Greetings for the Year 2021!!

TEAKNET ushers in 2021 with new hopes and aspirations. Through the past 25 years, TEAKNET has successfully established a global network of teak cultivators, traders, private enterprises, plantation managers, researchers, students and others. TEAKNET has been successful in disseminating relevant information on teak and providing custom made solutions to different stakeholders. The success of this network is the result of each of your valuable contribution and we seek your continued support in all our future endeavours.

In this issue, we bring you an article on ‘What Future for Teak? Challenges and Opportunities in The Post Covid-19 Era’ and updates of the forthcoming 4th World Teak Conference in Ghana. The World Teak Conference with the theme ‘Global Teak Market: Challenges and Opportunities for Emerging Markets and Developing Economies’ during 23-26 August 2021 will address the most crucial issues of the global teak sector. The details of the TEAKNET Webinar series conducted as part of our Silver Jubilee celebrations is also included in this issue. TEAKNET is also organizing a Side Event during the XV World Forestry Congress 2021 scheduled for May 2021. However, due to COVID-19 pandemic, the WFC now stand postponed. In addition, market price of plantation teak imported to India and our regular column on teak prices are provided for the benefit of our readers.

We invite your feedback on issues related to teak and enrich us with articles/news items of interest/research papers etc. of non-technical nature for inclusion in the bulletin.

S. Sandeep
TEAKNET Coordinator
What Future for Teak?
Challenges and Opportunities in the Post Covid-19 Era

C T S Nair 1

Introduction: 2020 - A year of unprecedented disruption

The outbreak of COVID-19 and its widespread disruptive impacts make the year 2020 a turning point in human history. No country has remained unaffected and even after almost one year since the first case was reported, the world is yet to see “the light at the end of the tunnel”. Recent emergence of more virulent virus strains is worrisome as this could delay economic recovery. No human pursuit has remained unaffected and several studies suggest that the world will remain in the shadow of COVID-19 for a few more years. Like all other human pursuits, forestry, including the teak sector, has also been affected reducing production, processing, trade, and consumption of wood and other forest products. Since teak is one of the most widely cultivated tropical hardwood species and has a long history of trade, the pandemic has impacted all segments of the teak value chain. This paper provides an overview of some of the broad trends, probable scenarios in the post COVID-19 era and what may be done to enhance vibrancy of the teak sector in the coming years.

Direct and indirect impacts of COVID-19

Unlike most of the previous disruptions, COVID-19’s impact has been all pervasive affecting all economic activities. Demand for and supply of many products and services have declined on account of protracted periods of lockdowns. World GDP, which increased by 2.8 percent in 2019, witnessed a contraction of 4.4 percent in 2020 (IMF 2020). No country has escaped the direct and indirect impacts and in some the economic contraction has been quite significant. For example, India, a major importer of teakwood, reportedly witnessed a GDP contraction of -10.3 percent in 2020, in comparison with a growth rate of 4.2 percent in 2019. Global trade has been severely affected and in 2020 the volume of exports and imports have contracted by 11.6 percent and 11.5 percent, respectively. Though there are some early signs of recovery, the progress in catching up with the pre-COVID growth trend will be slow, affecting the average living standards in almost all countries (IMF 2020). Disruption of social and economic activities have led to job losses, estimated as about 345 million full time jobs during the third quarter of 2020 (ILO 2020) setting off a vicious cycle of declining labour income, reduced demand for products and services and further reduction in employment and income.

Such a decline in income has directly and indirectly impacted all sectors. In the early months of COVID-19 infection almost all countries were compelled to impose full or partial lockdowns adversely affecting all economic activities. Manufacturing, trade, travel, and tourism are probably the most affected. Demand for teak is a derived demand linked to growth of the construction sector which generates demand for various fixtures, furniture, flooring, decking and so on. Economic downturn had an immediate impact on housing and office space demand.

