International Tropical Timber Organisation / FLEGT Independent Market Monitor

European Union furniture sector scoping study

Main Report

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Executive summary

The furniture industry across the European Union is one of the main sectors involved in trade with forest products originating in the countries that have signed or are negotiating Voluntry Partnership Agreements (VPA) with the European Union. Assembled wooden furniture consistently accounts for nearly 40% of the total value of EU imports of timber and timber products from VPA partner countries and they also supply EU furniture manufacture with a range of wood raw materials, including logs, sawn wood, mouldings, veneer and plywood. The distribution channels and factors affecting competitiveness in this industry are also distinct from those in the traditional wood importing sector.

IMMs previous report (*FLEGT VPA Partners in EU Timber Trade 2014 to 2016: Main Report*) concluded that *there is a need to significantly increase coverage in other sectors, notably furniture manufacturing and retailing, and joinery and engineered wood products.* This study has therefore been conducted to provide a more comprehensive baseline and recommendations for IMM's long term monitoring of trends in the wood furniture sector.

The study is based around a series of semi-structured interviews with 47 companies based in the seven major European markets involved in the importation of 83% of the furniture imported to the European Union from the VPA countries (UK, Germany, France, Netherlands, Belgium, Italy and Spain). The research was undertaken by IMM's network of national correspondents. It is estimated that there are 130,000 "furniture companies" in the European Union and approximately 90% of the furniture consumed within the EU is manufactured within Europe. Therefore exporters based within the VPA countries are entering a crowded and fiercely competitive market.

The companies that participated represented a broad sample of the value chain across the seven countries, from very large retailers, through to medium sized furniture manufacturers and distributors. The range of furniture products covered includes indoor furniture of all types and outdoor furniture plus a number that import raw materials such as sawn wood or panels or furniture components for furniture manufacturing within the EU.

In total the companies interviewed currently source, or have in the past sourced, from 9 of the 14 VPA countries. Indonesia was the most popular VPA country (in terms of trading relationships) followed by Viet Nam and Malaysia. Overall, as suggested by the trade data as well, China was the origin of the majority of wooden furniture purchased by those interviewed.

With a collective total of 850+ suppliers of furniture from outside the EU, the companies were asked about their perceptions of quality, price, lead times from order to delivery, logistics (the ease of moving products) and the range of products available from a range of countries and regions. When asked to compare these variables on a country versus country level it is clear that both Western and Eastern Europe are clearly perceived as most competitive across the range of factors considered. The third most competitive region identified was that of non-EU countries within Eastern Europe. Of the non-EU countries, Viet Nam, Indonesia and China were next most valued in terms of overall perception.

The survey also included questions on purchasing policies. Around a quarter (11) of those interviewed did not have a written environmental purchasing policy. For those who have a policy, the dominant feature was a requirement for "legality" or legal compliance regarding wood origins or trading (20) and the remainder (16) were pro-certification with a preference for PEFC and / or FSC.

FLEGT Licenced products are valued by 45% of those interviewed (typically those sourcing from Indonesia). In addition 19% of those interviewed stated that FLEGT Licencing could play a role in

their purchasing decisions - if it was available from other countries. Overall those interviewed were positive towards the FLEGT process though the lack of availability of Licenced products from other countries was a common concern. Some respondents had concerns that there were actually any on-the-ground improvements in terms of forest governance. The chief benefit identified for those favourable to FLEGT Licencing centred on the linkage to the EU Timber Regulation and the simplified due-diligence process prior to placement by them on the market.

The study also asked about the future outlook for tropical wood in the European furniture trade. The majority (70%) of those interviewed could see tropical wood continuing to have a role a decade from now. Though, only 43% could see the market for tropical wooden furniture growing or stabilising, with 32% seeing the demand and volume shrinking in this period. The sheer range of alternative materials and consumer and specifier attitudes towards tropical wood are seen as the main negative drivers.

Wooden furniture style and design is very much driven by fashion with 80% of furniture destined to be purchased by consumers. The choice of wood and accompanying colour and features is a complex web of interconnected drivers. Consumers, retailers and manufacturers have a huge range of material options and the choice of wood for furniture *per se* is no longer guaranteed. To date retailers and manufacturers have chosen to promote certified wood and certified tropical wood to varying degrees, and in comparison FLEGT Licenced timber has a role to play – but only at a business to business level. The role of Licenced timber with respect to the EU Timber Regulation is appreciated by the furniture industry.

The report makes series of recommendations summarised here:

- Encourage companies that are not using Licensed Timber to begin to use it.
- Keep the process of importing FLEGT Licensed timber as un-bureaucratic as possible to maximise the business benefit for operators
- Demonstrate the benefits of the licensing scheme in Indonesia to build trust.
- Clarify within the trade what Licensed Timber and TLAS systems actually achieve.
- Speed the introduction of more VPA countries and their Licensed Timber.

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Acknowledgements
The author and IMM correspondents would like to thank the companies across Europe who gave their time and insights that made this report possible.

The author would like to thank the IMM correspondents for their efforts to record the interviews accurately and for the large amount of detailed information which they were able to gather.

Study methodology

Objectives

The study has been designed to contribute to IMM's primary role, which is to use trade flow analysis and market research to independently assess trade and market impacts of FLEGT Voluntary Partnership Agreements (VPAs) in the European Union (EU[1]) and partner countries[2]. The study has been designed to provide a more comprehensive baseline and to generate recommendations for IMM's long term monitoring of trends in the wood furniture sector.

