuring smooth procedures for assessment of duty and import clearance		✓			
		Bringing in amendments in the Draft National Forest Policy to ensure availability of certified raw-material coupled with other enabling policies like proposed Timber policy			✓	✓	
		Promotion of Farm/ Agro forestry for augmenting indigenous raw material availability			✓	✓	
		Developing policies to capitalize on Trees outside Forests			✓		
	Promote certification of local varieties of wood suitable for furniture industry	Developing Public Private Partnership models to enable productive plantations			✓		
		Developing and ensuring enforcement of regulations to reduce formaldehyde levels during manufacturing			✓	✓	
		Developing policy framework to support establishment of certification ecosystem			✓	✓	
		Promote use of alternate sources of raw materials	Incentives and policy support to promote production of other raw materials			✓	✓
		Recycling wood waste: Creating a sustainable future				✓	
Support capacity building to supply intermediate products like particle boards	Incentivize technological upgradation for manufacturing intermediate products			✓	✓		
	Expanding manufacturing product profile to include high export potential products	Short duration fiscal benefits to promote capital investments for manufacturing such products	✓		✓		
	Incentivizing growth of inter-linkages across home furnishing categories	Conceptualizing a Furniture policy through integration of various interrelated aspects across other Government policies	✓	✓	✓		
	Development of furniture clusters to promote economies of scale	Identify competitive locations closer to ports and urban areas			✓	✓	
Designing incentive package for migration of brownfield units				✓	✓		
Incentivizing growth of inter-linkages across home furnishing categories		Developing a mechanism to procure ancillary products from MSMEs			✓		
	Preparation of roadmap for re-skilling and future proofing jobs in collaboration with industry players	Designing course content and teaching pedagogy in alignment with the future trends to ensure global skill competitiveness			✓		
		Reinforcing industry-academia collaboration to develop skill development ecosystem			✓		
		1 Increasing consumption demand	2 Strengthening domestic manufacturing capability	3 Enhancing competitiveness of domestic industry (including focus on exports)			



1. Introduction

1. Introduction

1.1. Strong growth trends expected in home furnishing market of India

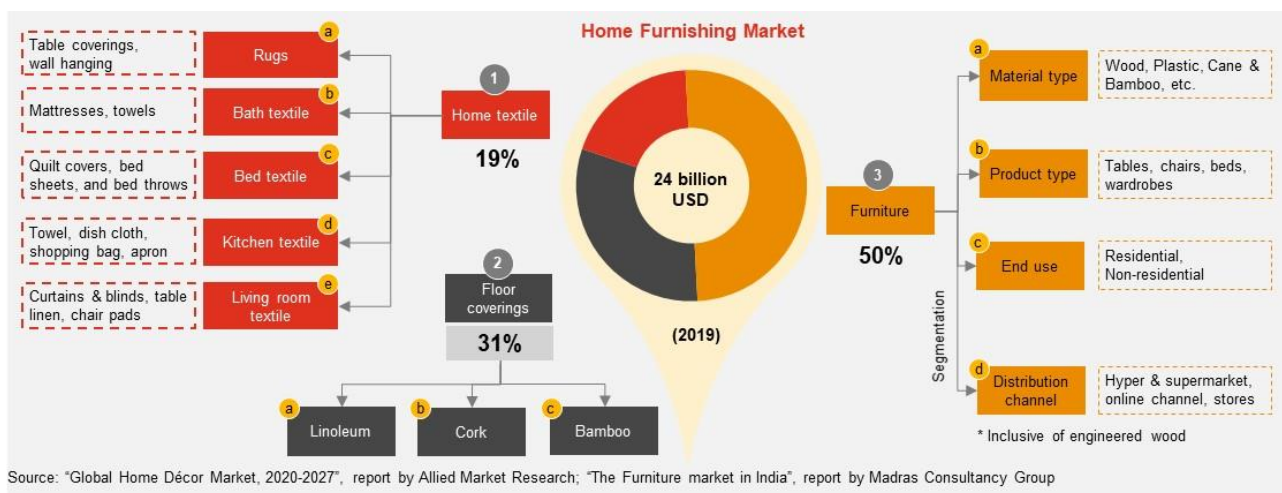
India is one of the largest developing economies in the world. Rapidly increasing urbanization, large share of younger population and rising aspirations of middle-class society has contributed to a vibrant home furnishing market in India. The home furnishing industry consists of businesses that manufacture and sell furniture, textile, and home furnishing accessories for residences, offices, hotels and others in the commercial space. Currently Indian home furnishing market holds a small share of about 4% globally. It was valued at \$24.4 billion in FY2019 and grew at CAGR of 3.5% from FY2014 to FY2019.⁶ However, various estimates have suggested that this growth will continue in future. The pattern of this growth might be different in the short term as COVID-19 pandemic is expected to increase the demand for affordable furniture within segments like ergonomic furniture, office furniture, living room seating and bedroom furniture.⁷

While the economic revival is underway, rapid growth is expected in medium and long term in three key factors driving increase in demand for home furnishing products – 1) urbanization, 2) change in consumer demographics and 3) tourism & hospitality industry.⁸ Urban population is expected to witness a two-fold increase to 701 million in 2035 from 2019 levels. By 2035, the personal disposable income is also expected to increase to USD 4.75 million from USD 2.9 million in 2019.⁹ Tourist inflow in India is also estimated to increase to 17.2 million in 2035 at a CAGR of 8% from 2019 levels.¹⁰ By 2040, the real estate market of India is estimated to grow to \$9.30 billion and contribute 13% to the country's economy.¹¹

1.2. Furniture segment dominates the home furnishing market of India

As shown in Figure 2, the home furnishing industry comprises of three categories- Home textiles, Floor coverings and Furniture, out of which furniture segment occupies the largest share (~50% in 2019).¹² Indian furniture market was valued at \$12.6 billion in FY2019.¹³ The furniture market grew at a rate of ~3% from FY2014 to FY2019.¹⁴ Out of total furniture market, bedroom furniture accounts for major share (~49%) followed by sitting furniture (~23%) and dining furniture (~13%).¹⁵

Figure 2: Sub-Segmentation of Home Furnishing Market



⁶ Allied Market Research. May 2020. *Home Décor Market: Global Opportunity Analysis and Industry Forecast, 2020-2027*, IHS Markit.

⁷ Nidhi Singhal. 2020. Furniture sells like hot cakes online as lockdown opens. *Business Today*. 16 October.

⁸ Government of India, Indian Brand Equity Foundation (IBEF). *Stylish Homes, Elegant Offices*. New Delhi.

⁹ Government of India, India Brand Equity Foundation (IBEF). September 2020. *Fast Moving Consumer Goods report*.

¹⁰ Government of India, India Brand Equity Foundation (IBEF). September 2020. *Tourism and Hospitality report*.

¹¹ Government of India, India Brand Equity Foundation (IBEF). September 2020. *Indian Real Estate Industry Report*. New Delhi.

¹² The floor covering segment excludes articles of tiles, classified in construction supplies and fixtures. *The New York Times*. 2020.

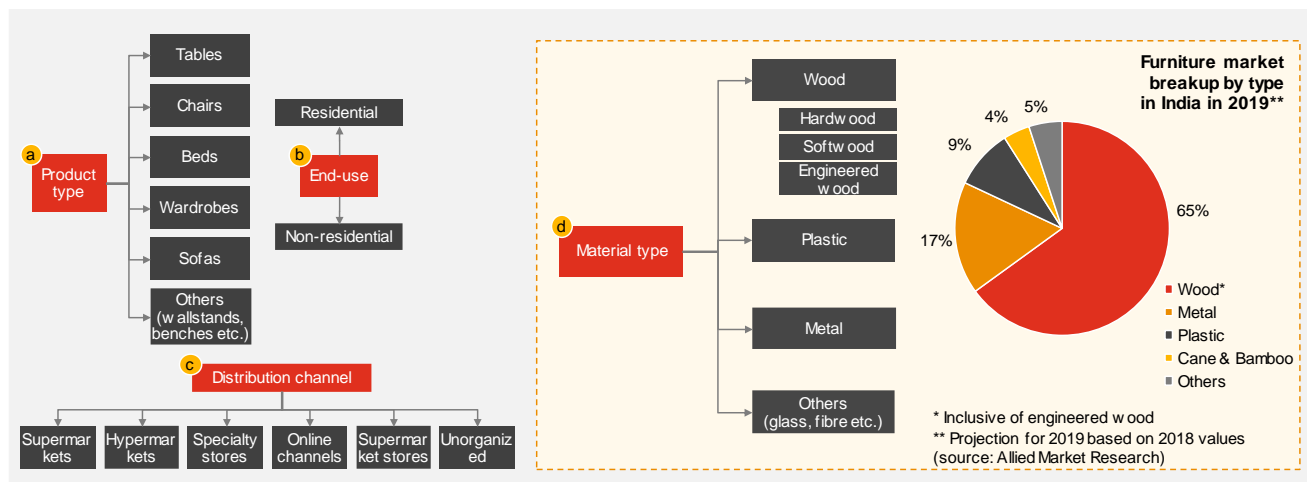
¹³ Allied Market Research. May 2020. *Home Décor Market: Global Opportunity Analysis and Industry Forecast, 2020-2027*, IHS Markit.

¹⁴ IHS Markit database

¹⁵ Euromonitor International. May 2020. *Home Furnishings in India*.

The furniture sector is sub-segmented in four ways: product type; end-user type; distribution channels; and material type as shown in Figure 3. Within segmentation by material type, wood-based furniture accounts for 65% share, followed by metal-based (17%), plastic-based (9%), Cane & Bamboo (5%) and others (4%) as shown in Figure 3.

Figure 3: Sub-segmentation of furniture sector and market breakup by material type



Source: Allied Market Research. May 2020. *Home Décor Market: Global Opportunity Analysis and Industry Forecast, 2020-2027.*

Considering the bulk of India's home furnishing market comprises the furniture sector, the analysis and interventions in this report are largely focussed around the furniture sector. Also, within the furniture sector, the report focuses mainly on the wooden furniture segment.

1.3. Key defining themes of the furniture sector of India

In this section we have highlighted some of the key themes defining the furniture sector of India. These themes have been summarized below in the following figure 4.

Figure 4: Key themes defining furniture sector of India

- 1 Demand of furniture products expected to grow over the coming decades, but current supply capacities are not prepared to meet the demand
- 2 High import dependency for finished and intermediate goods in absence of locally produced good quality goods
- 3 Low production and low value addition in the sector
- 4 Domination of unorganized sector driven by cheaper product availability
- 5 Exports are low value-added products with low competitiveness
- 6 High employment intensity vis-à-vis other industries

Demand of furniture products expected to grow over the coming decades, but current supply capacities are not prepared to meet the demand

Despite the furniture industry's growth, the per capita consumption has remained low as compared to that of China and other European competing countries (Figure 5).¹⁶ Annual per capita consumption of furniture products in 2019 was about \$5 in India compared to the world average of \$235.¹⁷ However, in the light of rapid growth across the three key factors driving the demand in the furniture sector (as discussed above), the demand in the furniture sector is set to expand at a high rate over the coming decades. Based on the analysis of the study team¹⁸, the furniture demand is

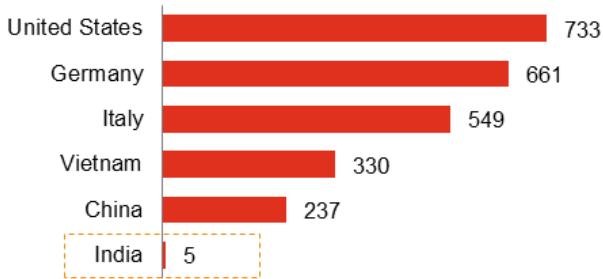
¹⁶ IHS Markit database.

¹⁷ Footnote 40.

¹⁸ The demand is projected based on regression analysis of a multivariate equation, using per capita consumption as a dependent variable and urban population, personal disposable income and tourist's inflow as the independent variables. The regression model first identified the degree and strength of relationship between the variables (correlation coefficient) and calculated the sensitivity of each

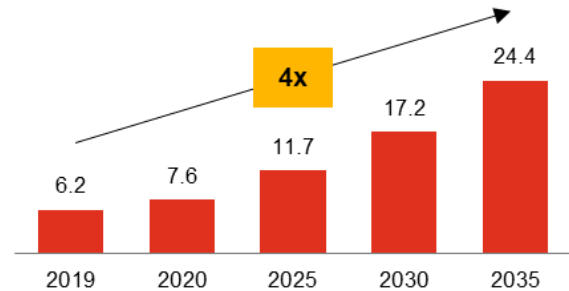
expected to reach \$24.4 billion by 2035, more than quadrupling the country's \$6.3 billion market in 2019 (Figure 6). The demand for furniture products has also seen an upward trajectory due to Covid-19 pandemic, with individuals preferring and/or required to work from home. This increasing demand for the products is inevitably being met by import as the domestic industry is unable to meet the same.

Figure 5: Annual per capita consumption of furniture products (in \$, in 2019)



Source: IHS Markit

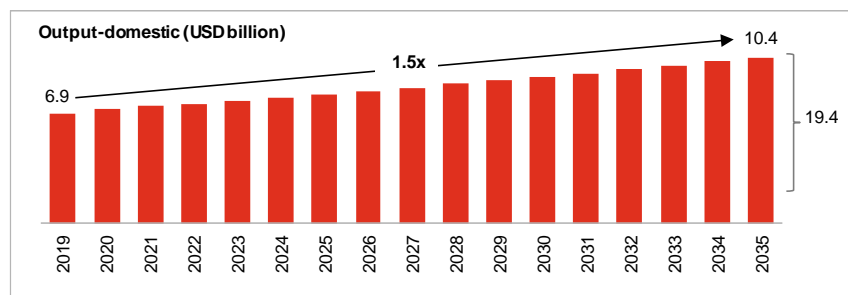
Figure 6: Demand projection for furniture industry in India (\$ billion)



Source: PwC analysis

However, the current level of growth in output (supply) is not sufficient, to meet this demand (Figure 7). Based on the Business-As-Usual (BAU) scenario, the sector's output will expand to about 1.5 times by 2035, from \$6,950 million in 2019 to approximately \$10,400 million by 2035, which is quite below the expected domestic future demand by 2035. Thus, it reflects that systemic inefficiencies will ensure that the furniture industry in India will continue to depend on imports for meeting demands of finished and intermediate goods.

Figure 7: Projected Output of Furniture industry in India



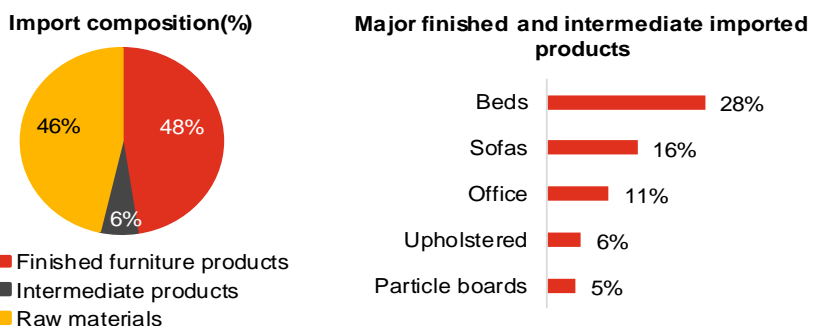
Source: PwC analysis

High import dependency for finished and intermediate goods

The import composition of Indian furniture industry reflects the dominance of finished furniture products, comprising a share of 48% in the total imported value in 2019, followed by raw materials (~46%) and intermediate products (~6%).

Intermediate furniture products include goods made up of particle board, medium density fibre (MDF) boards, decorative plywood, etc. Among the finished and intermediate furniture products, beds, sofas, office furniture, upholstery furniture and particle boards account for a major share (~66%) as shown in Figure 8.

Figure 8: Import composition of furniture sector (2019)



* Intermediate products include particle board, MDF boards, decorative ply, etc.

Source: ITC Trademap, IHS Markit.

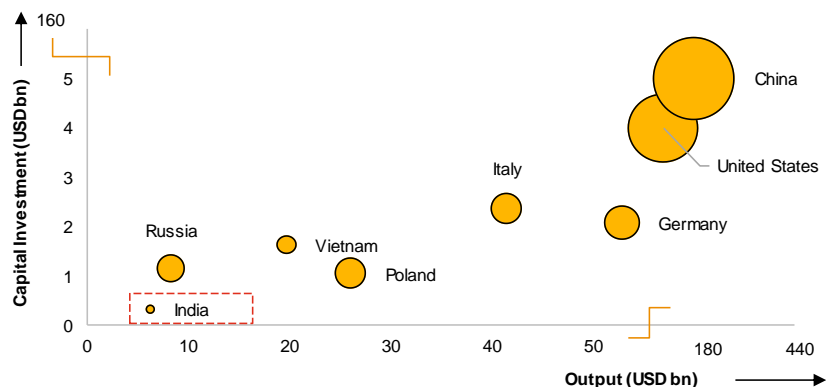
factor on the dependent variable. Finally, the expected value and sensitivity of the independent variable was used to determine the future value of the dependent variable.