1 Formerly Chief Economist, Forestry Department, Food and Agriculture Organization of the United Nations, Rome.

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Housing sales and office space leasing have declined sharply during 2020 in most countries (see Box 1) and recovery is expected to be a slow and protracted process. Work-from-home has become the norm and considering its cost-saving potentials it may not be fully reversed at least in some sectors even when COVID-19 is effectively controlled, prolonging recovery of the real estate sector. Considering the sharp decline of the travel and tourism sector future investments in commercial spaces including hotels, restaurants, etc. will be low, affecting the demand for wood.

**Impact on the forest sector**

Though no comprehensive assessment has been carried out on the totality of the pandemic’s effect on the forest sector, there are several reports (see ITTO 2020a, ITTO 2020b) which provide snapshots of impacts on forestry including the teak sector. During the early months of the pandemic lockdowns led to the suspension or scaling down of forestry operations in many countries. COVID-19 control measures affected logging and transport which curtailed wood supplies to processing units. Processing has been scaled down or in some cases firms gone out of business. Trade has been severely disrupted. For example, Ghana’s volume and value of exports declined by about 33 percent and 36 percent respectively in the first quarter of 2020 in comparison with the first quarter of 2019 (ITTO 2020a). ITTO’s Biennial Review of the World Timber Situation (presented to the ITTO Council in November 2020 - https://www.itto.int/ittc-56/day5/) show that COVID-19 had a drastic impact on tropical timber trade with the volume of log exports declining by 28 percent compared with the 2019 situation. Decline in the volume of sawnwood and tropical plywood is 16 percent and 8 percent, respectively. The ITTO assessment also notes a double-digit decline in the value of exports of secondary wood products – mainly furniture – for all major producers except Vietnam. There are instances where products could not be loaded or unloaded from cargo ships. Small and medium enterprises especially in the unorganized sector have been particularly affected (for example see Box 2).

**Box 2: Impact of COVID-19 on wood based MSMEs in Myanmar**

Micro, small, and medium enterprises account for about 99 percent of the registered enterprises in Myanmar. COVID-19 related restrictions including border closures, travel restrictions and stay-at-home notices have impacted Myanmar’s economy. A nation-wide survey of members of the Wood-Based Furniture Association and Myanmar Arts and Crafts Association conducted by the European Forest Institute and the Sagawa Institute of Organization Development in August 2020 provide a glimpse of COVID-19 impact. Some of the important findings of the study are:

- COVID 19 led to the permanent closure of about 34 percent of the enterprises, while about 65 percent stopped operations temporarily.
- About 31 percent experienced a decline in revenue to the tune of 50 to 75%, while about 19 percent of enterprises experienced a revenue loss varying from 75 to 100 percent.
- Employment and income declined significantly.
- About 70 percent of respondents reported a decline in demand for their products. This is further compounded by difficulties in distribution of products caused by several factors including unclear procedures, restrictions on transportation, etc.
- Many enterprises faced the problem of short-supply of raw material and access to COVID-19 related relief measures.

*Source: EFI 2020*
Even before COVID-19 many MSMEs have been operating under adverse conditions including unfavorable policy, legal and institutional environment and COVID-19 related disruptions had devastating impacts on them.

**Long term prospects**

While short-term disruptions are painful, yet pessimism is unwarranted, and one should analyze how the situation will unfold in the long term. A lot can be learned from previous disruptive events. Since 1870 the global economy has experienced 14 recessions due to various reasons including wars and pandemics (see Fig. 1 – *Source World Bank 2020*) and no economic activity has been spared from their negative impacts. Forestry, including the teak sector, has withstood these disruptions, and has flourished. Currently the teak sector is in a much better state than what it was 50 or 100 years ago in terms of extent of planted teak forests, production, productivity, technology employed, volume and value of products traded, etc. Over the years teak production systems have become highly diversified involving a wide range of players including small holders, community groups and large investors in addition to government forestry agencies.

Processing technologies have improved considerably enhancing productivity including through full utilization of small dimension logs. After every short term set back, the sector has rebounded, suggesting that once the pandemic is brought under control, forestry including production and trade of teak will bounce back and continue to grow.