Assumptions

Prior to the study being undertaken a number of assumptions were made:

- The finished wood furniture consistently accounts for nearly 40% of the total value of EU imports of timber and timber products from VPA partner countries and therefore worthy of further study.
- The EU furniture manufacturing sector is an important user of wood supplied in the form of logs, sawn wood, mouldings, veneer and plywood from VPA partner countries.
- Distribution channels and factors affecting competitiveness in the furniture sector are distinct from the traditional wood importing sector and would benefit from specialist knowledge and analysis (accepting that there are some overlaps in terms of operators).
- Preliminary IMM analysis suggested a significant, but unknown, proportion of wood furniture imported into the EU is distributed by large retailers, many of which operate in more than one EU country. An EU wide study in this sector should help to better co-ordinate and avoid potential duplication of survey activities by the IMM survey team which is organised on national lines within the EU.
- The furniture sector is particularly interesting for assessment of European Union Timber Regulation (EUTR) impacts since it is divided between products which are not covered by this legislation (seating) and products which are covered (all other types of wood furniture).

Aims

The overall aims of the study are:

- To describe and explain current market conditions and distribution channels for:
  - finished wood furniture exported by VPA partner countries into the EU,
  - timber supplied to the EU furniture manufacturing sector by VPA partner countries.
- To identify EU-based furniture companies (retailers, importers, wholesalers, agents) with significant potential to influence market demand for products from VPA partner countries and which should be prioritised for future IMM monitoring.
- To better elaborate the type of wood furniture imported by the EU from VPA partner countries.
- To elaborate and prioritise the factors determining the relative competitiveness of VPA partner countries in relevant EU furniture market segments including (but not necessarily limited to): fashion trends; commitment to branding, marketing & R&D; ability to comply with EUTR and other technical and environmental standards in the EU; freight and other logistical factors; costs of labour and other manufacturing inputs in supply countries; exchange rates and other macro-economic factors; and consumer perceptions.

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[1] The 28 EU member countries in May 2018 are Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

[2] The VPA partner countries as of May 2018 are: Cameroon, Central African Republic, Democratic Republic of Congo, Gabon, Ghana, Guyana, Honduras, Indonesia, Lao PDR, Liberia, Malaysia, Republic of Congo, Thailand & Viet Nam

- To provide a preliminary assessment of the current and potential role of FLEGT Licensing to improve market access for wood furniture from VPA countries in the EU.
- To recommend a strategy to optimise the benefits of FLEGT-licensing for development of the EU market for wood furniture from VPA partner countries.
- To recommend a strategy for on-going IMM monitoring of FLEGT-related market impacts in the EU furniture sector.

Product scope

The study covers the following:

- Imports of finished furniture products from VPA partner countries specifically identified as containing wood in Chapter 94 (furniture) of the EU's Combined Nomenclature (CN).
- Wood imports in the form of logs, sawn wood, mouldings, veneer, and plywood by EU wood furniture manufacturers from VPA partner countries.

Geographic scope

While technically the geographic scope of the study includes all of the VPA countries and European Union countries (as defined in 2018), in practice there is quite a high degree of concentration in the furniture sector and trade so that certain countries can be prioritised.

Four of the VPA partner countries are engaged to any significant extent in supply of wood furniture to the European Union – namely Viet Nam, Indonesia, Malaysia and Thailand (see Table 1 & 2) below. Seven countries account for 83% of all EU wood furniture imports from outside the EU – namely UK, Germany, France, Netherlands, Belgium, Italy and Spain (see Table 3). These same seven countries also account for 86% of all EU wood furniture imports from VPA countries. Six EU countries account for 75% of all wood furniture manufactured in the EU - Italy, Germany, Poland, UK, France and Spain.

Based on the data contained within Tables 1-3[3] the study has therefore focused primarily on the markets in seven EU countries: UK, Germain, France, Netherlands, Belgium, Italy and Spain.

Top 15 external wood furniture supply countries to the EU 2014-2017 (VPA partners in red)							
€ million	Year			Jan-Aug		% total EU	
	2014	2015	2016	2016	2017	2014-16	2017
China	2811.8	3153.1	3036.8	2029.4	2132.0	54.0%	49.8%
Viet Nam	**596.3**	**725.0**	**717.8**	**506.4**	**521.9**	**12.2%**	**12.2%**
Indonesia	**296.5**	**316.1**	**299.5**	**218.4**	**225.4**	**5.5%**	**5.3%**
Malaysia	**171.7**	**191.4**	**183.8**	**125.3**	**138.9**	**3.3%**	**3.2%**
Turkey	151.7	182.7	203.9	133.8	130.5	3.2%	3.1%
Bosnia	149.3	157.4	189.8	121.0	142.4	3.0%	3.3%
India	132.0	162.5	180.1	119.4	137.3	2.8%	3.2%
Switzerland	117.1	116.8	117.8	79.6	82.6	2.1%	1.9%
Brazil	105.9	122.4	118.7	83.2	75.5	2.1%	1.8%
Norway	104.2	104.7	106.8	69.6	63.5	1.9%	1.5%
Serbia	83.9	91.1	111.9	69.7	79.9	1.7%	1.9%
USA	49.2	66.7	61.6	43.2	97.7	1.1%	2.3%
Thailand	**74.4**	**77.0**	**63.3**	**43.0**	**39.9**	**1.3%**	**0.9%**
Ukraine	34.3	47.4	79.5	46.8	83.6	1.0%	2.0%
Belarus	32.5	39.5	69.8	43.2	59.9	0.9%	1.4%
Other	205.7	227.7	237.2	155.8	266.5	4.0%	6.2%
Total extra-EU imports	**5116.4**	**5781.5**	**5778.3**	**3887.9**	**4277.4**	**100.0%**	**100.0%**

Table 1 External suppliers of wood furniture to the EU 2014-2017

[3] The data contained within Tables 1,2,3 & 4 is ITTO IMM analysis of Global Trade Atlas

EU wood furniture imports from VPA countries							
€ million	Year			Jan-Aug		% total VPA	
	2014	2015	2016	2016	2017	2014-16	2017
Viet Nam	596.3	725.0	717.8	506.4	521.9	54.8%	56.2%
Indonesia	296.5	316.1	299.5	218.4	225.4	24.5%	24.3%
Malaysia	171.7	191.4	183.8	125.3	138.9	14.7%	15.0%
Thailand	74.4	77.0	63.3	43.0	39.9	5.8%	4.3%
Myanmar	1.3	2.2	2.5	1.9	1.7	0.2%	0.2%
Other	0.3	0.3	0.4	0.2	0.6	0.0%	0.1%
Total imports from VPA countries	**1140.5**	**1311.8**	**1267.3**	**895.2**	**928.4**	**100.0%**	**100.0%**
VPA country share of total EU trade	6.0%	6.5%	6.1%	6.5%	6.4%		
VPA country share of extra EU imports	22.3%	22.7%	21.9%	23.0%	21.7%		