Low production and low value addition in the sector

As shown in Figure 9, the output of Indian furniture sector in FY2019 was about \$6 billion and is on the lower side when compared to other major furniture manufacturing countries across the globe. Low furniture output in India is majorly driven by low capital investment in the sector.

In addition to this, the majority of the output of Indian furniture industry is of low value-added goods. About 60% of production in India constitutes primary processed goods including plywood, plaiting sheets and others.¹⁹

Figure 9: Comparison of output, capital investment and value add among major furniture countries (FY2019)



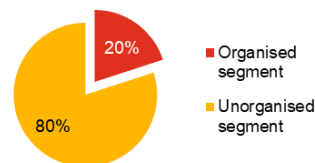
Note: Size of the bubble in graph denotes value addition in furniture sector: for China it is \$153 billion and for India it is \$1.4 billion.

Source: PwC analysis.

Dominance of unorganized sector driven by cheaper product availability

The Indian furniture market is majorly fragmented with micro and small players or unorganized segment.²⁰ They account for 80% of the market. (Figure 10). The unorganized segment dominates India furniture market, as it offers cheaper products in comparison to the ones available through the organized segment. Moreover, product customization availability in the unorganized sector is another factor for the segment's leading market position.²¹ However, Indian furniture market is moving from the unorganized segment to the organized segment to adapt to fast changes in the furniture market.²²

Figure 10: Furniture fragmentation based on manufacturers



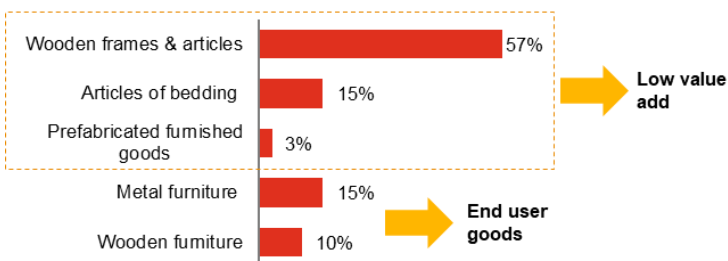
Source: Government of India, Indian Brand Equity Foundation (IBEF). Stylish Homes, Elegant Offices.

Exports are primarily low-value-added products with low competitiveness

In 2019, exports from the furniture sector were valued at \$3.2 billion and grew at a healthy cumulative growth rate (CAGR) from 2014 to 2019, compared with that of world's average of 6% during the same period. However, Indian exports comprised a meagre share (about 1%) in global exports of furniture products in 2019.

India's low share in global exports is ascribed to low export competitiveness, resulting from manufacturing of low-value-added primary products. About 75% of its exports constituted different forms of low value-added furniture products such as wooden frame articles, articles of bedding, prefabricated finished goods and particle boards. Value-added products such as metal furniture and wooden furniture constitute a low share of about 25% as shown in Figure 11.

Figure 11: Commodities export share in India based on value-addition (2019)



Source: ITC Trade Map.

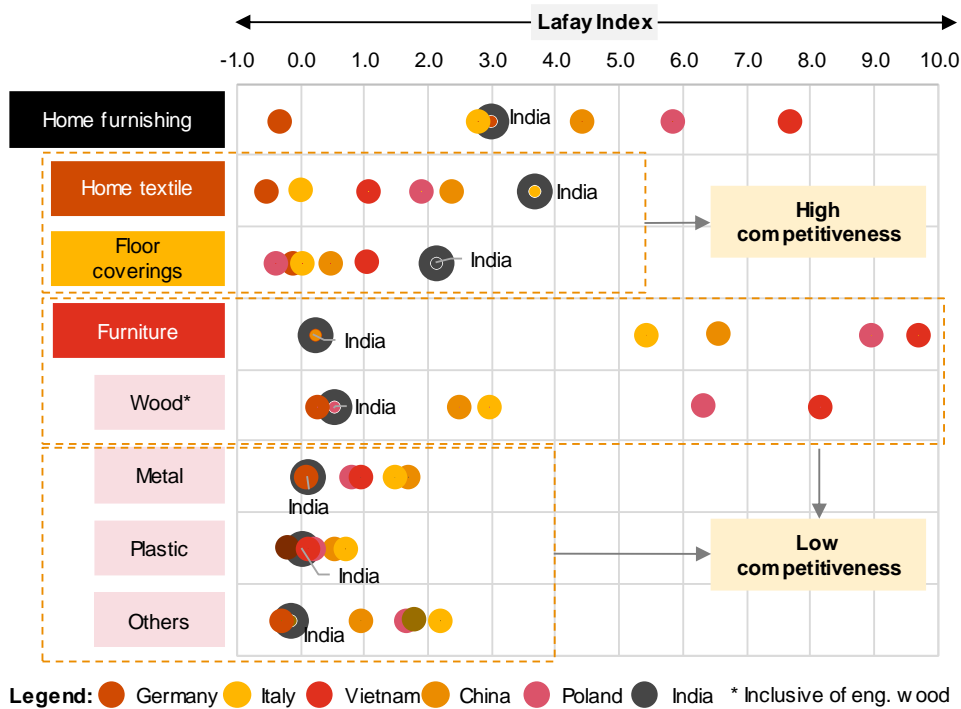
¹⁹ IHS Markit database.

²⁰ Government of India, Indian Brand Equity Foundation (IBEF). *Stylish Homes, Elegant Offices*. New Delhi.

²¹ TechSci Research. April 2019. *India Furniture Market 2024*. India.

²² Mordor Intelligence. 2020. *Wood Furniture Market in India - Growth, Trends, And Forecast (2020-2025)*. India.

Figure 12: Competitive Scenario in Home Furnishing (LI analysis)



Source: PwC analysis.

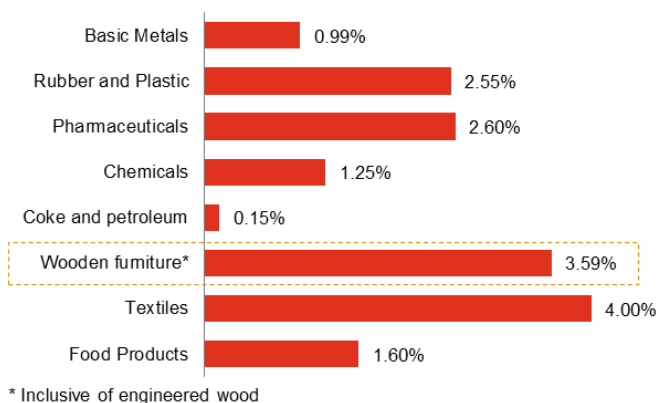
This can be better understood from the low value of Lafay Index (LI) of India's furniture products, which denotes the extent of relative specialization or comparative advantage of a country in an internationally traded product by considering the difference between each item's normalized trade balance and the overall normalized trade balance (Annexure A1). For instance, India's Lafay Index for furniture products is 0.2, compared with that of Vietnam, Poland, China and Italy's 9.7, 8.9, 6.6 and 5.4, respectively as shown in Figure 12. Further, it is evident from Figure 12 that India is highly competitive in the home textile and floor covering sector.

In terms of market presence in 2019, more than 70% of the furniture exports from India went to the markets of China, Malaysia and Italy. Among them, China accounted for a major share (~54%), followed by Malaysia (~13%) and Italy (~7%).²³

High employment intensity vis-à-vis other industries

The wooden furniture segment has shown high employment intensity vis-à-vis some other industries in India. The employment intensity for wooden furniture stands at 3.59%, second only to textiles (Figure 13). The employment intensity is an indicator to numerically measure the employment variation with economic output— for instance, how much employment growth is associated with 1% point of economic output.²⁴ The industries selected for analysis are the top 8 industries based on output values.

Figure 13: Employment intensity for major industries in India



Source: Annual Survey of Industry 2017-18; PwC team analysis.

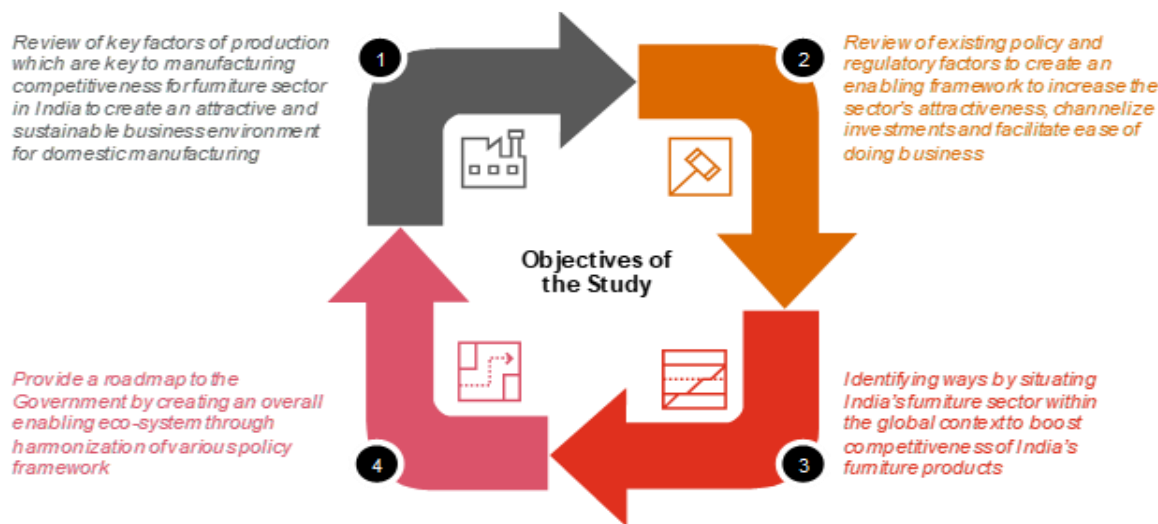
1.4. Methodology framework adopted for the study

With renewed focus of the Government on 'Make in India', the Department for Promotion of Industry and Internal Trade (DPIIT) has identified furniture as one of the potential industries to expand the reach of 'Make in India' goods across

the globe.²⁵ In doing so, the furniture sector in India would have to play to its strengths—availability of affordable labor and abundant raw material, albeit it needs to address various supply chain and regulatory challenges. This will help in building India into a market that provides benefits through economies of scale, thus creating an attractive business environment for domestic manufacturing to flourish.

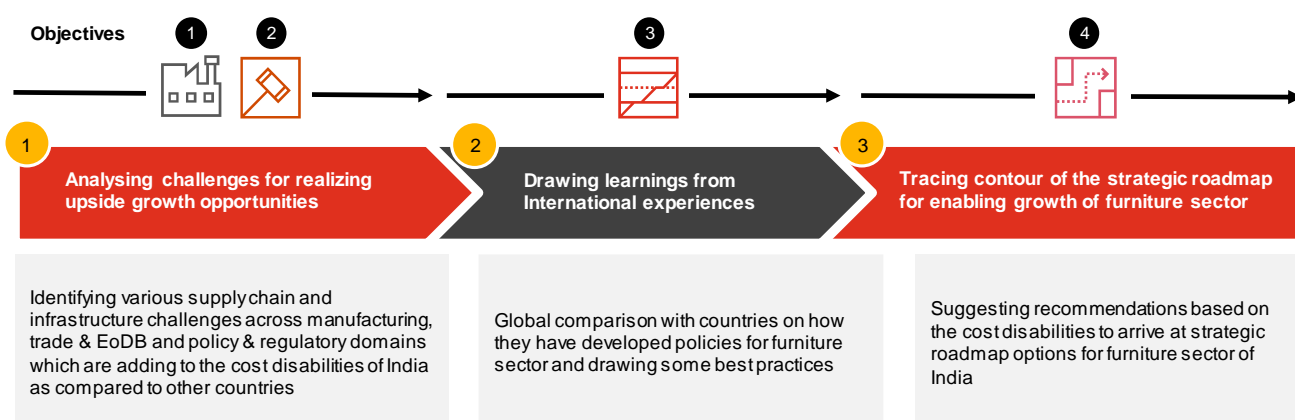
With the above backdrop, this study is focused on strengthening the furniture sector in India by facilitating an investment environment that focuses on demand creation for both domestic and global markets and addresses the supply chain bottlenecks. The study analyses key factors of production which are critical for manufacturing competitiveness for the furniture sector in India, in order to assess policy options available to the Government of India and recommends a strategic manufacturing and policy roadmap to stimulate the sector's development. The key objectives of the study are mentioned below in Figure 14.

Figure 14: Key objectives of the study



A three-step approach has been propounded in this report to achieve the objectives (Figure 15). The first step is to assess and review the policy factors that are hindering the growth of the sector and identify the core issues impinging the manufacturing and trade competitiveness of the sector. The second step is to identify the best practices of the top performing countries in the furniture sector globally and map the identified best practices in tandem with the challenges faced by Indian market and draw learnings for them. Lastly, addressing the hurdles identified in step 2 in short, medium and long term by presenting an opportunity for India to become a competitive furniture manufacturing hub - targeting both the global trade as well as import substitution.

Figure 15: Framework adopted for recommending growth enabling roadmap



Source: PwC analysis

²³ ITC Trade Map

²⁴ S. Kapsos. 2006. *The Employment Intensity of Growth: Trends and Macroeconomic Determinants*. Employment Strategy Papers, Employment Determinants Department. ILO. Geneva.

²⁵ *Business Standard*. 2020. PLI scheme to be expanded to furniture, leather sectors as MEIS winds up. 5 August. https://www.business-standard.com/article/economy-policy/pli-scheme-to-be-expanded-to-furniture-leather-sectors-as-meis-winds-up-120080501073_1.html (accessed 27 October 2020)



2.

Challenges in realizing upside
growth potential

2. Challenges in realizing upside growth potential

In the previous chapter we discussed about the potential multi-fold growth in domestic demand for furniture products in the coming decades owing to urbanization, change in consumer demographics and revival of the tourism & hospitality industry. We also outlined that in the BAU scenario, systemic inefficiencies will ensure that we continue to depend on imports for meeting our finished and intermediate goods demand. Therefore, in this chapter we have identified and analysed reasons behind these inefficiencies through “cost build-up” analysis wherein we have compared cost aggregates for manufacturing a furniture product in India with a global reference.

2.1. Key impediments to the growth of furniture manufacturing in India

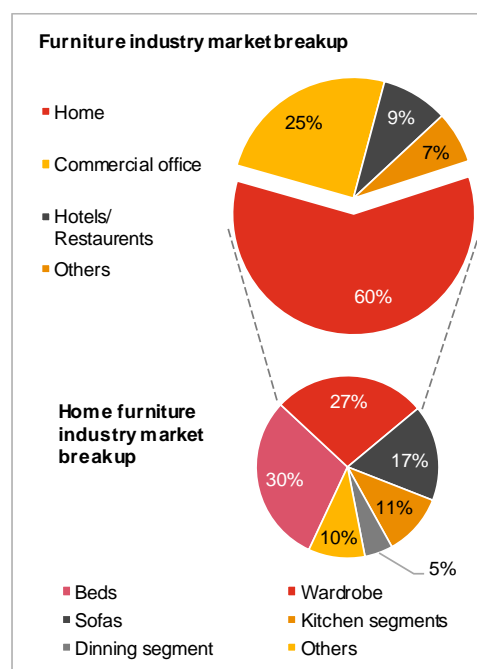
As discussed in Chapter 1, the furniture sector in India is usually sub-segmented in four ways (product type; end-user type; distribution channels; and material type). Depending on the end use, furniture products are classified as home furniture-based products, office furniture-based products, hotel furniture-based products, among others. Out of these, the home furniture products have contributed a share of 60% in the market revenue in FY2018. The home furniture products primarily include beds, sofas, kitchen segments, dining segments, etc.²⁶ In FY2018, wardrobes held 27% of the total sales revenue of the organized home furniture market in India (Figure 16).²⁷ Therefore we have selected wardrobe as a reference product for cost build-up analysis.

Locally manufactured furniture is not cost competitive vis-à-vis imported furniture

Manufacturing a typical 3 shelf particle board-based wardrobe in India (Annexure A), particularly in Maharashtra is 27% more expensive than importing it from Guangdong (China). As summarized in Figure 17, detailed cost comparisons between India and China show that on average, India’s inputs - particularly raw material, transport and logistics and other miscellaneous overheads are more expensive than China. The snapshot of assumptions used for the analysis has been placed in Annexure A.