An assessment of what may happen in the post COVID – 19 era need to consider the main drivers of change and how different scenarios will unfold on account of the collective impact of the key drivers. These drivers are:

- Demographic changes including urbanization.
- Economic growth, especially the increase in per-capita income; and
- Society’s response to climate change, in particular to achieve the 2015 Paris Agreement targets on emission reduction.
There is relative certainty as regards demographic changes including population growth and urbanization. World GDP and per capita income have registered continuous growth since 1870 (see Fig.2 – World Bank 2020) and despite occasional declines this long-term upward trend is expected to persist. The major uncertainty is as regards society’s response to climate change. While the urgency of bringing about fundamental changes in policies, institutions and technologies are well understood, the pursuit of a carbon neutral path to development through the development of a green economy remains quite challenging. Though multiple pathways of change exist, in the present context two broad scenarios could be visualized for the post COVID-19 world as discussed below:

- A “business-as-usual scenario” characterized by continued growth in income primarily a continuation of historical trends and some limited efforts to address climate change. Under this scenario most countries will continue to give priority to GDP growth and climate change issues will receive at best some passing (or superfluous) attention.

- An alternate and probably ambitious scenario – which can be labelled as “green economy scenario” – would bring climate change mitigation and adaptation to the centre-stage of public policies altering the very nature of economic growth. Under this there will be significant overhauling of economic activities emphasizing on accomplishing the emission targets stipulated in the 2015 Paris Agreement and to ensure that ecological/ carbon footprint is brought down rapidly.

Though these two scenarios will have quite different impacts on global and national and economy and consequently on wood production, processing, and trade, on the whole demand for wood, especially for a species like teak, is expected to grow. Under the “business as usual scenario” teakwood demand growth will be largely an extension of the long-term historical trends. On the other hand, the “green economy scenario” will entail a more rapid growth in demand mainly stemming from the efforts to reduce carbon emissions and to enhance sequestration. Substitution of energy intensive building materials with carbon neutral materials would increase the use of teak wood. Its inherent strength and durability properties will be an added advantage. Longer life cycle of many teak products – especially sawnwood used in various forms – ensures that carbon is fixed for a longer period.

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While monocultures aimed to maximize wood, production has been the norm, changes in teak management practices could enhance co-benefits like biodiversity conservation and watershed protection. Small holder teak cultivation, especially under the home garden system, permits the cultivation of other crops and trees, helping to conserve biodiversity reducing vulnerability. Also, there are ways in which even monoculture plantations and woodlots could be designed better to enhance their integration in multifunctional landscapes.

In short whatever scenario emerges in the post COVID-19 period, teak demand will continue to grow. Further, teak has several advantages such as:

- Teak cultivation has been standardized and perfected based on many decades of the experience. A wealth of knowledge exists on nursery practices, genetic improvement, planting, site management practices, management of pests and diseases, thinning, harvesting, and processing.

- A wide array of production systems has evolved, each adapted to the varied contexts. Teak can be managed as individual trees in mixed farming systems like home gardens or as large-scale monocultures managed by private investors and governments. Various institutional arrangements are in place to improve efficacy in the management of teak and to produce and market various products. Such diversity in production systems reduces vulnerability and enhances resilience of the sector.

- Considerable flexibility exists as regards management including the nature of products produced. For example, plantations can be managed for producing small-dimensioned logs and poles grown on short rotations or to produce high quality high value timber on long rotations. Short term demand slumps can be overcome through deferring harvests for a few years and the volume and value increment could more than compensate short term income losses.

- Teak based micro, small and medium enterprises have considerable potential for enhancing rural income. Technological improvements have helped to provide improved tools that boost productivity, reduce wastage, and enhance income. Wider use of ICT has improved access to new markets enabling producers to sell products in national and global markets, find new sources of finance and bridge technological gaps.

**Teak sector will flourish, but improving health and vibrancy require concerted action**

Every crisis is also a learning opportunity, to carefully assess the strengths and weaknesses of a sector and to take corrective action to enhance health and vibrancy of the sector/ enterprises. COVID-19 related economic woes have exposed some of the weaknesses in the forestry sector including production and trade of teak wood and teakwood products. Like COVID-19 related human mortality, much of the problems are attributable to the pre-disposing environment and the vulnerability and co-morbidity of enterprises. Interventions should therefore focus on:

- Creating a more favourable environment for enterprises to operate; and
- Extending support to enterprises affected by crises to survive and rebuild better.