Table 2 EU wood furniture imports from VPA partner countries

Total wood furniture imports from outside EU by 7 largest EU importing countries							
€ million	Year			Jan-Aug		% total EU	
	2014	2015	2016	2016	2017	2014-16	2017
UK	1692.5	2062.7	2000.8	1355.7	1489.5	34.5%	34.8%
Germany	922.7	960.2	947.3	628.6	692.0	17.0%	16.2%
France	709.5	755.9	774.0	526.7	544.4	13.4%	12.7%
Netherlands	350.3	396.2	420.4	284.2	330.9	7.0%	7.7%
Belgium	231.6	247.6	230.6	160.8	166.7	4.3%	3.9%
Italy	182.4	201.2	207.7	146.3	155.5	3.5%	3.6%
Spain	149.1	180.5	188.7	127.3	151.5	3.1%	3.5%
Other	878.3	977.1	1008.8	658.4	746.9	17.2%	17.5%
Total extra-EU imports	**5116.4**	**5781.5**	**5778.3**	**3887.9**	**4277.4**	**100.0%**	**100.0%**

Table 3 EU's largest importers of wood furniture from outside the EU

Wood furniture imports from VPA countries by 7 largest EU import countries							
€ million	Year			Jan-Aug		% total EU	
	2014	2015	2016	2016	2017	2014-16	2017
UK	396.9	492.6	491.2	340.0	326.3	37.1%	35.1%
France	183.4	196.3	186.2	130.9	129.5	15.2%	13.9%
Germany	168.6	180.2	164.4	118.1	122.3	13.8%	13.2%
Netherlands	95.3	105.3	106.4	76.7	89.4	8.3%	9.6%
Belgium	62.3	71.0	63.2	46.2	45.4	5.3%	4.9%
Spain	38.0	42.3	43.3	31.2	40.3	3.3%	4.3%
Italy	42.3	45.5	46.9	35.8	34.7	3.6%	3.7%
Other	153.6	178.6	165.8	116.1	140.4	13.4%	15.1%
Total imports from VPA countries	**1140.5**	**1311.8**	**1267.3**	**895.2**	**928.4**	**100.0%**	**100.0%**

Table 4 Major EU importers of wood furniture from VPA partner countries

Questionnaire

A questionnaire was developed to guide an interview process. The questionnaire was developed to allow statistical analysis where possible whilst allowing for significant narrative answers. The full questionnaire can be found in ***Annex A***.

Interviews

IMM’s network of correspondents operating in the seven main market countries were involved in the both the selection and interviewing of the selected companies.

Within input from the study coordinator the correspondents were tasked with identifying key companies involved in the furniture trade in the given country, including retailers, importers, wholesalers, and others with significant potential to influence market demand for furniture from VPA partner countries.

The interviews also sought to describe and explain current market conditions and distribution channels for finished wood furniture exported by VPA partner countries into the EU and for timber supplied to the EU furniture manufacturing sector by VPA partner countries.

The correspondents were encouraged to interview a range of companies in terms of size (sales turnover) and to offer a sample which represented the major elements of the industry / sector in their country.

The interviews also sought to identify, elaborate and prioritise the factors determining the relative competitiveness in relevant EU furniture market segments, including a comparison with the four relevant VPA partner countries, China, Africa and non-EU European states.

Another important component in the interview process was to seek information on the current and potential role of FLEGT Licensing to improve market access in these market segments, whilst investigating the extent of compliance with the EUTR by the furniture sector in the respective EU country.

The interviews took place between April and May 2018 and typically took in the range of 30 to 90 minutes.

The sample

This report is based upon a total of 47 individual interviews with a range of companies.

In total interviews were conducted with companies based across 7 countries: Belgium, France, Germany, Italy, The Netherlands, Spain and the United Kingdom. It should be noted that some of the companies have operations outside of their base country.

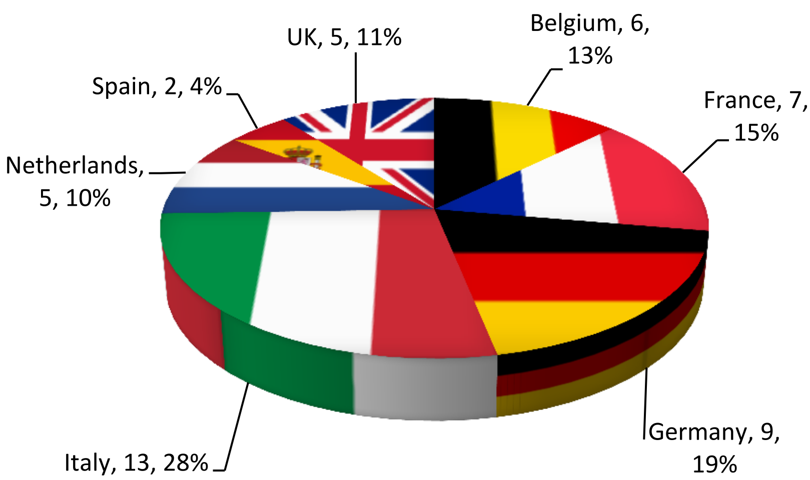

Figure 1 National profile of the companies contrinuting to the study

Sectors represented

The companies interviewed represented a diverse mix representing the value chain from manufacturer to retailer.