Raw material cost on an average is 25% more expensive in India than in China. Transport and logistical costs in India are on the higher end of the cost spectrum, about twofold times larger in India. Other miscellaneous overheads including licensing, general administrative expenses, rental lease, etc. are threefold times larger in India than in China. Conversely, India is cheaper on labour, however based on stakeholder consultations it emerged that it is largely because of lower skill levels. The average labour cost per day in furniture manufacturing in India in FY2018 was ₹ 1100, compared to ₹2800 in China.²⁸ The value added per labour in the furniture manufacturing in India was indeed quite low at ₹0.5 million per person, compared to ₹ 1.4 million per person in China, reflecting low level of skills.²⁹

Figure 16: Furniture industry in India market breakup



Source: “Potential of Furniture market in India”: report published by ITPC.

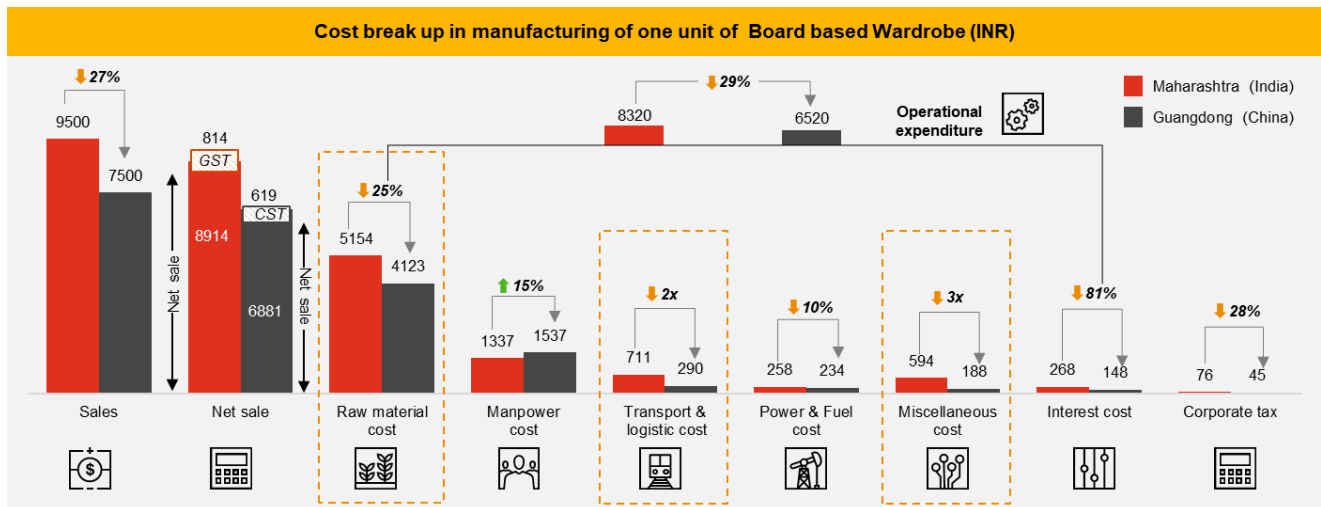
²⁶ Indonesian Trade Promotion Center. 2015. *Potential of Furniture Market in India*. Chennai.

²⁷ Refer footnote 26.

²⁸ Government of India, Ministry of Statistics and Programme Implementation. *Annual Survey of Industries 2017-18*. New Delhi; IHS Markit database; and Government of China, National Bureau of Statistics of China. 2018. *China Labour Statistical Yearbook 2018*. Beijing.

²⁹ Refer footnote 31.

Figure 17: Cost break up in manufacturing of one unit of particle board-based wardrobe (₹)



Source: Archidply, Navopan and Century Plywood company financials; Maharashtra industrial policy; Tax summaries by PwC; Stakeholder consultations.

Some of the core issues underlying these cost disabilities have been discussed below.

2.2. Issues around availability of suitable raw material at competitive prices

Quality raw material is a dominant input in the overall value chain of furniture manufacturing. The cost of raw material accounts for about 60% - 65% of the product cost structure.³⁰ The key raw materials include wood, metal and plastic products, with bamboo and cane also being used in some cases. Wood is a key input for nearly 65% of all furniture made in India.³¹ India abounds in several tree species whose wood is used for furniture making, especially hardwood. Popular hardwood types used in India include Mango, Bamboo, Teak, Sheesham, Deodar, Ebony, Redwood, Rosewood, Red Cedar, Walnut and Sal. Teak accounts for almost 50% of the total wooden furniture produced, Sal and Deodar account for about 20% and the balance includes Mango, Bamboo, Mahogany and other tree types.³²

Apart from indigenous material available in India, some types of wood are also imported, due to inadequate domestic supply. India imports wood from various countries like Malaysia, Indonesia, Myanmar, and Ivory Coast, etc. Engineered wood such as MDF boards are imported from Europe, soft and hard wood are imported from China and other Southeast Asian countries. Veneered panels are becoming increasingly popular in India and are imported from the European Union and USA.

Despite having sufficient availability of tropical and hardwood forests, raw material costs on an average for manufacturing a typical particle board-based wardrobe, on an average is 14-23% more expensive in India, compared to other competing countries (Figure 18).³³ As summarized in Figure 18, the sawn timber (including walnut, sandalwood, teak, oak, sheesham, deodar, etc.) cost in India is 15-25% more expensive vis-à-vis China, France, Malaysia and Vietnam. The cost of engineered wood (MDF, particle board and plywood) on an average is 21 -28% more expensive in India vis-à-vis competitive countries. Also, the cost of fittings (hardware) are on the higher side of the raw material cost spectrum in India.³⁴

³⁰ PwC analysis.

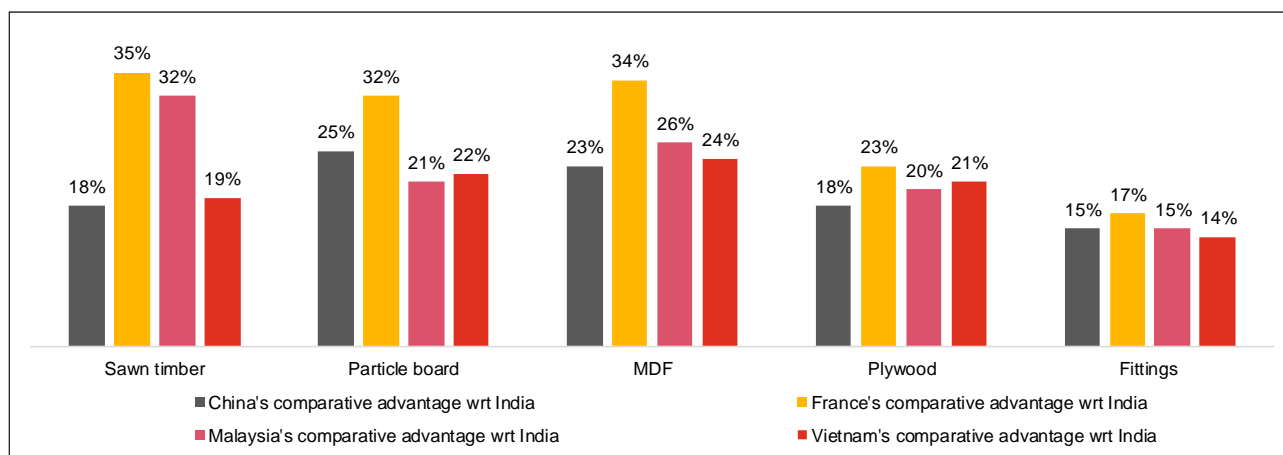
³¹ Government of India, Indian Brand Equity Foundation (IBEF). November 2019. *Furniture Market and Opportunities*. New Delhi.

³² Refer footnote 34.

³³ World Bank. 2015. *Furniture Industry in Kenya: Situational and Strategy Analysis*; BCG. *Egyptian Furniture Sector Development Strategy*; Stakeholder consultations.

³⁴ World Bank. 2015. *Furniture Industry in Kenya: Situational and Strategy Analysis*; BCG. *Egyptian Furniture Sector Development Strategy*; Stakeholder consultations.

Figure 18: Cost advantage of China, France, Malaysia and Vietnam vis-à-vis India in terms of raw material



Source: World Bank. 2015. Furniture Industry in Kenya: Situational and Strategy Analysis; BCG. Egyptian Furniture Sector Development Strategy; Stakeholder consultations.

Inadequate scale of commercial forestation practises, inadequate domestic availability of certified wood and higher imported costs are major impediments resulting in high cost of raw material. These issues have been discussed in detail in the following sections.

Inadequate scale of commercial forestation practices

The commercial forestation in India has not proliferated despite of an increasing trend in the forest and tree cover during the last decade. Farming practices followed in India are majorly focused on growth of cash crops and are non-existent for commercially important species of wood such as teak, eucalyptus and bamboo.

This can be largely attributed to inadequate specific policy framework supporting commercial forestation as enumerated below:

i. Issues in National Forest Policy 1988 and Draft National Forest Policy 2018

The National Forest Policy, 1988 replaced the National Forest Policy, 1952 with an emphasis on Social Forestry and a conservative approach for preserving natural forests. As per National Forest Policy, 1988, felling of timber is banned from high altitude forests. Wood based industries are denied supply of raw materials from natural forests and rather encouraged to develop a network with private growers for sustained supply of raw materials. On the other hand, wood substitutes were encouraged in housing, furniture making etc. to further reduce domestic demand on wood.

The 1988 policy relied on import to fulfill domestic needs and focused more on conservation than a balance between conservation and meeting economic demand and needs.

As per some of the provisions of the 1988 Policy:

- forest land cannot be leased to private companies³⁵
- natural forests cannot be made available to industries for undertaking plantation or for any other activities.³⁶

In order to address the above challenges, the sector demands for a change in the forest policy. In March 2018 Draft Forest Policy 2018 has been circulated by the Ministry of Environment, Forest and Climate Change. The draft policy does lay emphasis on agro and farm forestry, forest certification, increasing tree cover in Trees Outside Forests (TOF) areas, relaxing the existing felling and transit regime. However, the policy is yet to be notified and is in consultation stage for past 2 years. Moreover, the policy still not provides for a clear roadmap on increasing domestic availability for certified raw material and incentives for farmers and private growers to grow trees.

ii. Inadequate focus on agro-forestry, TOFs and Public Private partnerships

Agro and Farm forestry

Agro and Farm forestry holds immense potential in reducing the livelihood risks of farmers, as it combines more vulnerable agriculture crops with multifunctional utility of trees.

³⁵ Clause 4.2.4, National Forest Policy, 1988

³⁶ Clause 4.9, National Forest Policy, 1988

Despite Agroforestry's huge potential in India, the adoption rates are still low because there are several challenges like shortage of superior planting material, insufficient research, inadequate market infrastructure, restriction in participation of the private sector and cumbersome legislations in respect of tree felling, wood transportation, and processing.

Tree Outside Forests

TOFs are basically trees growing outside government recorded forest areas which include trees growing on community land, roadsides, farms, private land, and revenue land. Presently, India has been unable to establish a conducive environment for the growth of TOFs under agro-forestry and farm forestry.

Increasing ToF is necessary to not only meet the national target of increasing forests coverage in India to 33% of the geographical area but TOFs are also essential for meeting the timber needs of the country. This can play an important role in enhancing ecological balance, availability of raw material, employment, increasing farm income and food security.

Guidelines and Advisories have been issued by the Ministry of Environment, Forests and Climate Change (MoEFCC) for liberalizing tree felling and transit permits for Tree Species Grown on Non-Forest/ Private Land. The Guidelines provide for free movement of felled trees in the State with minimum interventions in the form of inspections etc. by the State Authorities. However, despite of all the above measures, sector faces on-ground challenges where implementation is not smooth and is not uniform across States because of limited awareness and education on such guidelines.

Inadequate focus on Public-Private Partnership

There is a paucity of collaborative agreements between the Governments in India or Forest Development Corporations (FDCs) and private companies to support growth of productive plantations under PPP mode. As agroforestry and commercial forestry projects require long-term investments in planting trees, PPPs are necessary to reduce the financial risks for farmers. Such PPPs could also aid in improved productivity of plantations in FDC lands for medium to long rotation tree species.

iii. Challenges in utilizing Bamboo for commercial production

MoEFCC had issued an advisory to States advising that for promotion of agro-forestry and bamboo plantation outside forest areas, bamboo maybe deleted from the definition of tree and regulatory barriers in terms of production, felling, transportation and marketing may be removed.³⁷ This shows that there has been some intent on the part of the Government to acknowledge and address the issues faced by the sector, however, despite exempting bamboo from any felling and transit restrictions, farmers / growers are still required to prove that bamboo carried from farmland is not extracted from forests.³⁸ This proves to be counterproductive as farmers and the industry face unnecessary administrative hassles and cost burden in the form of permits. In addition, this is refraining many farmers from taking up this lucrative alternative option and restricting them to the traditional choice of crop production, thereby creating a vicious cycle of low farm income.

Inadequate domestic availability of certified wood

Forest certification is a useful market-based mechanism for encouraging sustainable forestry practices. Globally, most of the furniture industry manufacturers are producing furniture from certified wood components as a step to move towards sustainable business practices. From a global perspective, the Forest Stewardship Council (FSC), the Sustainable Forestry Initiative (SFI) and the Programme for the Endorsement of Forest Certification (PEFC) are three of the most well-known forest certification organizations promoting responsible management of the forests. However, India is still at a nascent stage of achieving scale in forest certification and has a long path to tread.

Inadequate forest area under certification

Unorganized segment which dominates the furniture sector in India largely depends on locally available and uncertified raw materials. Also, awareness about usage of certified raw materials is very limited and is still evolving. Accordingly, there is an inadequate demand by the consumer and a policy level push by the Government for the use of certified wood. While some of the state Governments have started recognizing the need for expanding the forest area under certification, it is still very miniscule in India. The total forest cover of India is 71.22 million hectares

³⁷ Relaxation /removal of regulatory barriers in production, transit, marketing and processing of bamboo across the country-regarding, Government of India, Ministry of Environment, Forests and Climate Change, 22 December 2017

³⁸ Expert Committee Report, Strategy for Increasing Green Cover Outside Recorded Forest Areas, Ministry of Environment , Forest and Climate Change

(21.67% of the geographical area) while so far 0.99 million ha of forest area is certified which is only 1.39% (approx.)³⁹ of the total forest area.

In addition, wherever forest certification has been undertaken in India to some extent, like in Uttar Pradesh, procedural lapses have led to its ineffectiveness in meeting industry's demand of securing certified raw material.

As per interviews conducted with some industry players, in Uttar Pradesh, even after providing necessary documents like wood cutting permission by farmer, Mandi Samiti receipts, transit permit from forest department etc., auditors still insist on visiting vendor premises for field verification which makes the process time consuming and leads to inefficiencies.

Since the area of certified forest is very thin in India, the certified raw material i.e. the wood component domestically produced is available at a premium with a 30-40% price differential as compared to the same product procured from some other country. Thus, for commercial viability most of the manufacturers depend on imported timber, it being a more cost-effective raw material.

High cost of imported raw materials

a. High import duty rates on raw material leads to incremental costs and low export competitiveness

As established above India has a limited availability of raw material in terms of certified wood and also international quality input material like California Air Resources Board (CARB) certified MDF, particle board, veneer, hardware, fabric for upholstery of upholstered furniture, paint, sealer, lacquers and foam. About 60% of the source of these inputs are imports, 35% are procured from the unorganized domestic market and remaining 5% are procured from the organized domestic market.⁴⁰ A comparison of imported costs of these products versus other suppliers located in EU, China, Southeast Asia, demonstrates India's 30%-50% cost disadvantage in import of these raw materials.⁴¹ Levy of high import duties (including basic custom duty (BCD)) and high landed cost of low-cost cubic meter material are major issues responsible for the high cost of these raw materials.