Read more on page 7
There are several assessments detailing policy, legal and institutional constraints and what needs to be done to create a favourable environment for forestry including the teak sector. However, their implementation has been slow at best. The present crisis should encourage speedy reforms aimed to create a conducive and level playing field for enterprises including small holders, community groups, private investors, and government agencies. Enterprises in crisis will require more targeted intervention to tide over the situation.

While much of the initiatives must come from the stakeholders including governments, industry associations, producer cooperatives, financial institutions, etc., international institutions, and networks like Teaknet, also have a major role to play to provide platforms for information exchange and collaboration. COVID 19 has clearly demonstrated the critical importance of international collaboration built on science and transparent governance systems.

In summary, the long-term prospects for production and trade of teak remains upbeat and those investing in teak should not be concerned about future demand and price of teak. Going by experience, production and trade of teak have withstood several crises during the last two centuries including world wars, economic down-turns, and global pandemics. Though uncertainties and short-term challenges exist, there are some early signs of economic recovery. Those dealing with production of wood – governments, investors, small holders, and private plantation owners – have the option of holding on to their wood assets and scale down or defer logging. Allowing the trees to grow will be a much better option than harvesting them and the volume and value increment would probably compensate the income loss from deferring harvest. Enterprises involved in processing and trade should assess their strengths and weaknesses and reassess their strategies. Notwithstanding some of the interventions one should expect the demise of some enterprises, especially those with severe co-morbidity conditions. Such “creative destruction” is natural and an essential part of the development of a healthy and vibrant sector. In fact, every major crisis has paved the way for the development of more efficient enterprises and the decline of inefficient ones and COVID-19 will do the same as regards the teak sector.

References


Important Announcement

XV World Forestry Congress Postponed

After careful consideration of the continued and unprecedented challenges of the COVID-19 pandemic, it has been decided to postpone the XV World Forestry Congress, which was scheduled to be held from 24 to 28 May 2021 in Seoul. Please stay tuned to WFC website wfc2021korea.org for updates.

TEAKNET is also organizing a Side Event of 1.5 hrs duration entitled "New opportunities for Teak sector in the post COVID-19 Scenario" during the Forestry Congress. Programme details will be announced soon and will be available in the TEAKNET Website.

TEAKNET on its 25th year of establishment, launched a webinar series covering topics of broad topical interest to the teak community. It was conceived as a platform in the current situation of Covid 19 pandemic to exchange knowledge and experiences, innovations and emerging trends in the teak sector. During 2020, TEAKNET hosted seven webinars with speakers with extensive experience in their field of teak specialisation. The webinar’s overall coordination and execution was beneficial and pleased the participants. These webinars were attended by representatives of international organisations from around the globe, particularly from Africa, Oceania and Asia.

You can watch the webinars in the YouTube channel of TEAKNET.

Visit the Conference Website for updates

www.worldteakconference2020.com
Prices of Plantation Teak Imported to India

C&F prices for plantation teak from sources other than which is shown below continue to be within the same range as shown in the previous issues of newsletters.

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**Courtesy:** ITTO TTM Report 24 (23): 1-31 December 2020

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**Editorial Committee**

Dr. S. Sandeep  
Dr. E. M. Muralidharan  
Dr. P.K. Thulasidas

*Teaknet Bulletin* is a quarterly electronic newsletter of TEAKNET brought out through its website. It is intended for circulation among the members of TEAKNET and other stakeholders of global teak sector. The views expressed in the newsletter are those of the authors and do not necessarily reflect the views of the organization. The readers are welcome to express their opinions or pass on information of value to teak growers, traders, researchers or others concerned with teak. However, TEAKNET reserves the right to choose the contributions for publishing and also to make necessary editorial modifications in the articles in consultation with the authors.

Address all communications to:

TEAKNET Coordinator  
Kerala Forest Research Institute  
Peechi-680 653, Thrissur, Kerala, India  
Tel: +91 487 2690396; Fax: +91 487 2690111  
Email: coordinator@teaknet.org