45% of the companies were manufacturers, some of which were also distributors. 36% of interviewees were purely involved in distribution acting between the manufacturers and retailers. 19% of the sample is made up

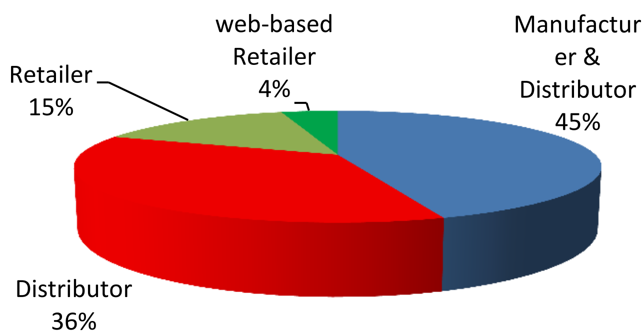

Figure 2 Position of interviewees in the value chain

of multi-channel retailers. 4% of the sample is made up of two retail companies that exclusively trade on-line.

Relationship with producers in the VPA countries

The participating companies currently source furniture or raw materials to manufacture furniture from 8 of the countries engaged in the VPA process. Additionally one company has in the past sourced from an additional country engaged in the process.

The dominant country in terms of trading relationship is Indonesia with over 30 of the 47 companies purchasing. The second largest relationship is with Vietnam, followed by Malaysia.

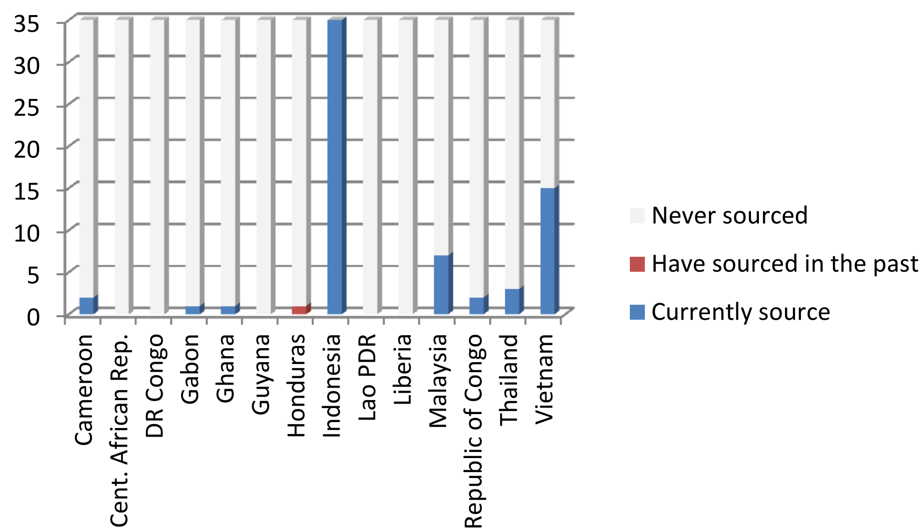

Figure 3 The relationship between the contributing companies and the VPA countries

Study limitations

- **Sample size**

A sample of less than 50 companies across a range of countries is tiny in comparison to the total number of companies involved across the value chain for wood based furniture within the EU (estimated at in excess of 130,000 companies in 2010[4]). It is therefore accepted that extrapolation should be treated with caution.

- **Limited number of countries included**

Only 7 of the 28 EU member states were featured and conditions and attitude may vary widely for countries not specifically included in the interviews. It should be noted though that the seven countries included are responsible for over 82% of the EU's furniture imports by value.

- **Not all sectors are represented**

The "furniture market" across the EU is in fact a series of specialist markets which range from consumer facing (with its own market segments), to specialist markets (such as contract furniture for example to hotels and conference venues). The sector also includes companies that supply basic materials (such as sawn wood) and machined components to manufacturers. The sample of interviewees is biased towards the more downstream (i.e. those dealing with furniture) as opposed to the upstream (i.e. those dealing with components or raw materials).

[4] Centre for European Policy Studies (2014) *The EU Furniture market situation and a possible furniture products initiative – Final Report*. Submitted to the European Commission, DG Enterprise and Industry

- **Self-identification of participants**

Participation in the survey was voluntary and companies were able to specify if their data was confidential or not. The majority opted for anonymity. Approximately one quarter of the companies approached for an interview were able to participate. Lack of time was the main reason for not being able to participate. The net result is a sample of companies that have something to say. Their representativeness in this respect might therefore be questioned as the majority did not want to offer opinions.

- **Representativeness of participants**

The study involved companies primarily involved in sales to end consumers or within supply chains that fed in to retailers. Whilst retail sales account for the majority of the volume of furniture sales in the EU, the sample does not include companies that supply to contract markets (such as hotels). The sample also does not include specialist kitchen furniture companies, though some of the retailers offer kitchens as a part of their wider range.

The EU Furniture market in 2018

As noted in IMM's 2017 report[5] demand for wood furniture in the EU is rising but competition is also intensifying. EU manufacturers, particularly in Eastern Europe, are producing more at a time when domestic consumption is growing only slowly and exports to other parts of the world are weakening.

Eurostat indices and trade data analysis in 2017[6] suggested that EU consumption of wood furniture was around €36.1 billion in 2016, a gain of 1% compared to 2015. During 2016, consumption was quite stable in the largest markets including Germany, the UK, Italy and France compared to the previous year, but consumption increased slightly in Spain, Poland, Sweden and the Netherlands.

External suppliers to the EU made significant gains in 2014 and 2015 but struggled to maintain this momentum in 2016. Tropical wood furniture suppliers face significant competition from domestic manufacturers and manufacturers in Eastern European countries outside the EU, as well as in China.

China is the dominant external supplier of wood furniture to the EU and was gaining share in the market between 2013 and 2015. EU imports from China increased 27% from €2.49 billion in 2013 to €3.16 billion in 2015. China's share of total imports increased from 54% to 55% during this period. However, in 2016 EU imports from China fell 5% to €3.01 billion and share of imports fell to 53%. In 2016, China lost share to Viet Nam and to several non-tropical suppliers including Turkey, Serbia, Ukraine and Belarus. Imports in 2017 continued to be dominated by China at over €2.1 billion representing 49.8% of the total. Whilst dominant, China's share has fallen from 54% since 2014.