Since, FY2018 basic custom duty rates on furniture raw materials have been on rise. BCD on wood logs has increased to 5% and 10% for the rest (sawn woods, plywood and engineered wood).⁴² Import duty rates for some of the raw materials have been discussed below.

i. Timber

There is a need to import timber covered under the HS codes⁴³ as these are not native to India like Walnut wood and Oak wood etc. Such timber is used in global furniture making. In India, imported Timber attracts a custom duty from 5% to 10%. High custom duty on timber leads to increased cost of the final product thus posing additional burden on consumer pocket.

ii. Panel making

In India, there are only a couple of manufacturers producing low formaldehyde emission boards which is a mandatory requirement in the worldwide market. Therefore, Indian manufacturers either import them or buy locally on very high rates resulting in an expensive final product. The present rate of duty for Particle Boards, MDF etc. is 10%. On the contrary, the raw material price for these are almost 20% to 25% cheaper in other Asian countries. Thus, the present rate of duty is detrimental for the industry as it leads to a higher input cost making the final product uncompetitive.

iii. Raw materials such as PVC foil, Veneer, Acrylic or Modacrylic Fiber

PVC Foil/Paper Foil/Veneer/ Acrylic or Modacrylic Fiber are required to be imported to fulfil export orders as they are not available in India. The duty rate ranges from 10%-20%. India thus, stands to lose its export competitiveness.

iv. Fabric

Many variants and quality of fabric used as an upholstery material for chair and sofas is not available in India or if available, on account of its limited supply, is available at a much higher price than in other global markets. To meet the domestic demand, such fabric is thus required to be imported from outside of India. However, imported upholstery fabric typically attracts a custom duty rate of 25%. This high duty rate makes the finished product very

³⁹ Network for Certification and Conservation of Forests spearheading a movement for Forest Certification in India, <https://nexusofgood.org.in/stories/network-for-certification-and-conservation-of-forests-spearheading-a-movement-for-forest-certification-in-india>

⁴⁰ The Federation of Indian Chambers of Commerce & Industry (FICCI) and Trade Promotion Council of India (TPCI). 2019. *Furniture Industry India's Opportunity for Growth*. West Bengal.

⁴¹ Refer footnote 53.

⁴² Stakeholder consultations.

⁴³ 44031100, 44031200, 44039924, 44039990, 44071020, 44071100, 44072500, 44072910, 44072990, 44079100, 44079200, 44079600, 44091090

expensive and also makes it difficult to export as the Indian manufactured products cannot be competitive in terms of pricing in the international arena.

v. Furniture Hardware & Fittings

The import duty on the hardware and fittings such as hinges, drawer slides etc. which are used in furniture making varies from 15% to 25%. The fittings / hardware being produced by Indian manufacturers do not meet the quality standards or are very expensive in terms of pricing. In order to execute bulk production, Indian manufacturers are forced to import hardware from other countries like China, Taiwan & Hong Kong on which they have to pay high duty rates making the final product expensive.

b. Challenges with duty drawback adding to cost burden

As per the Notification No. 07/2020-CUSTOMS (N.T.) of Ministry of Finance (Department of Revenue)⁴⁴ rates of duty drawback for Particle board, Fibreboard, Plywood, veneered panels and similar laminated wood etc. is 1.3%.

The burden of basic custom duty is high in cases where imported materials such as timber are used in manufacturing of products and it is not fully neutralized by the refund of duty drawback as the rate of all industry drawback rate is only 1.3% of the FOB value as mentioned above.

An exporter needs to apply for fixation of brand rate under rule 7 Customs and Central Excise Duties Drawback Rules, 2017 which is a very cumbersome process. As per discussions with industry players, the amount of documentation required to avail duty drawback is very extensive which makes it virtually impractical to use the scheme unless there stands a direct relationship between import and export on short cycle basis in terms of time.

2.3. Issues around production processes

After raw material, production processes such as quality and standards, scale of infrastructure, manpower, etc. comprises the largest cost head in the furniture manufacturing industry in India, accounting for about 20% of the total. However, the furniture production segment in the country is not operating optimally due to lack of regulations to enforce emission standards in furniture manufacturing, small scale supply of intermediate products and inadequate skill development ecosystem. These issues have been discussed in detail in the following sections.

Lack of regulations to enforce emission standards in furniture manufacturing

Wood-based panel is widely used in furniture manufacturing due to the advantages of easy processing and dimensional stability. However, wood-based panels release formaldehyde, causing indoor air pollution. There is lack of awareness and policy prescription in India to encourage use of globally approved standards that ensure low Formaldehyde emission levels. Globally both consumers and the industry manufacturing furniture made of particle board, fibreboard, and plywood are cognizant of the hazards of Formaldehyde emissions. Formaldehyde has been classified as a known carcinogen by the International Agency for Research on Cancer (IARC), a division of the World Health Organization (WHO) (IARC 2004).

Increased market demands internationally for low emitting products has led to an increased requirement from companies for the formaldehyde testing as part of their product development and quality control procedures.

Recognizing the hazard for the formaldehyde to human health, many countries have also established formaldehyde emission requirements and testing methods of formaldehyde emission from wood-based panel. Most notable amongst formaldehyde emission standards are the European, United States and Japanese formaldehyde emission standards, each prescribing different emission limits. European emission standards are illustrated as below.

Table 2: European emission standards of formaldehyde

Emission standard	Permissible level
E0	≤ 3mg/100g
E1	≤ 8mg/100g
E2	> 8 - ≤ 30 mg/100g

India also prescribes to the European formaldehyde limits for dry boards, MDF and Particle Boards as well. However, India still lacks standards for wood-based panels and plywood. Recognizing this fact, the Indian Plywood Industries

⁴⁴ Notification No. 07/2020-CUSTOMS (N.T.), 28th January 2020

Research & Training Institute, an autonomous body under the Ministry of Environment & Forest Govt. of India has requested the Bureau of Indian Standards to put up this matter with the Civil Engineering Department⁴⁵.

While India has drafted the requisite standards stating permissible limits of formaldehyde emissions from dry boards, MDF and particle boards commensurate with European E1 and E2 levels, however, the inadequate enforcement and awareness regarding carcinogenic nature of formaldehyde emission is an important industry concern.

Also, there is a need to push for compliance to E0 formaldehyde emission standards, which is an internationally followed norm and as of now India is far lagging behind in adopting to E0 standards, which makes the products much safer.

Small scale supply of intermediate products such as low emission and FSC certified board

India has high potential amongst existing organized furniture manufacturing (low emission board, FSC certified board, etc.). The organized furniture manufacturing market in India is currently valued at approximately \$2-3 billion and it is expected to grow at 10-15% year on year over the next few years.⁴⁶ These intermediate products have high demand across America, Europe, Africa, Australia, etc. Presently, Indian furniture market is highly dependent on imports of intermediate products. About 60% of the source of these products are imports, 35% are procured from the unorganized domestic market and remaining 5% are procured from the organized domestic market.⁴⁷

The low domestic availability of FSC and low emission boards in India is mainly due to two reasons.⁴⁸ Firstly, low investment levels in technology to manufacture these products. Majority of the demand in the furniture market is catered by the unorganized sector. So, the demand for certified FSC boards, low emission boards, etc. is less in Indian market. Low demand has resulted in low production volumes and led to high manufacturing overhead costs. Uncertainty in assured demands has resulted in small scale primary processing and low investor confidence. Secondly, there is inadequate policy framework and incentives to facilitate large scale manufacturing of these products in India.

Inadequate skill development ecosystem

India lacks in adequate skill sets and formal education eco-system required for building competencies in furniture manufacturing in an efficient and productive manner. India's low-cost labor alone is not enough to push its competitiveness ahead of its global peers – country's low labor productivity undermines labor cost advantages compared to other markets. Some of the key issues plaguing skill development are:

a. Inadequate infrastructure for up-skilling in new market trends and international practices

Out of 22 qualification packs (QPs) offered by Furniture Fitting Skill Council (FFSC), training in only 8 QPs are offered by 106 FFSC training centers in India. The list of QPs has been placed in Annexure A4. Also, ITIs and vocational training partners run long duration courses. For instance, the duration of basic carpentry course in ITIs is about 6 months, which can be easily tweaked to 3 months. Due to technological advancements, complex machinery from outside is being imported. However, the local labour in the industry presently does not possess the required skill to operate such machinery. At present the course content of QPs offered by FFSC is also not aligned with the global trends.

b. Inadequate academic-industry participation to develop skill development ecosystem

It is difficult to find appropriate workforce with market relevant skills in furniture manufacturing, and thus the majority of learning takes place while on the job. As per industry estimates, it takes nearly two years on the job for an employee to acquire sufficient skills to be competent in production. This skill gap is compounded by inadequate investment in ongoing training. Most of the industry players are spending large amounts of resources to provide training to their workforce at the time of induction into organization. The training in most cases is provided only for a maximum period of a week and that too based on need. Also, there is a lack of collaboration between industry and academia for building a niche skill base for designers and talent pool that can work with new technologies and machines.

2.4. Issues around high transport and logistics cost

In India the logistics cost as percentage of its GDP contribution stands at 14%. This cost is very high compared to the similar cost in Japan (11%), US (9.5%) and Germany (8%), as percentage of GDP contribution.⁴⁹ In the furniture

⁴⁵ Ply Reporter, *IPIRTI Seeks BIS Standards For Formaldehyde Emission From Wood Based Panel Products* <https://www.plyreporter.com/article/71631/ipirti-seeks-bis-standards-for-formaldehyde-emission-from-wood-based-panel-products>

⁴⁶ Stakeholder consultations.

⁴⁷ The Federation of Indian Chambers of Commerce & Industry (FICCI) and Trade Promotion Council of India (TPCI). 2019. *Furniture Industry India's Opportunity for Growth*. West Bengal.

⁴⁸ Stakeholder consultations.

⁴⁹ Shariq Khan. 2019. India can add 8% to its exports if it puts its last mile connection in the fast lane. *The Economic Times*. 22 August.

sector particularly, cost of transportation and logistics accounts to about 6%-8% of the total manufacturing cost, compared to that of China's 4%, making industry uncompetitive. For example, table 3 highlights that the cost of transportation of furniture and input material between Jaipur and Mundra port is 6.3% of the sales value.⁵⁰

Table 3: Case of movement of furniture goods between Jaipur and Mundra port

Cost of cargo movement to and fro port by Rail	In ₹
Factory to Jaipur ICD	5,000
Jaipur ICD to Mundra port	35,000
Total	40,000
Average Invoice value of one 40' HC is ₹1.2 million	
Rail transportation cost as percentage to FOB Value	3.3%
Transportation cost on Input Material as percentage to FOB Value	3.0%
Total cost of transportation as percentage to FOB Value	6.3%

Source: Stakeholder consultations.

This has been majorly compounded by barriers like, (a) overdependence on costly alternatives of roadway, and (b) inadequate location of furniture clusters, away from ports and urban and semi urban areas. These issues have been discussed in detail in the following sections.

Overdependence on costly alternative of transportation like roadway

There are 26 major furniture clusters in India, mainly spread across tier 2 and tier 3 regions (Figure 19).⁵¹ It is a pertinent fact that historically tier 2 and tier 3 regions have been plagued with issues of access and reach. Within India, the logistics landscape is skewed with a modal mix that is heavily dependent on roadways (about 60%), which is already congested.⁵² Despite taking less time in comparison to roadways, railways account for only 32% of the total freight movement and rest by the coastal shipping, airways and inland waterways.⁵³ This has been majorly ascribed to low quality of rail transport related infrastructure. High cost of rail freight, inadequate rolling stocks, non-availability of cargo hubs, suboptimal last mile connectivity and capacity constraints are major hindrance for the rail network from achieving its potential.⁵⁴

Also, there is a need to tie-up the regulatory changes in one law/regulation to another. For instance, a change in import duty will only be beneficial to businesses and the consumers in the long run if other cost/duties etc. on the product such as that of transport are brought down to give it a holistic impact and bring the cost of final product down.

For instance, there are very few certified wood and panel suppliers in India, furniture manufactures have to import such materials. After importation, these materials are brought from ports to factory mainly via rail transport on cost which is very high resulting into high cost of the final product. Thus, the entire value chain needs to be revamped for addressing issues ranging from duty to logistics and transport as they have a trickledown effect. The decreased rates of taxes and duties can also help generate additional business for railways as it may become preferred and cheaper mode of transportation.

⁵⁰ Government of India, Department for Promotion of Industry and Internal Trade (DPIIT). 2020. *Freight Subsidy for Furniture Industry*. New Delhi.

⁵¹ Government of India, Ministry of Skill Development & Entrepreneurship. 2017. *Human Resource Development and Skill Requirements in the Furniture and Furnishings Sector*. New Delhi.

⁵² Government of India, Department for Promotion of Industry and Internal Trade (DPIIT). 2020. *Freight Subsidy for Furniture Industry*. New Delhi.

⁵³ Government of India, Department for Promotion of Industry and Internal Trade (DPIIT). 2020. *Freight Subsidy for Furniture Industry*. New Delhi.

⁵⁴ Indian Chamber of Commerce. 2017. *Indian Logistics Focus on Infrastructure Creation to Sustain and Drive Growth*.

These concerns have been reflected in the drop in India's rank on World Bank's Logistics Performance Index (LPI), which measures a country's performance on six key criteria.⁵⁵ Over the past five years, the country's LPI rank has fallen from 37 (2013) to 44 (2018) as its score has stagnated over the period while competing countries have improved on the same. India lags behind other major markets such as China (26), US (14), and Germany (1). Particularly, India's rank in quality of trade and transport-related infrastructure (ports, railroads, roads and information technology), which is one of the six criteria, has deteriorated from 47 (2013) to 52 (2018).⁵⁶

Figure 19: Key furniture clusters in India



Source: Human Resource Development and Skill Requirements in the Furniture and Furnishings Sector. NSDC report.

Location of furniture clusters away from ports

Majority of the furniture clusters in the northern and central India region are unorganised, operating on a small scale and are located away from ports. Being handicapped by location, weighs down these clusters more, compared to their counterparts in coastal regions, as they cannot relocate to states which have a more efficient infrastructure network.⁵⁷ Also, there are very few certified wood and panel suppliers in these clusters and furniture manufactures have to import such materials.⁵⁸ After importation these materials are brought from ports to clusters mainly through rail transportation (which is expensive) and results in high cost of the product.⁵⁹

Much of these escalating costs is due to the absence of efficient intermodal and multimodal transport systems.⁶⁰ Inadequate integrated planning of industrial infrastructure and transport network has been one of the reasons for inefficient multimodal transportation.⁶¹ This is further exacerbated by overcapacity of intermodal systems in terms of rakes and ICDs in clusters, suboptimal last mile connectivity and inadequate subsidy support for transportation of inputs from raw material source to cluster, cluster to port and back to cluster.⁶²

⁵⁵ The LPI index scores 155 countries on six main parameters on a scale of 1 (worst) to 5 (best) every two years. These criteria include: a) efficiency of the clearance process (speed, simplicity, and predictability of formalities) by border control agencies, including customs; b) quality of trade- and transport related infrastructure (ports, railroads, roads, information technology); c) ease of arranging competitively priced shipments d) competence and quality of logistics services (transport operators, customs brokers); e) ability to track and trace consignments and f) The frequency with which shipments reach the consignee within the scheduled or expected delivery time.

⁵⁶ The World Bank data portal.

⁵⁷ Shariq Khan. 2019. India can add 8% to its exports if it puts its last mile connection in the fast lane. *The Economic Times*. 22 August.

⁵⁸ Refer footnote 68.

⁵⁹ Stakeholder consultations.

⁶⁰ Indian Chamber of Commerce. 2017. Indian Logistics Focus on Infrastructure Creation to Sustain and Drive Growth.

⁶¹ Refer footnote 71.

⁶² Refer footnote 71 and stakeholder consultations.

2.5. Issues around Ease of Doing Business

As per latest Doing Business⁶³ ranking released by the World Bank in Doing Business Report (DBR, 2020) India is placed at 63rd rank among 190 countries. Meanwhile China carried out a record eight business reforms and ranks 31st globally on the ease of doing business rankings with a score of 77.9 out of 100.⁶⁴

Although India has made tremendous strides in terms of easing and creating a conducive business environment for businesses to attract more foreign investments, however, it still lags behind China in some of the key areas such as Starting a Business, Enforcing Contracts, Registering Property. India is close to China in terms of its ranking only in dealing with construction permits. The detailed table highlighting the gap which India has in comparison with China on each of the EoDB indicators has been placed in Annexure A3. Some of the issues contributing to low performance in the EoDB reform areas have been discussed below.

Lack of a dedicated policy and nodal Ministry for the sector

Furniture manufacturing industry is of vital importance not only from an economic standpoint but also from perspective of environment sustainability. The sustainable development of the furniture industry in India requires a long-term commitment from the government. However, the sector is marred by non-existence of a cohesive policy which caters to the specific needs of the sector and is instead governed by various set of laws which create chaos and confusion with too many registration and compliance requirements. Lack of a dedicated ministry and a National policy has led to slow growth of this sector which has huge potential to be a key contributor to the National GDP.

A policy document can give shape and vision to the industry by creating a road map with pre-defined targets, incentivizing initiatives, creation of hubs for furniture manufacturing and promoting exports. Lack of a uniform timber policy across the country has also been a cause of concern for the industry as issues such as permissions for tree felling, permit for transit of timber are not uniform in the States or are largely ignored causing harassment at the hands of officials. Hence there is a need to tie-up the timber policies in a manner so that uniformity is achieved.