Viet Nam's €522 million of imports in 2017 represents 12.2% of the non-EU imports market, a figure unchanged for the period 2014-2017. EU import value from non-EU temperate countries other than China increased by 14% to €1.07 billion in 2016.

EU imports of wood furniture from Indonesia increased from €218 million in 2016 to €225 million in 2017. In 2015 imports from Indonesia stood at €319 million. EU imports from the VPA partner countries stood at €895 million in 2016, growing to €928 million in 2017. In 2013 these sales were valued at €1.14 billion.

[5] ITTO IMM (2017) *FLEGT VPA Partners in EU Timber Trade 2014 to 2016 - Main Report*
[6] ITTO IMM (2017) *Op. Cit.*

The value of EU imports of wood furniture from non-EU countries decreased from €5.1 billion in 2015 to €4.27 billion in 2017 (see Table 1). Import tonnage stood at around 1.95 million tonnes in 2015[7].

EU imports of wood furniture from tropical countries increased 29% from €1.31 billion in 2013 to €1.69 billion in 2015 before falling 1.3% to €1.64 billion in 2016[8].

VPA partner countries accounted for 77% of EU tropical wood furniture imports in 2016, down from 79% in 2013. The slight decline in share is due to rising imports from several non-VPA countries including India, Brazil and the Philippines[9].

The total share of tropical countries in EU wood furniture import value remained level at between 28% and 29% in the four years 2013 - 2017. However, during this time the share of Viet Nam increased at the expense of Indonesia and Malaysia[10].

The EU's domestic manufacturers are maintaining their domination of the European wood furniture market. In 2016, domestic manufacturers accounted for around 87% for the total value of wood furniture supplied into the EU market, the same proportion as the previous year and little changed, in fact, since 2007[11] [12]. Over the past decade the market share of imported furniture has remained static.

The value of EU wood furniture production was around €39.6 billion in 2016, 1% higher than the previous year, but still 20% down on the level prevailing before the financial crises in 2008. A slight slowdown in production in Italy and Germany, the two largest manufacturing countries offset gains in Poland, the UK, Spain, Romania and Lithuania.

Analysis of Eurostat trade data reveals that internal EU trade in wood furniture was €16.2 billion in 2016, 4% more than the previous year and continuing a rising trend of the previous two years. This trend is driven both by the slow rise in EU consumption and by rising dependence of the internal EU market on manufacturers located in lower cost member countries of Eastern Europe, particularly Poland, Romania, and Lithuania.

Sourcing by the interviewed companies

The survey asked a number of questions regarding the sourcing profile of the interviewed companies, covering the type of product, the country of manufacture and the reasoning behind these choices.

Overall sourcing profile of the sample

More than half of the sample sourced some material from Indonesia, primarily outdoor furniture. The second most popular supply country was Viet Nam followed by Malaysia. A number of other countries were specifically mentioned.

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7 ITTO IMM (2017) *Op. Cit.*
8 ITTO IMM (2017) *Op. Cit.*
9 ITTO IMM (2017) *Op. Cit.*
10 ITTO IMM (2017) *Op. Cit.*
11 ITTO IMM (2017) *Op. Cit.*
12 A figure of 15% market share for non-EU imports for2012 is used by CEPS in their report. Centre for European Policy Studies (2014) *Op. Cit.*

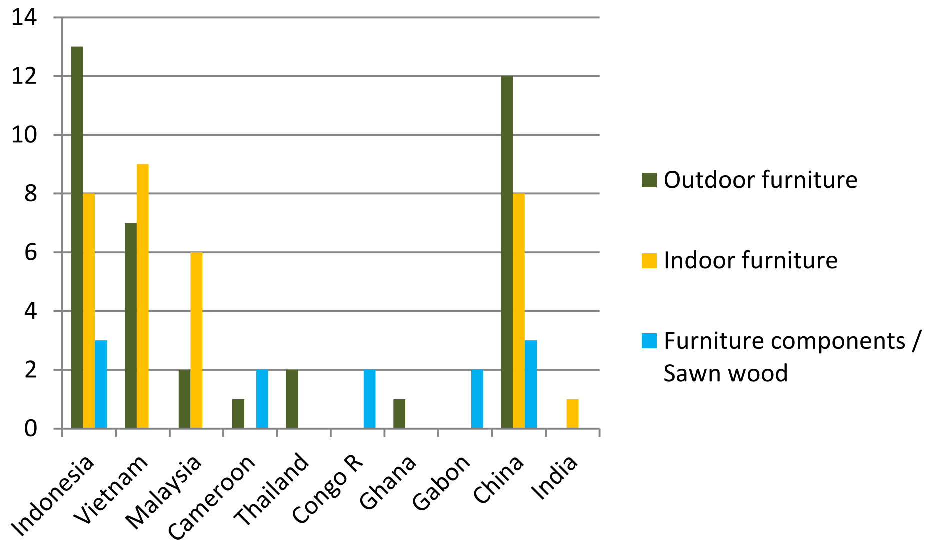

Figure 4 The profile of the 47 companies and their sourcing of furniture and related materials

Duration of trading relationships

The interview asked the companies to give an overview of the duration of the relationships with their suppliers. Thirty six of the interviewees were able to supply information.

The longest average trading relationships are with furniture manufacturers in China.

The average length of trading relationship with Indonesian suppliers was 16.8 years. This is significantly longer than for Viet Nam (11.9 years) and Malaysia (11.5 years).