There is a need to tie-in the different policies such as the Forest Policy, Leather and Textile Policy, Handloom Policy, MSME Policy and others which have an impact or are impacted by the Furniture industry.

Operational challenges - Labour laws & other import related requirements

i. Manual processes, annual renewals leading to cumbersome business environment

Majority of labour laws in India require both registration and compliance (in the form of filing return etc.) which is a cumbersome process as the requirement of renewal is generally on an yearly basis and compliance requirements such as filing of return can range from being annual to half yearly or even quarterly in some cases. This presents a heavy regulatory and compliance burden on businesses.

Lately the intent of the Government of India has been to ease the business environment by introducing online registration and renewal under 13 labour laws across India, however, more efforts are required to be undertaken as presently the exercise covered only a fraction of labour laws implemented by States and Union Territories. Also, on-ground practices and working of online systems differ from State to State and incoherence in the laws is the challenge faced by the industry.

The Labour Codes which have been recently introduced have also brought about a change in the methodology which requires modification of existing online labour management systems of the States for a smooth transition to fulfil requirements under the Codes.

ii. Delays in procedures for assessment of duty and import clearance

The Customs Act 1962 under Chapter VII deals with Clearance of Imported Goods and Export Goods. Section 46 and 47 lay down the procedure for entry of goods on importation and clearance of goods for home consumption respectively. The present system involves manual intervention and an officer can use discretion to hold up clearance of shipment without issue of show cause notice, leading to considerable losses on account of demurrage and delay in bringing goods into India.

⁶³ Doing Business is a World Bank Group annual study measuring the regulations that enhance business activity and those that constrain it. Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 190 economies.

⁶⁴ Doing Business 2020: *China's Strong Reform Agenda Places it in the Top 10 Improver List for the Second Consecutive Year*, <https://www.worldbank.org/en/news/press-release/2019/10/24/doing-business-2020-chinas-strong-reform-agenda-places-it-in-the-top-10-improver-list-for-the-second-consecutive-year#:~:text=China%20carried%20out%20a%20record,of%2077.9%20out%20of%20100.>

2.6. Other issues impacting cost competitiveness

Other regulatory hurdles

a. High rate of Goods & Service Tax (GST) on Furniture

At present GST levied on furniture (wooden/metal/rattan/bamboo etc) ranges from 12-18%. Such a tax rate is very high for a product which is a necessity for a common consumer and is not a luxury or an aspirational item. In addition, this sector supports many other ancillary industries and it is thus important that it is made affordable. Such high GST rates multiplied with increased input cost make the end-product expensive and deters consumption demand which helps in building scales for manufacturing. Further, a high GST rate leads to tax evasion by burgeoning of the unorganized market and is thus a loss to the exchequer in terms of overall revenue collection.

b. Archaic Plant Quarantine laws mandate Phytosanitary Certification for processed final product

In India, Plant Quarantine (Regulation of Import into India) Order, 2003 (Order) regulates import and prohibition of import of plants and plant products including timber, wood, and logs.

As per the Order, the import of timber⁶⁵ and wood/bamboo products requires fumigation / heat treatment / Kiln Dried to be endorsed on the phytosanitary certificate issued in the country of export. For fumigation purposes Methyl Bromide is used to control quarantine pests. However, same has been recognized as being toxic to humans and causes damage to the Ozone layer.⁶⁶ Recognizing the harmful effects and in fulfilment of Montreal Protocol on Substances that Deplete the Ozone Layer terms, ban on the use of methyl bromide within European Union countries as a fumigation treatment has been effective since 18 March 2010.⁶⁷

Clause 9 of the Order provides a requirement of fumigation (apart from processed wood material such as plywood, particleboard, oriental strand board or veneer) and does not differentiate between other products of wood / timber / bamboo that have undergone processing before they reach the port in a manner that is free from pest.

The requirement of fumigation for processed wood products is an environmental hazard in view of which same has been banned in majority of countries across the world. Persistence of fumigation requirement in India is also a regulatory burden in terms of procedure and cost for the importers.

As per interviews with some of the industry players, “the Order requirement is a detriment for the Ease of Doing Business principle as a redundant procedural requirement is being forced upon importers in the form of fumigation even when the nature of products has been altered in a manner that no pests infection is possible.”

c. Customs (Administration of Rules of Origin under Trade Agreements) 2020 (CAROTAR Rules)- Introduction of Chapter VAA (Section 28DA) under the Customs Act creating undue burden on importers

A new chapter has been introduced in the Customs Act 1962 vide clause 110 of Finance Act, 2020 to control imports under FTA's per the announcement in Budget 2020-21. The new Chapter VAA and Section 28DA seeks to provide obligations on importer and prescribe for time bound verification from exporting country in case of doubt.

Section 28DA imposes a very strict regime upon an importer to possess enough information like country of origin criteria, including the regional value content and product specific criteria, specified in the Rules of Origin in the trade agreement, to the satisfaction of the Custom Authorities.

Thus, in the current regime, it is expected that the importers have all necessary calculation and proof from the exporter to be submitted to the customs officer on demand. This is an undue burden on importers as such data is readily available with the custom authorities of exporting nation. An FTA is a bilateral or multi-lateral agreement and it is upto the exporting country's Competent Authority to verify that the Rules of Origin prescribed under the Agreement are complied with before issuing the certificate.

⁶⁵ timber means a form of dead wood, log and lumber cut from plants, with or without bark or sawn and sized, which is used for manufacturing veneer, plywood, particle or chip board and making building material, furniture, packages, pallets, sports goods and handicrafts

⁶⁶ Methyl bromide deadline and alternatives, <https://www.mpi.govt.nz/export/timber-wood-products/timber-wood-products/methyl-bromide-deadline-and-alternatives/>

⁶⁷ <https://www.agriculture.gov.au/export/controlled-goods/plants-plant-products/ian/ian-2010/2010-09>



3.

Learnings from International Experiences

3. Learnings from International Experiences

Previous chapters have described the key trends in the furniture sector in India and enumerated various impediments which are adding to the cost disabilities of India. At one end, we are grappling with the operational cost disabilities as highlighted in Chapter 2, on the other hand regulatory impediments and inadequate policy focus on the furniture sector is further adding to the woes of the industry. It is thus important to identify the developmental strategies to address these hurdles that are hindering the growth of this sector.

This chapter outlines the developmental strategies adopted by international growth models such as China, Poland, Romania and Vietnam to overcome the similar (vis-à-vis India) operational and regulatory hurdles faced by the furniture sector. The key challenges and the developmental strategies adopted by these countries have been enumerated below in Table 4.

Table 4: Best practises relevant to challenges faced by Indian furniture industry

Key challenges	Best practise/ Development strategy	China	Poland	Romania	Vietnam
Issues around availability of suitable raw material	Supporting commercial forestation and sustainable forest management	✓	✓	✓	✓
	Easing imports of raw materials and semi-finished goods	✓			✓
	Promoting certification of local varieties of wood suitable for furniture sector			✓	✓
Issues around production processes	Support for upgrading / renovation of existing technology	✓	✓		
	Development of infrastructure for up-skilling in market trends			✓	✓
	Reinforcing academic-industry participation to develop skill development ecosystem		✓	✓	✓
	Diversification and product development by promoting use of alternate sources	✓			✓
Issues around high transport and logistics cost	Development of furniture clusters to promote economics of scale	✓	✓	✓	✓
Issues around EoDB	Creation of a national policy framework	✓	✓	✓	✓

Issues around availability of suitable raw material

a. Supporting commercial forestation and sustainable forest management

Vietnam adopted commercial forestation practice by implementing a “5-million-hectare forest-planting programme” to develop 3 million hectare of production forest. Out of 3 million protective forests, 70% have been developed under the guidelines of FSC.⁶⁸

Poland is a global leader for sourcing FSC certified wood. About 7 million hectares of forest cover, which constitutes 75% of all forests in the country, are FSC-certified.⁶⁹ Also, the Polish government’s National Programme of Increasing Forest Cover (NPIFC), launched in 2002, anticipates increase in forest cover by up to 1.5 million and 680 thousand hectare by 2050 and 2020 respectively as a result of ongoing afforestation efforts.⁷⁰

⁶⁸ Vietnam Trade Promotion Agency (VIETRADE). National Sector Export Strategy – Wooden Furniture Industry, Vietnam. <https://translate.google.com/translate?hl=en&sl=vi&u=http://www.vietrade.gov.vn/&prev=search&pto=au> (accessed on 27 October 2020)

⁶⁹ FSC UK - <https://www.fsc-uk.org/en-uk/about-fsc/who-is-fsc/get-to-know/fsc-in-poland>

⁷⁰ <http://www.fao.org/3/XII/0184-C1.htm>

In China, to promote the domestic wooden raw material availability “Afforestation Programme” was implemented and subsequently relaxed the Harvest Quota System (HQS) by 42 million m³ for timber harvesting. Further government agencies, international development organizations, and financial institutes have developed various measures to encourage companies to adopt forest certification. These incentives include free training, free auditing, low/ zero interest loan, tax breaks, among others.⁷¹

Romania implemented commercial forestation practice by identifying 2 million hectares of state-owned forest managed by the Forest Research and Management Institute (FRMI), to be developed under FSC.⁷² The FRMI, established in 1993, enhances Romania’s capabilities to meet international standards by administering scientific guidance in areas of research and forest management, implemented for all state-owned forests.⁷³

b. Easing imports of raw materials and semi-finished goods

In Vietnam, government reduced import duty on wooden logs and sawn wood to 0% and duty on semi-finished (such as panel woods) were reduced to 0% till 2018 and later increased to 5% to strengthen domestic production.⁷⁴ Owing to scarcity of high-grade wood, the Government of China decreased the import tariffs for raw material. The tariff rates for industrial roundwood and sawn wood were reduced to 0%.

c. Promoting certification of local varieties of wood suitable for furniture sector

Vietnam government ensured full adherence to international norms and standards to enhance the product quality. Quality certification bodies and testing facilities were implemented under ISO 9001 standard for quality management. Materials, both local and imported, were well tracked from their source and complied with international environment standards including FSC as required by the global marketplace.⁷⁵

To support forest certification, wood loggers in Romania are exempted from paying 3% tax on the price of timber towards the Environmental Fund as long as the assortment of wood is sourced from certified forests. A Forest Certification Information Centre has also been formed to support certification in the country.⁷⁶

Issues around production processes

a. Support for upgrading / renovation of existing technology

The Vietnam government has provided incentives by way of credits, grants, and subventions for the renovation of processing equipment. The government also developed and published a bulletin on processing equipment. A website on the development of wood processing equipment, details of suppliers, functions and specifications of machines and equipment was developed. Also, functional units within suitable training institutions were set-up to provide information on the latest development in processing to wood processing companies.⁷⁷

In Poland, the Program for Supporting Investment of Considerable Importance for the Polish Economy for 2011 - 2030’ provides considerable support to companies in the form of subsidies which can be based on an agreement between the investor and the Minister of Development. The program grants investment support in the following way:

- Investment costs in intangible and tangible assets can range from 5-15% for a large investor and 15-20% for SMEs for strategic or innovation related investments whereas R&D capabilities qualify for up to 15- 25% for all levels of entrepreneurs.

b. Development of infrastructure for up-skilling in market trends

In Vietnam, training institutes supported and trained 4K wood processing companies on techniques like saw-doctoring, finishing etc. Several training programmes were introduced for staff to support export logistics requirements, market analysis, foreign languages, negotiation skills etc. Government incentivized the exporters by supporting 50% of expenses for being trained in Vietnam and other countries for improvement of export capacity and business skills. The government also, organized trade fairs, exhibitions, design internships and innovative programmes to grasp the trend of the market and increasing market intelligence.⁷⁸

In Romania, the Furniture Manufacturers Association (APMR) represents the interests of stakeholders involved in furniture manufacturing in areas including technological, legal, VET and promotion. It has 40 members that are educational and VET organizations, including 10 designer companies. APMR implements training programs for

⁷¹ Food and Agriculture Organization of The United Nations. Demand and supply of wood products in China.

⁷² Romania insider - <https://www.romania-insider.com/romsilva-international-certification-2018>

⁷³ FAO - <http://www.fao.org/3/w3722e/w3722e23.htm>

⁷⁴ Refer footnote 70.

⁷⁵ Refer footnote 70.

⁷⁶ WWF - Romania leads in sustainable forestry – tax incentives and certification for FSC wood - <https://wwf.panda.org/?89140/Romania-leads-in-sustainable-forestry-tax-incentives-and-certification-for-FSC-wood>

⁷⁷ Refer footnote 73.

⁷⁸ Refer footnote 70.

workers and managers and also organizes Romania's largest furniture design competition. It is part of the furniture design network and has built a central database of designers and schools in the country.⁷⁹ APMR is also one of the partners in the Green Public Procurement (GPP) – Furniture platform, funded by Erasmus+ Programme of the European Union. The project provides an open learning resource for furniture industry professionals to improve capabilities in reducing environmental impact through green procurement.⁸⁰

c. Reinforcing academic-industry participation to develop skill development ecosystem

Vietnam implemented model of Public-Private Partnership for training workers on woodworking in Dak Lak province under the technical and financial support of GTZ (Germany).⁸¹ Romania's Transilvania University of Brasov's Faculty of Wood Engineering is a member of "Digital Transformation Manager" or DITRAMA project and has integrated furniture as a topic in its curriculum all levels. The faculty has prepared 6,500 graduates in sixty years through its accredited programs.⁸²

The Polish Chamber of Commerce of Furniture Manufacturers (OIGPM)'s efforts in integrating the furniture sector in the country includes training activities, personnel developments and seminars. It consistently engages with European associations in efforts to seek grants for Education and Training (ECVET).⁸³

d. Diversification and product development by promoting use of alternate sources

In Vietnam, the government provided incentives to invest in the research and development, technology and innovation via credit packages. Automated assemblies were installed in the factories. The government in Vietnam as well as China encouraged utilization of domestically available raw materials such as bamboo, rattan, water-hyacinth, aluminium/metal, leather, ceramics, lacquer, glass, plastic etc. for diversification of wooden furniture products.⁸⁴

Issues around high transport and logistics cost

a. Development of furniture clusters to promote economics of scale

Established in 2012, the Transylvanian furniture cluster in Romania, comprises 65 furniture companies, 11 education institutions, 9 industry catalysts, and 2 public institutions (Figure 20). With the blend of state and European funding, the cluster supports research and innovation through ICT integration. Under the Competitiveness Operation Program (POC 2014-2020) project, the cluster has built a laboratory endowed with equipment in CREIC, while increasing capacity at production facilities of members, along with facilitating the design expertise around CREIC.⁸⁵

Figure 20: Romania furniture clusters



Figure 21: Vietnam furniture clusters



In Vietnam, two major furniture hubs were established in the proximity of ports, Binh Duong and Binh Dinh (Figure 21). Binh Duong furniture hub alone accounts for 50% of furniture manufacturers in Vietnam. These two hubs were established in the close proximity of wood processing industries. Furniture hubs near the ports reduced the outbound logistics cost and close proximity to wood processing hubs lightened the inland logistics expenses. Easy and cost-effective access to different competencies helped to integrate the furniture sector with similar sectors. For example, excellent handicraft skills and wide range of handicraft materials gave a basis for decoration and was adaptable to lifestyle furniture.⁸⁶

⁷⁹ <https://www.ergosignproject.eu/en/partners>

⁸⁰ GPP; <http://gpp-furniture.eu/about-the-project/>; <http://gpp-furniture.eu/partners/>

⁸¹ Refer footnote 70.

⁸² <https://facetproject.eu/ubrasov/>

⁸³ <http://www.oigpm.org.pl/en/51/misja-i-dzialalnosc>

⁸⁴ Refer footnote 70.

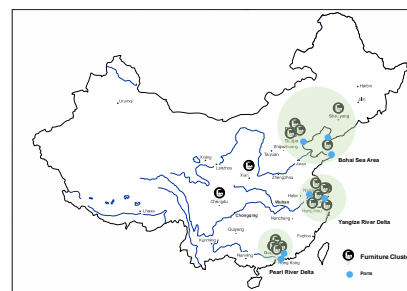
⁸⁵ <https://www.interregeurope.eu/rcia/news/news-article/12127/local-action-plan-romania-implementation-process/>;

⁸⁶ <https://clustercollaboration.eu/content/transylvanian-furniture-cluster-legally-represented-hygia-consult>

Refer footnote 70.