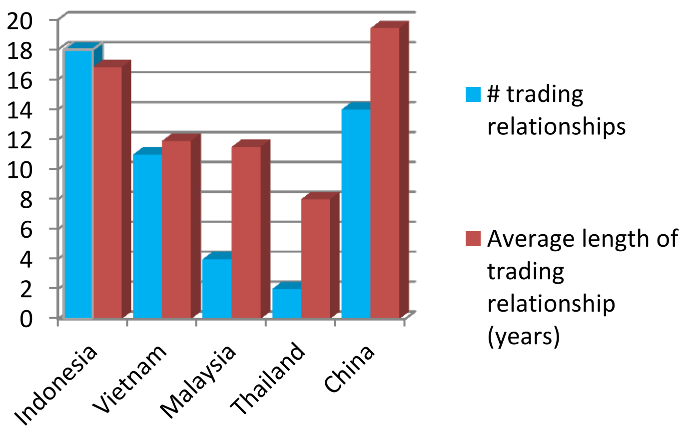

Figure 5 The profile of the duration of trading relationships with non-EU suppliers

Notably the smaller buyers and importers interviewed rely on longer lasting purchasing relations and aim for establishing long-term relationships, since shifting suppliers requires substantial workload and involves economic risks. In contrast, the large retailers mostly work on a yearly/ seasonal basis and for every new season they repeat to choose the supplying manufacturers.

Number of suppliers

Thirty three of the interviewees were able to provide data as to the number of furniture suppliers they currently have per country. In total they have 847 suppliers across a range of countries average circa 11 suppliers per interviewed company.

China dominated the responses with over 480 suppliers reported. The leading VPA

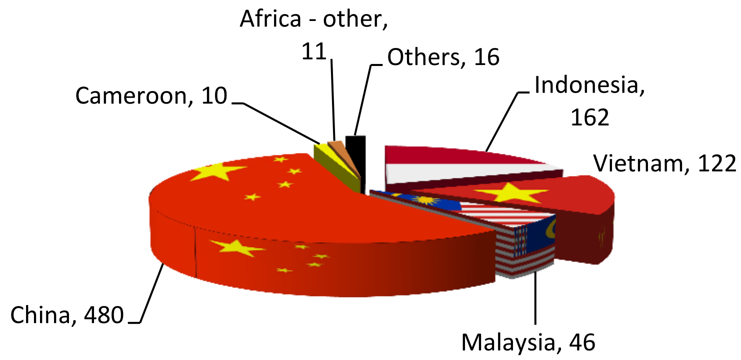

Figure 6 Numbers of non-EU based suppliers for selected countries

countries were Indonesia (162), Vietnam (122) and Malaysia (46).

Timber species utilised

The interviews indicated that a very wide range of timber species are used by the 33 companies that provided information. Teak (*Tectona grandis*) was by far the most popular species identified, primarily sourced from Indonesia. Acacia and a variety of Pine species were the second most common species identified.

Species from natural tropical forests were in the minority with very few companies identifying them.

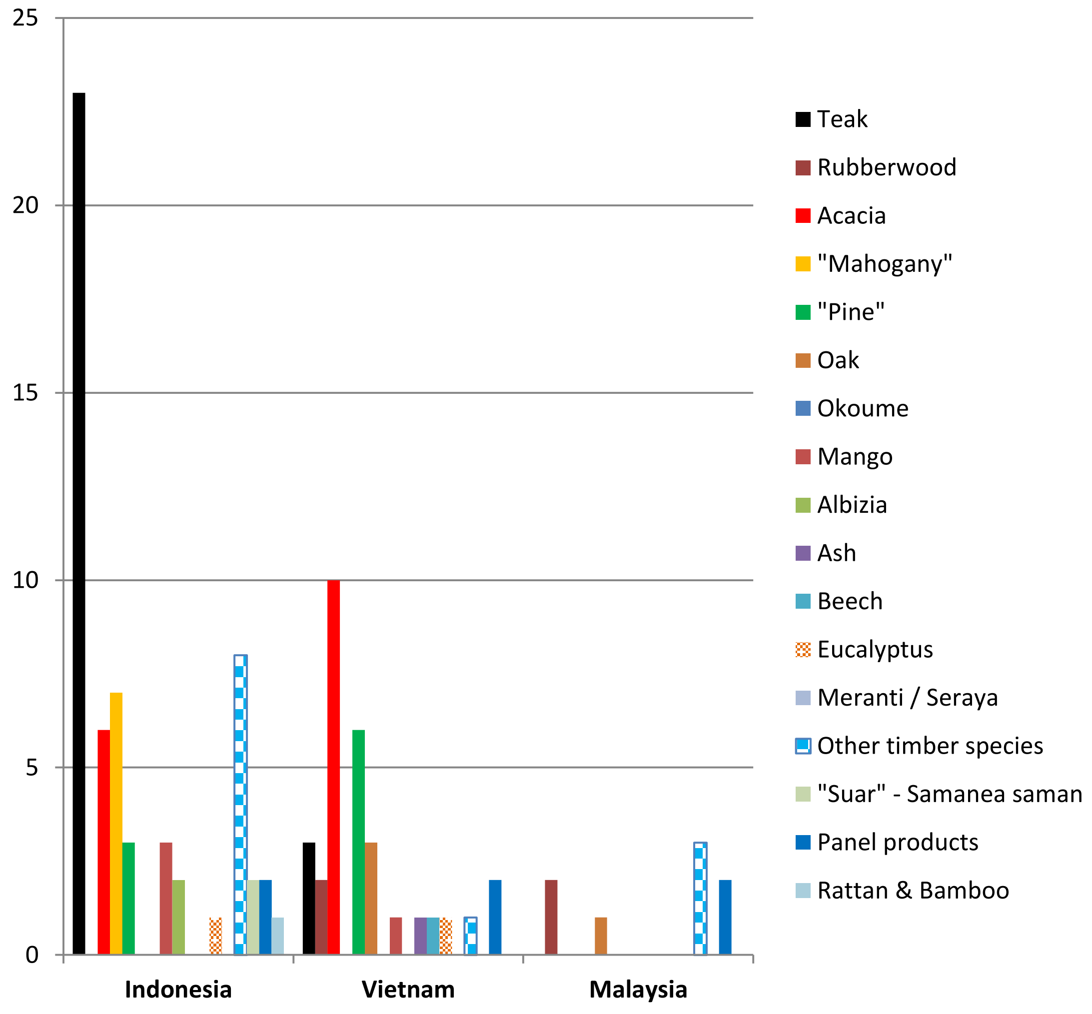

Figure 7 The diversity of timber species imported from non-EU countries

Distribution channels for furniture in Europe

Furniture sector segmentation

There were about 170,000 companies engaged in furniture retailing in the European Union in 2010[13]. The furniture sector, which encompasses a diverse range of products and markets, can be segmented into three broad categories according to associated purchasing characteristics:

- **Domestic furniture**: serving the general public, mainly through retail stores and intended for household use (accounting for approximately 80% of furniture sales[14])
- **Office furniture**: covering furniture items destined to the office environment (accounting for about 10% of the total furniture sales)
- **Contract furniture**: This includes furniture for public areas such as hotels, restaurants, schools, hospitals, stadia, offices and airports. This segment also overlaps with both the domestic and office segments. The segment accounts for about 10% of total furniture sales.

Distribution models

A variety of distribution models are utilised across Europe and are appraised below. It should be noted that that there is a huge variety of different modes and the examples given here are to give flavour but are not intended to cover every eventuality.

The production and the distribution of furniture are usually carried out as separate tasks by separate companies. Some manufacturers have their own distribution networks, an increasing trend especially amongst the larger companies, or sell directly to consumers. The majority of manufacturers though continue to sell their products to retailers (whether furniture specialists or general retailers). The relationship between retailers and manufacturers varies widely across countries, segments, market ranges ("mass market", or "high end"), and even within each retailing channel.

It should be noted that the role of agents is not included in any of the diagrams below. With the exception of the fully integrated model, agents can and do play a role at potentially any stage in the value chain.

Fully integrated

This model is that used by *Ikea*, the world's largest retailer of furniture. It involves owning the retail, distribution, importing, and design, manufacturing and sourcing of the raw material. It can even extend to owning the forest resource. It involves huge resources to manage effectively but gives a high level of confidence in terms of cost, quality and product integrity. The model also extends to independent manufacturers supplying product or components to the retailer. In Ikea's case control is extended outside of the immediate company through close control via the use of trading agreements and supplier rating systems – Ikea's IWay. IWAY is the *IKEA* code of conduct, first introduced in 2000. It specifies the requirements that are placed on suppliers of products and services and details what they can expect in return from IKEA. In addition to the main document, there are several industry-specific supplements and a special code of conduct for child labour. *IKEA* suppliers are responsible for communicating the content of the *IKEA* code of conduct to their employees and sub-suppliers[15].

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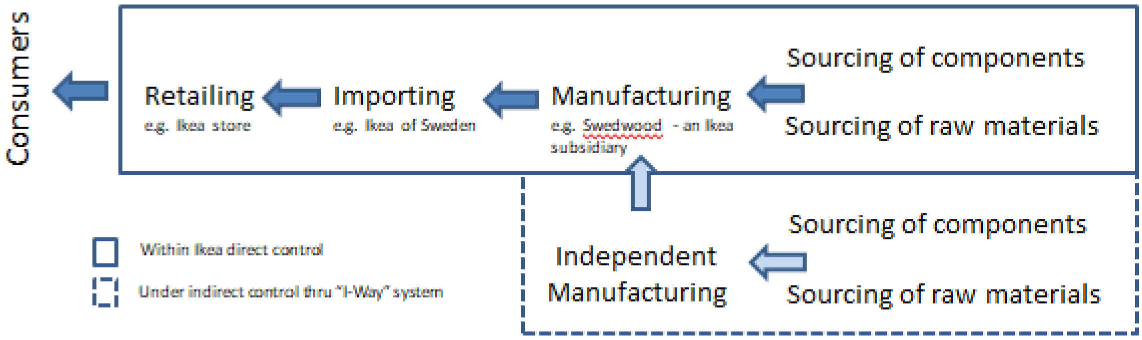
[13] Centre for European Policy Studies (2014) *Op. Cit.*
[14] Centre for European Policy Studies (2014) *Op. Cit.*
[15] www.ikea.com/ms/en_SG/about_ikea/our_responsibility/iway/index.html

Whilst *Ikea* are the largest example, they are not alone in utilising this model. It has been estimated[16] that one third of the Europe's manufacturers carry out retailing activities alongside their manufacturing. This includes:

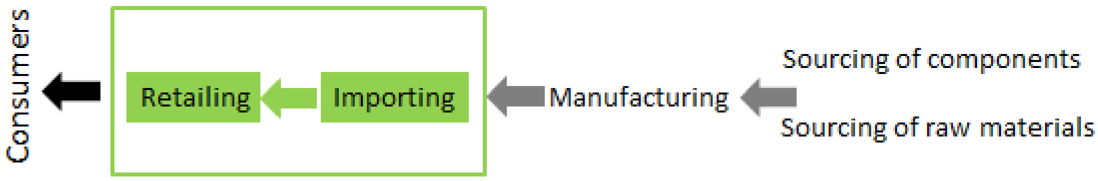
i) Selling only their own-brand in their own stores
ii) Making direct sales through showrooms and other outlets
iii) Operating through licensed stores
iv) Controlling a franchised network
v) Direct internet sales

Other examples of manufacturers carrying out retailing activities include:

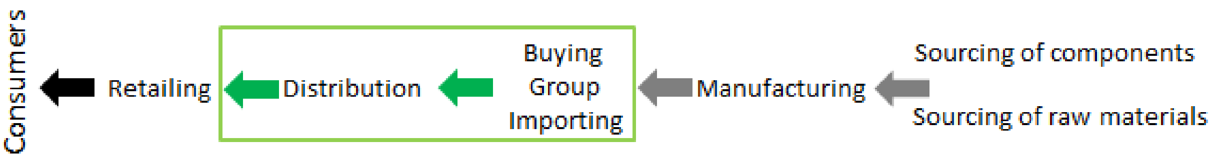
- Swedish kitchen specialist *Nobia* who sells directly to consumers through a network of over 600 owned or franchise stores, plus sales to professional customers
- British *DFS* which operates a national retail network of nearly 100 furniture stores



Partially integrated
Not all retailers have the resources, appetite or ambitions of the likes of *Ikea* and seek to control some aspects of their supply chain. This may involve direct sourcing from the manufacturer (not using a distributor) and arranging delivery direct from the manufacturer.