To facilitate the producers with effective foreign trade activities and economic inland transportation, the Chinese government established furniture clusters in three economically developed core areas: the Pearl river delta; the Yangtze river delta; and Bohai Rim region (Figure 22). These regions are majorly located either along the riverbanks or on the eastern side of China in the proximity to South China Sea, East China Sea or Yellow Sea respectively. The establishments of these industrial regions around the ports facilitate the sector with better geographical advantage, easy access to international markets, and reduced inland transportation costs.⁸⁷

Figure 22: China furniture clusters



In Poland, Szczecinek Furniture Cluster is owned by the private sector player Kronospan and the City, both of which hold over 50 hectares of land in the cluster (Figure 23). The cluster also lies in a Special Economic Zone (SEZ) which provides companies with tax exemption of up to 35-55% over a 12-year period for new investments. Kronospan has established infrastructure facilities including Kronospan Design Center, R&D centre and warehouse and manufacturing facilities. The city is located 200 km away from all major seaports and 170 kms from three Polish airports.⁸⁸ Current annual potential of Kronospan in the region is 800,000.

Figure 23: Poland furniture clusters



Issues around EoDB

a. Creation of a national policy framework

In Romania, the government provided several fiscal incentives and investment attractiveness measures to support the manufacturing of furniture goods in the country. These include 10-year tax exemptions on the factories in new industrial zones, export subsidy, low interest rate loans, stamp duty exemption for new industrial units for 5 years, among others. Also, the furniture industry has been identified as one of the ten competitive sectors qualified for funding from the state and European Structural and Investment Funds (ESIF) under the National Competitiveness Strategy (NCS). To develop the competitiveness of MSMEs in the sector, a budget allocation of 1,057 million lei has been allocated for financing expansion, incubation and micro-industrialization efforts.⁸⁹ In China, SEZs were expanded to Export Processing Zones (EPZs) and provided benefits such as duty-free imports, no tax on utilities and a preferential corporate tax limit of 15%. The Chinese government also introduced “Two-Free, Three-Half” policy through which foreign enterprises were entitled to receive two years of tax holiday.⁹⁰ In Poland, foreign investors are qualified for incentives including income tax and real estate tax exemptions, investment grants covering up to 50% costs (70% in case of SMEs), R&D grants and qualifying grants specific to environment protection, renewables, logistics or training.⁹¹

As a result of these strategies, the furniture industry in China, Poland, Romania and Vietnam has grown manifold between 2008 and 2018. In Vietnam, between 2008 and 2018, furniture manufacturing output and exports witnessed a 3-fold increase and value addition in the industry witnessed a 2-fold increase.⁹² During the aforementioned period, China became the largest producing and exporting country of furniture products in the world. Also, the furniture output in China witnessed a 15-fold increase during that period.⁹³ Poland became the world's fourth largest exporter of furniture and the sixth biggest furniture maker⁹⁴. Also, Poland witnessed a 4-fold increase in furniture value addition during the same period. Romania's exports increased five-fold in the period from 2008 to 2018.⁹⁵ In 2018, the furniture industry in Romania contributed to about 4.5% of the country's GDP.

⁸⁷ Yang, hongqiang and Ji, Chunyi and Nie, Ning and Hong, Yinxing. China's wood furniture manufacturing industry: industrial cluster and export competitiveness. <https://mpr.ub.uni-muenchen.de/44282/> (accessed on 27 October 2020)

⁸⁸ https://www.furniture-cluster.com/uploads/homepage/Kronospan_Furniture%20Cluster_Brochure_05062019.pdf

⁸⁹ National reform programme 2020 - https://ec.europa.eu/info/sites/default/files/2020-european-semester-national-reform-programme-romania_en_0.pdf

⁹⁰ Directorate General for External Policies of the Union. Export finance activities by the Chinese Government.

<http://www.europarl.europa.eu/activities/committees/studies.do?language=EN> (accessed on 27 October 2020)

⁹¹ <https://www.state.gov/reports/2020-investment-climate-statements/poland/>

⁹² Refer footnote 86.

⁹³ Refer footnote 86.

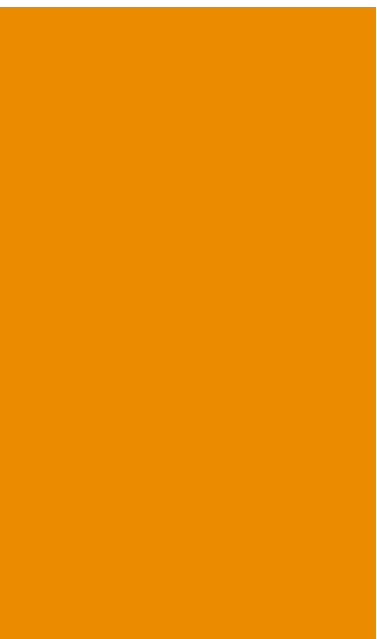
⁹⁴ EMIS – Poland Wood & Furniture Sector 2020/2024

⁹⁵ Refer footnote 86.



4.

Contours of the strategic
roadmap for enabling growth
of furniture sector of India



4. Contours of the strategic roadmap for enabling growth of furniture sector of India

As discussed in Chapter 1, the furniture industry in India is expected to witness a multi-fold growth in coming years. However, as we have analysed in Chapter 2, the industry is facing various challenges around issues like availability of suitable raw material at a competitive price, production processes, transport and logistics cost, ease of doing business, etc. It is because of these challenges our current supply capacity is poised to be inadequate to meet the future demand. In line with our analysis, discussions with various stakeholders and analysis of learnings from international experiences, we have identified specific recommendations (across short, medium- and long-term horizons) in terms of the implementation timelines to address the identified challenges. These recommendations will impact three critical enablers of growth of this industry:

- 1) increasing consumer demand in the furniture sector,
- 2) strengthening domestic manufacturing capability and
- 3) enhancing competitiveness of domestic industry (including focus on exports).

In the following Figure 25, specific interventions with a time horizon of short (0-1 year), medium (1-3 years) and long term (more than 3 years) have been summarized.

Figure 24: Recommendation and specific interventions

Expected implementation time horizon	Recommendations	Specific interventions	Impact footprint on growth enablers		
			(1)	(2)	(3)
Short term (0-1 year)	Enabling ease of raw materials and finished goods imports in the short term	Reducing import duty rates on certain raw materials	✓	✓	✓
		Reducing import duty rates on finished goods	✓		
		Amending Plant Quarantine laws for easing imports of processed materials		✓	✓
		Simplification of Rule 7 of Customs duty drawback	✓	✓	✓
	Addressing internal trade barriers to reduce operational costs	Reduction of GST rates to reduce prices and stimulate consumer demand	✓		
	Enabling proper use of Free Trade Agreements	Amending legal provisions for proper use of FTAs	✓	✓	✓
	Implementing measures to enhance Ease of Doing Business (EoDB)	Simplification of registration under labour laws		✓	
Medium term (1-3 years)	Supporting commercial forestation and sustainable forest management	Ensuring smooth procedures for assessment of duty and import clearance		✓	
		Bringing in amendments in the Draft National Forest Policy to ensure availability of certified raw-material coupled with other enabling policies like proposed Timber policy		✓	✓
		Promotion of Farm/ Agro forestry for augmenting indigenous raw material availability		✓	✓
		Developing policies to capitalize on Trees outside Forests		✓	
		Developing Public Private Partnership models to enable productive plantations		✓	
	Promote certification of local varieties of wood suitable for furniture industry	Developing and ensuring enforcement of regulations to reduce formaldehyde levels during manufacturing		✓	✓
		Developing policy framework to support establishment of certification ecosystem		✓	✓
		Promote use of alternate sources of raw materials	Incentives and policy support to promote production of other raw materials		✓
	Support capacity building to supply intermediate products like particle boards	Recycling wood waste: Creating a sustainable future		✓	
		Incentivize technological upgradation for manufacturing intermediate products		✓	✓
Expanding manufacturing product profile to include high export potential products	Short duration fiscal benefits to promote capital investments for manufacturing such products	✓	✓		
Incentivizing growth of inter-linkages across home furnishing categories	Conceptualizing a Furniture policy through integration of various interrelated aspects across other Government policies	✓	✓	✓	
Long term (> 3 years)	Development of furniture clusters to promote economies of scale	Identify competitive locations closer to ports and urban areas		✓	✓
		Designing incentive package for migration of brownfield units		✓	✓
	Incentivizing growth of inter-linkages across home furnishing categories	Developing a mechanism to procure ancillary products from MSMEs		✓	
		Preparation of roadmap for re-skilling and future proofing jobs in collaboration with industry players	Designing course content and teaching pedagogy in alignment with the future trends to ensure global skill competitiveness		✓
		Reinforcing industry-academia collaboration to develop skill development ecosystem		✓	

1 Increasing consumption demand

2 Strengthening domestic manufacturing capability

3 Enhancing competitiveness of domestic industry (including focus on exports)

4.1. Short term interventions

Enabling ease of raw materials and finished goods import in the short term

a. Reducing import duty rates on certain raw materials

Issue: High import duty rates on raw materials.

Recommendation

- There is a need to reduce or revise import duty structure on timber, boards, fabric, and Furniture Hardware & Fittings which are not domestically available but are key for manufacturing high quality furniture both for the domestic and international market (Table 5). This will not only help reduce cost of manufacturing, but also make Indian manufactured products globally competitive.
- Also, stability in the duty structure would be a key determining factor for the growth of the industry as same will have an effect of having a conducive and predictable regulatory regime, having an assuring effect to the businesses. This will also enable businesses to plan their resources and business in a more structured manner.

Table 5: Suggested duty structure

Raw Material segment	Current rate of duty range (%)	Suggested duty
Timber ⁹⁶	5-10	<ul style="list-style-type: none"> • The import duty needs to be reduced to zero to make production of furniture more competitive in terms of pricing for domestic and global markets.
Panel making ⁹⁷	10	<ul style="list-style-type: none"> • Till the time there is sufficient domestic manufacturing to satisfy industry needs, zero or much lower rates of import duty must be imposed with a view to make Indian products part of global value chain.
Fabrics ⁹⁸	25	<ul style="list-style-type: none"> • The reliance on import is majorly due to certain fabric type not being available in India or available at a higher price leading to increase in cost of final good. The category needs reduced duty to make final products competitive.
Furniture Hardware & Fitting's ⁹⁹	15-25	<ul style="list-style-type: none"> • Import duty needs be reduced to zero to help to bring down the cost of final product to make it more competitive in the domestic and international Market.

b. Reducing import duty rates on finished goods

Issue: High rate of import duty at 20% on finished goods.

Recommendation:

Organized furniture industry is still very nascent in India with a high potential to grow. As a short-term measure to stimulate demand for the organised furniture sector which meets global quality standards, it is important to ensure its availability at an affordable price. It is thus, recommended to reduce the prevailing basic custom duty on finished goods which is at 20%. This will help in creating the necessary demand of furniture products in India which will drive future investments and manufacturing as India shall have built scales for manufacturing. Further, till the time the country is constrained with respect to availability of certified raw material, an enabling environment to facilitate import of finished goods is a must.

In addition, a higher duty rate leads to misuse of FTAs as to avoid paying duties, goods are routed through FTA channels. Therefore, genuine imports with reduced duty rates must be encouraged through the right channels which is legitimate with proper duties and taxes being paid. This will not only help in meeting consumer demand but also

⁹⁶ HSN codes 44031100, 44031200, 44039924, 44039990, 44071020, 44071100, 44072500, 44072910, 44072990, 44079100, 44079200, 44079600, 44091090

⁹⁷ HSN Codes 44101110, 4101190, 44101200, 44101290, 44109010, 44111400, 44119211, 44119229, 44123310, 44129990

⁹⁸ HSN codes 59039090, 54075290, 60053700

⁹⁹ HSN codes 73089090, 83013000, 83021010, 83022000, 83024200, 83024900, 85044090, 85176290, 94038900, 94039000

will control illicit trade practices and duty evasion as the products shall come through proper import channel, paying due taxes in terms of IGST etc thus overall benefiting the exchequer.

c. Amending Plant Quarantine laws for easing imports of processed materials

Issue: Archaic law not aligned with global best practices.

Recommendation:

Wood / timber / bamboo products that have undergone processing before they reach the port in a manner that makes them free from pest, should not require a phytosanitary certificate. Accordingly, an appropriate amendment in Clause 9 of the Plant Quarantine (Regulation of Import into India) Order, 2003 which provides for an exception for requirement of phytosanitary certificate for processed wood/timber products is required for promoting ease of doing business. This is important to facilitate ease of doing business and ensuring smooth trade procedures.

Case study from Canada

Canada under its Phytosanitary import requirements through Regulation D-02-12 has carved out an exception for processed materials from Methyl Bromide fumigation that have altered the commodity in a manner to reduce significantly the ability of the wood items to provide a habitat for pests. Canada Government recognizes the fact that materials that have been subjected to conditions such as heat, glue and/or pressure or any combination thereof (i.e. processed) no longer become a habitat for pests and thus safeguard entry of pest into Canada.

d. Simplification of Rule 7 of Customs duty drawback

Issue: Cumbersome procedure for claiming duty drawback.

Recommendation:

The current process for fixation of brand rate under Rule 7 of the Customs and Central Excise Duties Drawback Rules, 2017 imposes a heavy burden on the importers with regard to duty drawback claims process. This needs to be eased out and made much simpler and faster in terms of documentation requirements and processing time.

Addressing internal trade barriers to reduce operational costs

Reducing GST rates to reduce prices and stimulate consumer demand

Issue: High rate of GST on raw materials and finished goods ranging from 12%-18%.

Recommendation:

Reduction of GST rates on below mentioned raw materials as well as finished furniture would augment consumer demand and build scales for large scale manufacturing:

- Wood sawn or chipped
- Particle board, Oriented Strand Board (OSB) and similar board
- Fibre board of wood or other ligneous materials, whether or not bonded with resins or other organic substances, other than specified boards
- Plywood, veneered panels and similar laminated wood

Finished/ready-to-sell furniture Lowering the GST rate would immensely help the industry to spur demand in the economy which will lead to boosting sales and can also promote GST compliance across the value chain thereby plugging any leakages/instances of tax evasion and boost the overall revenue collection for the Government.

Enabling proper use of Free Trade Agreements

a. Amending legal provisions for proper use of FTAs

Issue: Policy uncertainty through introduction of CAROTAR Rules

Recommendation:

- While the government has imposed strict requirement to prove Country of Origin under Section 28DA of Chapter VAA of the Customs Act from standpoint of curbing misuse of FTAs, but this puts considerably large onus on bonafide importers. The system of seeking information from the Competent Authority of the exporting country issuing the Certificate of Origin should be in place and should be the responsibility of Indian custom authorities.
- India needs to focus on FTAs with consumption driven economies instead of current FTAs which are with production driven economies. This will open-up export opportunities for Indian furniture manufacturers.

- The Indian government has recognised furniture sector as one of the champion sectors for the growth of the economy and has been mulling various incentives and benefits such as tax breaks etc. To push this agenda further, FTA's with various countries including that of Europe should be focused on home furnishing & furniture so that preferential treatment can be garnered.

Implementing measures to enhance Ease of Doing Business (EoDB)

a. Simplification of registrations under labour laws

Issue: Plethora of labour laws operate in India.

Recommendation:

- In continuance to the Ease of Doing Business initiatives of the GoI, labour laws and Rules in terms of duration of grant of license / registration, procedure adopted needs to be harmonized across States and manual processes need to be eliminated for grant, renewal, amendment, transfer of registrations under the labour laws.

b. Ensuring smooth procedures for assessment of duty and import clearance

Issue: Cumbersome import clearance processes.

Recommendation:

- Manual procedures for assessment of duty and import clearance for clearing of shipments based on discretion of the officers under Section 46, 47, 48 of the Customs Act 1962 needs to be simplified for AEO certification holder in a manner that shipments are cleared timely without any hassle. This is necessary to reduce demurrage cost and pave way for smoother passage for goods into India.

4.2. Medium term interventions

Supporting commercial forestation and sustainable forest management

a. Bringing in amendments in the Draft National Forest Policy to ensure availability of certified raw material coupled with other enabling policies like proposed Timber policy

Issue: Need of a National Forest Policy which has a adequate focus on raw material availability & certification infrastructure.

Recommendation:

- Timely finalization of the Draft National Forest Policy 2018 with a focus on mandating global standards for Forest certification i.e. FSC certified woods and providing impetus to commercial forestation.
- Introduction of a uniform Timber Policy pan-India while keeping local needs in view, covering all aspects such as tree felling permissions and requirements, transit of timber etc.
- More impetus on utilization of Trees Outside Forests, agro / farm forestry, developing Public Private Partnerships for growing wood that can be commercially utilized.

The above measures shall help in increasing the domestic availability of quality, certified raw material in India giving a boost to furniture manufacturing which is globally competitive.

b. Promoting Farm / Agro forestry for augmenting indigenous raw material availability

Issue: Lack of focus on Farm / Agro forestry in India.

Recommendation:

To make agroforestry as a mainstream source for timber / wood / bamboo for the furniture industry, the government needs to:

- Ease out felling and transit restrictions on farm forestry / agroforestry tree species and products to benefit the farmers. As has been stated by the Ministry of Environment, Forests and Climate Change in guidelines and advisories, State Governments need to declare all agroforestry produce as agriculture produce to facilitate ease of felling, transport and marketing under the relevant State Acts.
- Similar clause is needed to be added in the Model Agriculture Produce and Livestock Marketing Act 2017 so that inter-state movement of all produce declared as agriculture produce would not require any tree felling permission under provision of any of the existing acts of the state.

- To ensure long term productivity of a farm, a system of third-party certified nurseries/plant material maybe put in place for agroforestry/farm forestry
- Credit facility and incentivization: use of certified plant material under Agroforestry/Farm forestry can be encouraged through government sponsored credit schemes.

c. Developing policies to capitalize on Trees outside Forests

Issue: Lack of prescribed policy for utilization of Trees outside Forests.

Recommendation:

- There is a strong need for tying up growth of Trees Outside Forests with farm forestry/agroforestry.
- Need of scientific management of forest plantations of commercially important species like teak, sal, seesham, poplar, gmelina, casuarina, bamboo etc.

A measured approach needs to be adopted in this regard in reference to the topography of the States to ensure that the ToF areas are utilized to their full potential.

d. Developing Public-Private Partnership models to enable productive plantations

Issue: Lack of focus on Public-Private Partnership.

Recommendation:

A model collaborative agreement is required to be developed and approved by Government to enable raising the productive plantations under PPP model by Forest Development Corporations (FDCs).

FDCs may be given the option of working arrangement, tenure, and species of plantations and rotation of plantations (medium/long rotation only) depending on land sites, market demand and financial viability of FDCs.

e. Developing and ensuring enforcement of regulations to reduce formaldehyde levels during manufacturing

Issue: Lack of policy prescription to reduce formaldehyde levels during manufacturing.

Recommendation:

- Enforcement of E0 standards on formaldehyde content/emission - India should strive at compulsorily mandating grading system like the one followed in Europe wherein each class and grade for wood-based panels are further sub-classified based on formaldehyde content/emission as E0 and E1. The E0 standard which is followed in several countries internationally will ensure that the products that are being manufactured are at par with the international level and also and safer compared to E1 and E2 standards.
- Lesser Formaldehyde emission levels will not only benefit the domestic industry but also increase India's export competitiveness as it is a mandatory requirement in many European countries including Italy, Germany, Sweden, Austria, Denmark and the Czech Republic.

Promote certification of local varieties of wood suitable for furniture industry

Developing policy framework to support establishment of certification ecosystem

Issue: Wood/timber certification ecosystem in India is still nascent.

Recommendation:

Since certification leads to wood / timber traceability and ensures that sustainable forest practices have been adopted, a statutory and institutional mechanism for certifying wood / timber needs to be in place.

The governments both at Central and State level need to provide suitable support in technical and budgetary terms to the state forest departments, communities and growers to encourage forest certification and also the policies need to be amended to accommodate for mandatory certification.

Case study - The Indonesian model of certification

Forest certification commenced in Indonesia in 1990. The initial certificate, issued by the Rainforest Alliance's (an international non-profit organization) SmartWood programme, covered plantations managed by the para-statal company Perum Perhutani in response to the widespread failures of governments to curb destructive forestry practices in Indonesia.

Currently, there are 3 entities providing voluntary-private forest certification schemes in Indonesia, namely The Forest Stewardship Council (FSC), Indonesian Forest Certification Cooperation standards established in 2011 and endorsed by PEFC and the Indonesian ecolabelling institute or lembaga ecolabel Indonesia (LEI).

In addition, there is one mandatory state forest and timber legality certificate system, namely the timber legality verification system or sistem verifikasi legalitas kayu (SVLK, including the sustainable production forest management scheme or pengelolaan hutan produksi lestari / PHPL).

All concessions in Indonesia should meet the PHPL standard or optionally the SVLK standard for temporary time period. The SVLK certificate is valid on for 3 years and after that period the concessions should apply and pass for the PHPL standard. The SVLK standard requires that the forestry company should have (1) a right to the land and harvest, (2) a management plan approved by a government official, (3) a legal document for timber transportation, (4) payment for timber royalties, (5) documents assessing environmental and social impacts and the monitoring result, (6) a safety system in the workplace and fulfillment of worker rights such as employment contracts, the right to form worker unions, and the exclusion of child workers.

The PHPL standard covers precondition, production, ecology, and social criteria. With such concerted efforts at certification, forest owners and companies in Indonesia are now able to demonstrate their good practices through certification and built the trust of the marketplace, both domestic and international that was lost over the past decade. The Indonesian model serves as a good example of adopting and introducing certification standards which can be beneficial economically and aid in achieving sustainability goals.

Promotion of use of alternate sources of raw materials

a. Incentives and policy support to promote production of other raw materials

Issue: Inadequate focus on usage of other alternative raw material to reduce dependence on timber.

Recommendation:

There is a need to focus on alternative materials which can replace timber in the long run for furniture manufacturing and are also sustainable and less damaging to the ecosystem. Alternative raw materials which can be used for manufacturing furniture products include:

- India's Acacia wood which has much longer plank's and good grains in comparison to other Acacia wood which is used in Vietnam and China
- Indian Mango wood which considering the dry climate of India is more suitable for furniture making rather than similar wood from Malaysia, Thailand, Indonesia
- Indian bamboo reserves
- Rubberwood is expansively made use by the Indian furniture market being an alternative to traditional wood and eco-friendly at the same time. In furthering the agenda set by The National Rubber Policy 2019 on commercial utilization of rubber wood, the industry needs for the same need to be prioritized.
- Use of sustainable raw material like rice straw into a new renewable material for making furniture should be extensively explored. This will also benefit the farmers all over India since as of today most farmers burn the straw post-harvest which causes pollution thus a dual purpose of sustainability and reducing pollution can be achieved.

Fiscal benefits need to be provided to promote use of the aforementioned raw materials and support research and development of other renewable raw materials.

b. Recycling wood waste: Creating a sustainable furniture

With the dawn of the climate crisis, sustainable thinking has become crucial, especially in industrial production and consumption. It is now an imperative for countries to think about recycling wood waste in order to effectively combat the rapidly reducing natural resource. Some of most common sources of wooden waste are (a) municipal solid waste and (b) waste from packaging. The furniture industry is, therefore, a contributor to the generation of wood waste.

A survey conducted by Green-o-Tech India of over 100 industries across various sectors showed that the generated wooden waste across the sectors was mostly sold to local scrap dealers, who further sell it to the furniture market. However, the utility of such waste wood in the furniture industry has not been maximized¹⁰⁰, primarily owing to low awareness of the benefits of or hesitation to use green wood (recycled wood) in furniture. It is key for the Indian furniture industry to understand the benefits of using green wood. Not only is it sustainable for the environment but is also low-cost. This is because the moisture retention of recycled wood is only 20% as opposed to virgin wood at 60-70%¹⁰¹, which makes green wood sturdier and more durable.

¹⁰⁰ <http://greenotechindia.com/blog16-9-26.html>

¹⁰¹ <https://www.fs.usda.gov/treesearch/pubs/61831>

Some countries have championed the cause of recycled wood in furniture across the world. The European Union, for example, has an exclusive project 'BioReg'¹⁰², which aims to identify, develop and fully unlock the unused wood waste potential in Europe and allow for the reuse of the waste, especially in furniture. It recommends that in a circular economy, the reuse of wood waste should preferably be oriented to material recovery, especially if an industrial ecosystem (like a furniture industry) is located nearby.

IKEA has been at the forefront of promoting sustainable furniture, especially with its People and Planet Positivity Sustainability Strategy, launched in 2012. An ODGER chair, designed for comfort, is built completely from recycled wood. Similarly, HEMNES furniture is built on sustainable and renewable wood. In fact, IKEA takes a step further to work with the FSC (Forest Stewardship Council) and World Wildlife Foundation (WWF) to ensure that most of their wood is sustainable, including recycled wood. Another company, *Arhaus Furniture*, based out of Cleveland in the USA uses reclaimed food for its tabletops. In Australia¹⁰³, especially, the Environment Protection Act, 1970 lists wood waste from furniture manufacturing as one of the Priority Industry Sectors (PIR) to be targeted for increased resource recovery in the coming years.

Effectively, therefore, to ramp up sustainable furniture production in India, the use of reclaimed wood would not only result in lower industrial and consumer costs but also project India as one of leaders in forest resource management and environmental protection.

Support capacity building to supply intermediate products like particle boards

Technological upgradation for manufacturing intermediate products

Issue: Low investment levels in technology and prevalence of labour-intensive manufacturing.

Recommendation:

Incentives such as capital subsidy for import technology, deemed export benefits, IP protection, subsidizing software required for design development, etc. should be provided to encourage manufacturing of intermediate products.

Being a labour-intensive industry thus far, introduction of advance technology for making furniture and automation will be a boon to the industry in achieving competitiveness and to increase productivity and capabilities in terms of design.

Government should provide incentives for automation and introduction of technology in the industry. Import duty on imported machinery should be reduced. For example, import duty on machine tools and cutters should be reduced to zero, as a precondition for continued long-term investments in this industry. Import of machinery both new and second hand for furniture industry should be allowed under the Export Promotion Capital Goods (EPCG) Scheme of Govt.

Case study of Malaysia

To encourage automation in the manufacturing sector and enhancing productivity and efficiency in the labour-intensive industries such as the furniture industry, Automation Capital Allowance (Automation CA) on amounts incurred for the purchase of automation equipment is allowed by the Malaysian Investment Development Authority as follows:

- Automation Capital Allowance of 200% on the first RM4 million expenditure incurred within 5 years of assessment from 2015 to 2020

where, incurred refers to plant and machinery purchased and used for the purpose of the business in the approved Year of Assessment (YA).

Expanding manufacturing product profile to include high export potential products

Short duration fiscal benefits to promote capital investments for manufacturing such products

Issue: Lack of incentives to promote manufacturing of high export potential products.

Recommendation:

Establishment of furniture industry can cost a heavy capital investment in terms of land, modern machinery, human resources and different transportation and logistics costs. Thus, to attract foreign investment and promote domestic manufacturing capabilities, fiscal incentives are required to mitigate the high investment cost. Also, fiscal benefits provided from state or centre should not only cover green field projects but also for existing manufacturing set-ups

¹⁰² <https://www.bioreg.eu/assets/best-practices/BIOREG-The-Best-Practices-In-Wood-Waste-Management.pdf>

¹⁰³ https://www.fwpa.com.au/images/marketaccess/PNA017-0708_Wood_Recycling_0.pdf

which will be expanding on capabilities. Following initiatives are proposed in terms of monetary benefits for capital investment.

- Land price for industry setup should have a ceiling of ₹60 Lakhs/acre.
- Cheaper project funding through institutional mechanism of SIDBI and attractive working capital loans from banking sector at a maximum interest rate of 6%.
- Tax holiday (direct and indirect) for a period of 10 years on all project setup.
- Land should be provided on Leave & License basis or deferred capital to be paid at end of 5th year.
- Production linked incentive scheme for such products: The scheme to have a base year and extends an incentive on incremental production (over base year), to eligible companies, every year for a period of 10 years. This scheme aims to encourage local companies to set up or expand existing manufacturing units as well as invites foreign companies to set up units in India. In India, this scheme has expanded to ten other sectors namely food processing, telecom, electronics, textiles, specialty steel, automobiles and auto components, solar photovoltaic modules and white goods such as air conditioners and LEDs.

Incentivizing growth of inter-linkages across home furnishing categories

Conceptualizing a National Furniture policy through integration of various interrelated aspects across other Government policies

Issue: Lack of an integrated policy to cover growth aspects of inter-dependent sectors such as home textile, floor covering, etc.

Recommendation:

Numerous policies exist that govern forests including the National Forest Policy 1988, National Afforestation Policy, National Rubber Policy 2018. There are also sectoral policies which have a bearing on the furniture sector like the MSME Policy and schemes, Handicraft schemes and policies, National Textile Policy, schemes on leather etc. The above set of policies and schemes affect the furniture industry and need a cohesion to further the interest of all the stakeholders in the country. The incentives, schemes and policies need to be aligned in the form of a Furniture policy to support the growth of industry.

For instance, The Central Government had approved implementation of Indian Footwear, Leather & Accessories Development Program (IFLADP) with an approved expenditure of Rs. 2600 crore over the three financial years from 2017-18 to 2019-20. Under this scheme, there have been fund allocated for various purposes like Human Resource Development (HRD), Upgradation of design centres, promotion of Indian brands and employment incentives etc. Similar schemes for furniture industry scheme may be considered for overall development of the sector.

Such schemes in the past have benefited sectors like Textile, where India has been able to build its competitiveness over the years on the back of an enabling policy and incentive environment. Indian Furniture sector, on the same lines, need a focused policy and incentive support to become globally competitive.

4.3. Long term Interventions

Development of furniture clusters to promote economies of scale

a. Identify competitive locations closer to ports and urban areas

Issue: Majority of the furniture clusters in the northern and central India region are located away from ports.

Recommendation:

Identification of potential locations and feasibility study for development of furniture clusters should be undertaken. Locations should be identified which are in proximity to ports, wood sourcing areas and international airport (less than 3-hour drive). Minimum land area of cluster should be 10 acres per unit. Locations should also be within 30 minutes' drive from the city to attract managerial talent. After selection of location, development of furniture clusters should be initiated in collaboration with relevant departments.

b. Designing incentive package for migration of brownfield units

Issue: Lack of incentives for migration of the brownfield units in the furniture clusters.

Recommendation:

To further the development of this furniture sector, following incentives have been proposed for attracting investments in the furniture cluster.

- Standard operational incentives such as capital subsidy, land cost subsidy, electricity tax subsidy, stand duty incentive and tax holiday for a period of 5-10 years.
- Single window clearance system for registration and approvals.
- Production Linked Incentives scheme for furniture products: The scheme to have a base year and extends an incentive on incremental production (over base year), to eligible companies, every year for a period of 10 years.
- Employment linked subsidies for creating jobs and strengthening manufacturing.
- Financing options through various interest subvention schemes.
- Funding of innovation and supporting R&D across the value chain.
- Import of machinery both new and second hand should be allowed under the Export Promotion Capital Goods (EPCG) scheme of Govt.
- 50% subsidy on freight cost as well as introduction of rail freight subsidy scheme for furniture industry.
- Consider IT relief / exemptions for new companies set up in clusters for first three years to attract investment.

Case study of Tamil Nadu

A notable instance of Government's focus on developing the infrastructure and giving policy support can be found in Tamil Nadu Industrial Guidance and Export Promotion Bureau's plan for setting up a Furniture Park in Thoothukudi, Tamil Nadu. The plan has been made recognising the logistic advantage of Thoothukudi, being one of the major ports in India connected to international trade hubs like Singapore, China, Indonesia and Sri Lanka, having witnessed large number of timber imports and timber yards and mills.

The benefits and subsidies to include:

- Special Capital Subsidy upto 25 of EFA
- Electricity Duty Exemption Up to 5 years from date of commercial production
- Environmental Protection Infrastructure Subsidy 25 of cost of setting up ETP's up to USD 26 324
- Land Allotment Concession 50 subsidized rate for Industries in SIPCOT
- Stamp Duty Reimbursement* Up to 100 of Southern districts form SIPCOT land parcels
- Single Window System All approvals within 30 days' time limit

Incentivizing growth of inter-linkages across home furnishing categories

Developing a mechanism to procure ancillary products from MSMEs

Issue: Small share of procurement from MSMEs.

Recommendation:

The sector being dominated by MSMEs necessitates their involvement at every level in order to further the growth agenda. The industry leaders need to effectively involve with the MSMEs as they are the major source of raw materials such as fabrics for upholstery, wood etc. A mechanism for developing a value chain with focus on MSMEs can have a far-reaching impact in developing the sector in an organized manner. With focus on procurement from domestic market, it will also be easier to develop and adopt international standards and practices for raw materials and finished goods.

Preparation of roadmap for re-skilling and future proofing jobs in collaboration with industry players

a. Designing course content and teaching pedagogy in alignment with global trends to ensure global skill competitiveness

Issue: Large gap between the needs of the industry and the skills being imparted through the training eco-system

Recommendation:

- Currently, out of 22 QPs offered by FFSC, training in only 8 QPs are offered. Training pedagogy in the remaining 14 QPs (list has been placed Annexure A4) need to be designed. More courses on furniture making and design need to be introduced in ITI's and leading design institutes such as National Institute of Design (NID), Indian Institute of Crafts and Design (IICD), MIT School of Energy and Lighting. Also, in the medium term, emphasis is required on tweaking ITI run long duration courses to intensive 3-month programs.

- Upskilling also needs to be focused upon as the same leads to increased productivity and continuous development. As per World Economic Forum report, regions and economies with the biggest gains are those in which the skills gaps are larger, and the potential is greatest to improve productivity through skills augmentation aligned with new technology. India can be one of the biggest gainers in terms of % relative boost to country GDP which can rise from 6.1% to 6.8% (as much as \$570 billion additional) by the year 2030. Also, in terms of GDP in manufacturing, India will be a huge gainer.¹⁰⁴

b. Reinforcing industry-academia participation to develop skill development ecosystem

Issue: Absence of collaboration training between industry-academia in the furniture sector.

Recommendation:

- The private industry players represent vast experience in the furniture sector, both nationally and internationally, which needs to be utilized to pave the way for industry specific courses and curriculum to attract talent for the industry. The industry players can offer hands-on experience while working with institutes such as National Institute of Design, Indian Institute of Crafts and Design which offer design courses in furniture. They can also help in developing industry specific curriculum which will generate real employment and bring in added incentive for youth to join such courses.
- Collaborative training should be encouraged in the industry. Due to increased automation, machine operation is driving production in the organized sector. Machines are mostly imported and thus operating them needs specialized guidance. Investment on such machines for training purposes could be unviable given the rapidly evolving technologies. Thus, having foreign partners to run training programs can result in effective and efficient knowledge sharing. Initiatives like the Karnataka German Multi Skill Development Center (KGMSDC), Rangasutra, etc. should be encouraged and initiated across the country in the furniture sector. KGMSDC is a society promoted by the Government of India and Government of Karnataka with technical support of German International Services (GIZ-IS). The primary mission of the training centres is to conduct a broad-based multidisciplinary programme in various Industrial Technical Fields, directed towards the development of skills and trades and to become a world class training centre that represents specialized trade training programs in alignment with the Industry requirements across the globe. Very similar phenomenon was witnessed in the case of the Indian startup, “Rangasutra”. Participation in trade fairs helped “Rangasutra” make their local designs wearable and made their business model profitable and sustainable.

¹⁰⁴ https://www.pwc.com/qx/en/issues/upskilling/shared-prosperity/upskilling_for_shared_prosperity_final.pdf

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List of Abbreviations

Acronym	Full form
AEO	Authorized Economic Operator
AQ	Animal Quarantine
BAU	Business as Usual
BCD	Basic Custom Duty
BI	Business Induced
CAGR	Compound Annual Growth Rate
CARB	California Air Resources Board
CBEC	Central Board of Excise and Customs
CoC	Certificate of Conformity
COO	Certificate of Origin
DPIIT	Department for Promotion of Industry and Internal Trade
DPPQS	Directorate of Plant Protection, Quarantine and Storage
DGFT	Directorate General of Foreign Trade
EoDB	Ease of Doing Business
EN	European Standards
EPZ	Export Processing Zone
EU	European Union
FDC	Forest Development Corporations
FIRA	Furniture Industry Research Association
FM	Forest Management
FOB	Free on Board
FSC	Forest Stewardship Council
FTAs	Free Trade Agreements
FY	Financial year
GDP	Gross Domestic Product
GST	Goods and Service tax
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HQS	Harvest Quota System

Acronym	Full form
IARC	International Agency for Research on Cancer
ICD	Inland Container Depots
IRCI	International Rectifier Corporation Italiana
IS	Indian Standards
ISO	International Organization of Standards
JETRO	Japan External Trade Organization
JICA	Japan International Corporation Agency
LI	Lafay Index
LPI	Logistics Performance Index
MDF	Medium Density Fiberboard
MOA	Ministry of Agriculture, Cooperation and Farmers Welfare
MoEFCC	Ministry of Environment, Forest and Climate Change
MSME	Micro, Small and Medium Enterprises
NoC	No objection Certificate
NGO	Non-Governmental Organization
OSB	Oriented Strand Board
PEFC	Programme for the Endorsement of Forest Certification
PPP	Public Private Partnership
PQ	Plant Quarantine
PSU	Public Sector Units
PVC	Polyvinyl Chloride
SEZ	Special Economic Zone
SFI	Sustainable Forestry Initiative
SME	Short and Medium Enterprises
TOF	Trees outside Forests
UT	Union Territory
WB	World Bank
WHO	World Health Organization



5.

Annexures

5. Annexures

5.1. Annexure A1

Methodology for competitiveness computation (Lafay Index)

Lafay Index (LI) discovers the comparative advantage (or disadvantage) of the industry (or country) in an internationally traded product. This index varies from $-\infty$ to $+\infty$. Positive value of LI suggests the existence of comparative advantage for a given time: the larger the value, the higher the degree of specialization. On the contrary, negative value indicates de-specialization. LI takes into account both export and import flows, which is important due to the increasing role of intra-industry trade all over the world.

LI also controls for distortions induced by macroeconomic fluctuations. Since comparative advantages are structural, by definition, it is crucial to eliminate the influence of cyclical factors, which can affect the magnitude of trade flows in the short run. It takes into account these effects by considering the difference between each item's normalized trade balance and the overall normalized trade balance. Finally, the LI weighs each product's contribution according to the respective importance in trade. For a given country, i , and for any given product, j , the LI is defined as follows:

$$LI = K * [(X_{d,i} - M_{d,i}) - (X_d - M_d) * \left(\frac{X_{d,i} + M_{d,i}}{X_d + M_d}\right)]$$

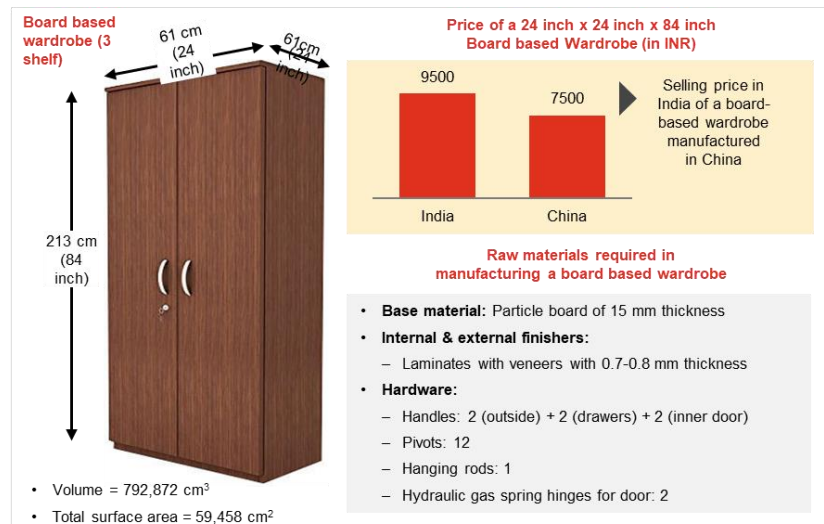
where d is the country under study, i refers to a specific industry, X are the exports, M are the imports, and K is a constant ($K = 1000/[M_d + X_d]$).

5.2. Annexure A2

A 3-shelf particle board-based wardrobe has been considered for cost built up analysis

The value chain cost competitiveness assessment for the furniture industry was analyzed using an assessment model for Maharashtra (India) and Guangdong (China). To check the cost competitiveness of the furniture industry in India vis-a-vis China, the case of a typical 3 shelf particle board based wardrobe of size 61 cm x 61 cm x 213 cm, volume 792,000 cm³ and area 59,450 cm² was considered.¹⁰⁵ The model analyzed the cost breakup of one unit of particle board based wardrobe (Figure 25).

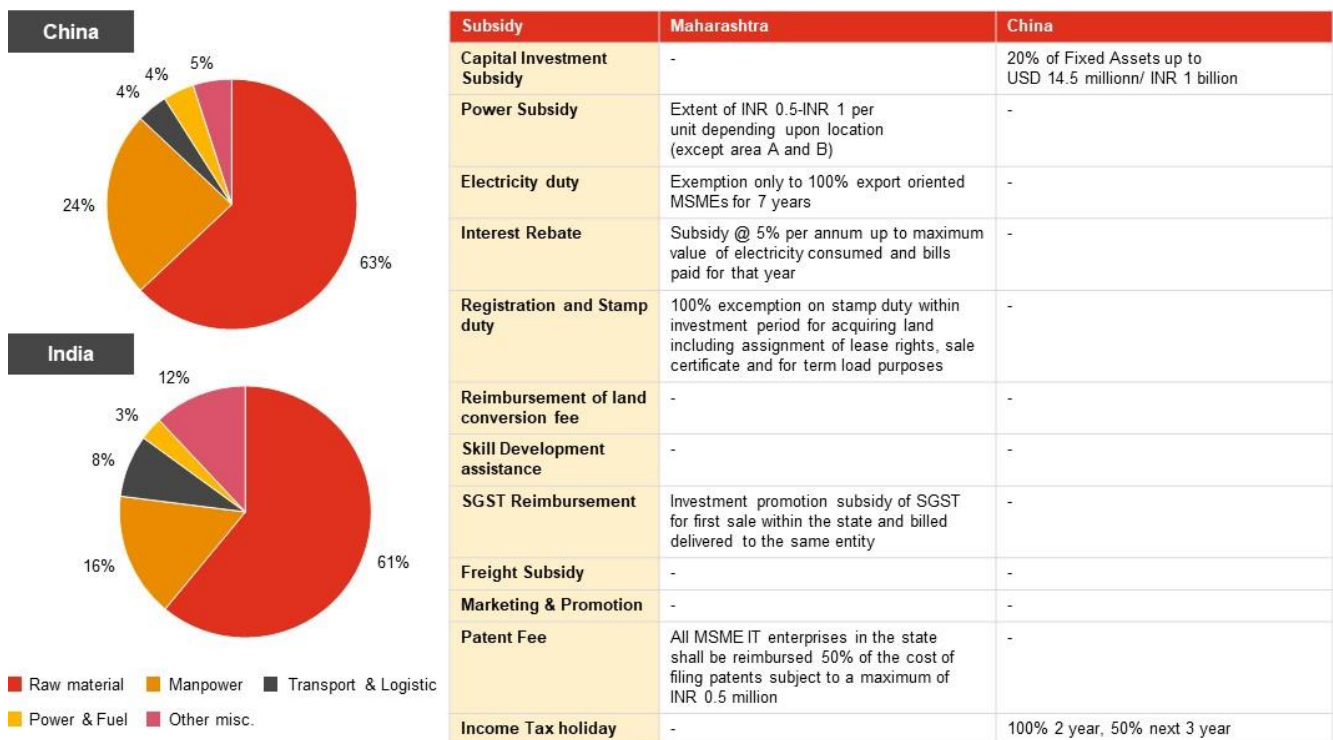
Figure 25: Specification of representative product



Cost Build up analysis assumptions:

1. Cost Break Up and Subsidies

Figure 26: Cost break up and Subsidies



¹⁰⁵ Houzz Blog. 2018. *What are the Ideal Wardrobe Measurements*. 16 October. <https://www.houzz.in/magazine/what-are-the-ideal-wardrobe-measurements-stsetiww-vs-112820386> (accessed 27 October 2020).

2. Incentive package offered by China

The following incentives are provided to enterprises by Government of China. Additional incentives are given to industries in specific sectors and regions.

- Capital Investment Subsidy of up to 20% of Fixed Assets subject to a maximum of USD 14.5 mn
- Income Tax Holiday of 100% for first two years and 50% for the next three years
- Exemption of Corporate Income Tax (CIT) and VAT on interest gains from onshore bond market investments for Foreign Institutions for three years
- Exemption of Output VAT for Export Sales.
- Refund/Credit of Input VAT on materials purchased for the production of export goods (can be offset against the output VAT on domestic sales & refund of excess input VAT above that amount retained for credit)
- Export Tax Rebates of 16%, 13% and 9% (for different product types - raw materials/intermediate goods/finished goods) on Export VAT introduced for 397 items.
- Preferential CIT rate (15%) for enterprises from selected focus industries or operating in Free Trade Zones.
- 100% Business Tax refund for Foreign Invested Enterprises engaged in transfer of technology
- 30,000 RMB grant for firms which have >10 million USD of exports (along with 25% growth in exports).

3. Production and Capital Expenditure

Figure 27: Production and Capital Expenditure

S. No.	Location	Maharashtra	Guangdong, China	Source
Production				
1.	Land (acres)	9	9	<ul style="list-style-type: none"> • https://yueshan.en.alibaba.com/company_profile.html; • https://www.thehindu.com/business/century-ply-hopeful-of-early-profit-from-hoshiarpur-unit/article22360531.ece#:~:text=Highly%20automated,of%201.98%20lakh%20cubic%20metres
2.	Working days per annum	300	300	
3.	No. of operating lines	4	4	
4.	No. of units/ line per hour	13	13	
5.	Production capacity (annual)	265,200	265,200	
Capital Expenditure				
6.	Land price per acre (INR Lakh)	200	90	<ul style="list-style-type: none"> • https://www.midcindia.org/land-rates • https://www.chinadaily.com.cn/business/2017-02/13/content_28183087.htm#:~:text=Land%20for%20residential%20use%20was,up%20from%20a%20year%20earlier • https://www.ceicdata.com/en/china/land-price-city-industrial/cn-land-price-industrial-shanghai
7.	Plant & Machinery (@ 2 Crore per line)	104	95	<ul style="list-style-type: none"> • Company financials 2018-19: Century Plywood, Archidply, Navopan, Yuansen Pvt Company • https://www.alibaba.com/showroom/wardrobe-making-machine.html
8.	Site development (infrastructure) (@ INR Lakh per acre)	10	8.5	<ul style="list-style-type: none"> • https://www.china-briefing.com/news/operational-costs-of-business-in-chinas-inland-cities/

S. No.	Location	Maharashtra	Guangdong, China	Source
9.	Other Misc. fixed assets	26	24	<ul style="list-style-type: none"> Company financials 2018-19: Century Plywood, Archidply, Navopan, Yuansen Pvt Company
10.	Stamp duty + Registration charges	8%	0.1%	<ul style="list-style-type: none"> http://www.legalserviceindia.com/calculator_stamp.htm https://www.china-briefing.com/news/guide-chinas-stamp-duty/

5.3. Annexure A3

Table 6: Gap identification on EoDB indicators between India and China


Indicator	Points measured	India	China
Starting a Business	Procedures (number)	10	4
	Time (days)	18	9
	Cost (number)	7.2	1.1
	Paid-in min. capital (% of income per capita)	0.0	0.0
Paying Taxes	Payments (number per year)	11	7
	Time (hours per year)	252	138
	Total tax and contribution rate (% of profit)	49.7	59.2
	Postfiling index (0-100)	49.3	50.0
Enforcing Contracts	Time (days)	1,445	496
	Cost (% of claim value)	31.0	16.2
	Quality of judicial processes index (0-18)	10.5	16.5
Dealing with Construction Permits	Procedures (number)	15	18
	Time (days)	106	111
	Cost (% of warehouse value)	4.0	2.8
	Building quality control index (0-15)	14.5	15
Registering Property	Procedures (number)	9	4
	Time (days)	58	9
	Cost (% of property value)	7.8	4.6
	Quality of the land administration index (0-30)	10.8	24.0
Getting electricity	Procedures (number)	4	2
	Time (days)	53	32
	Cost (% of income per capita)	28.6	0.0
	Reliability of supply and transparency of tariff index (0-8)	6	7

5.4. Annexure A4

Table 7: List of QPs in Furniture sector

Sl. No	QP Name
1	Assistant Carpenter-Wooden Furniture
2	Lead Carpenter Wooden Furniture – Lock Installer
3	Assistant Furniture Designer
4	Lead Sofa Maker
5	Design Supervisor Wooden/ Modular Furniture
6	Lead Wood Quality Examiner
7	Lead Furniture Maker – Bamboo
8	Bent Laminated Furniture Maker
9	Finisher – Bamboo Furniture
10	Machine Operator – Bamboo Slivering
11	Cane Seat Weaver
12	Assembler – Modular Furniture
13	Cabinet Maker – Modular Kitchen
14	Lead Assembler – Modular Furniture
15	Assembler Door/Windows – Glass
16	Installer – Frameless Glass Doors/ Windows
17	Junior Assistant- Door Installation
18	Sales Executive – Furniture & Fittings
19	Delivery & Installation Executive- Furniture & Fittings
20	Interior Designer
21	Supervisor Interior Designer
22	Senior Interior Designer

QPs in which training is available



The report has been compiled by Price Waterhouse & Co LLP in collaboration with IKEA with inputs from diverse stakeholders.