The use of buying groups, typically based in Asia, is a preferred model for many retailers of medium or large size. The combined purchasing power via the buying group ensures economies of scale.



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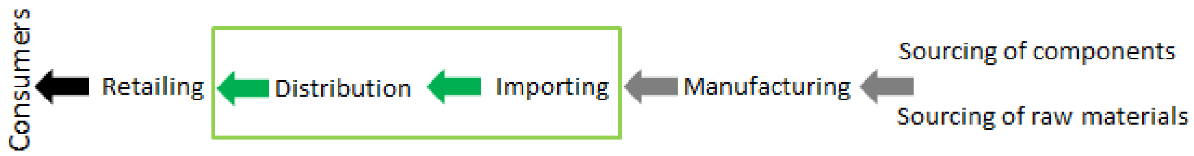
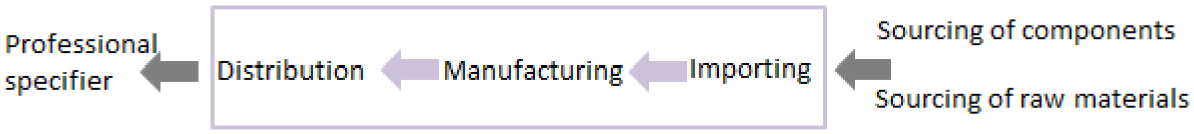
[16] Centre for European Policy Studies (2014) *Op. Cit.*

Non-integrated
This represents the more "traditional" approach where each component in the supply chain acts independently with minimal direct control over each other's activities. Distributors typically have a key role in holding stock, arranging shipment and logistics.



Contract & Office
These products, for example, include furniture destined for hotels and conference centres where the end consumer is a professional specifier.



Retailing formats
Distribution channels and the nature of furniture retailing vary across countries. A broad distinction can be drawn between specialised and non-specialised distributors.

Specialised retailers
Independent Chains - Large-scale distribution
Typically chains under the same ownership specialising mainly in the sale of furniture, accessories and products for the home. Independent chains can be either own-brand (e.g. *IKEA* & *Boconcept*) or chains selling proprietary brands (e.g. *XXXLutz*)

Franchises - Large-scale distribution
A system of collaboration between independent companies, bound by contracts, under which one company (the *franchisor*) grants the other (the *franchisee*) the right to use a brand name and a commercial formula, including a logo, under certain conditions. The franchisor also guarantees assistance and support services. This distribution model is mainly adopted by own-brand franchising stores. Multi-brand / proprietary brand franchising stores are less common.

Buying Groups - Large-scale distribution
These are associations between retailers, where retains its own legal status and financial independence, where the main objective is to jointly purchase and to jointly provide sales services, technical and financial services. Typically these arrangements involve multiple brands, although some buying groups have their own brand.

Small Scale Independent Retailers – Small scale distribution
This is the more "traditional" model where small independent sales outlets do not form part of any kind of organised structure. This distribution model is adopted both by own brand stores (e.g. those owned by a furniture manufacturer) and multi-brand stores (trading products of more than one furniture manufacturer).

Non-Specialised retailers

Supermarkets and Hypermarkets - Retail sales outlets divided into departments (food and non-food) that have the characteristics of both a supermarket and a department store.

Department Stores - Retail sales outlets operating in the non-food field, dedicated to the sale of articles belonging to different sectors.

Do It Yourself (DIY) - Sale of articles for home improvement.

Mail Order and e-commerce - Sales of various types of product via catalogue or Internet.

> "Online furniture distribution is growing all the time and is attracting more and more players. There are some very large players but also hundreds of smaller players who are raising funds on the equity market."
>
> **UK company**

Office furniture

Sales of office furniture take place in a similar way, with the presence of specialists (selling only office furniture), non-specialists, large-scale chains specializing in office supplies and other large-scale dealers also operating in the home furniture segments.

Structural changes in the market

Generally speaking, over the last decade the sector has undergone important structural changes, with the different retailing formats performing unevenly.

The specialist channel has becoming more important compared to the non-specialists, in 2010 it accounted for around 84% of home furniture sales in Western Europe[17]. This figure includes upholstery specialists, kitchen and bathroom specialists, bedroom specialists, discount stores, and specialists in ready to assemble (RTA) furniture.

Amongst the specialist furniture retailers traditional independent retailers are progressively losing share while furniture chains are becoming more important.

Buying groups, chains and franchised business account for over 50%[18] of home furniture sales in Western Europe in 2010.

Retailers across the globe are rapidly adapting to the fact that, from the consumer perspective, shopping is not about "bricks versus clicks" or one shopping channel versus another. Consumers are increasingly less concerned about which sales channels they prefer. The shopping journey and pre-shopping research is a fluid process with consumers bouncing between online and offline along the road to making a purchase[19].

Deloitte's *Global powers of retailing* report of 2018 found that digital interactions globally influenced 56 cents of every dollar spent in bricks-and-mortar stores - up from 36 cents in 2013. In addition it stated that consumers who shop using different methods, including online, mobile and visits to a physical store, spend more than double those who only shop at bricks and mortar stores.

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[17] Centre for European Policy Studies (2014) *Op. Cit.*
[18] Centre for European Policy Studies (2014) *Op. Cit.*
[19] Deloitte (2018) *Global powers of retailing*

It is estimated that the on-line furniture market in Germany (and very likely for the rest of Europe) will continue to grow at approximately 10% year on year for the foreseeable future[20]. The growth of global retailers and the investment in on-line platforms, technology and logistics by players such as *Ikea*, *made.com* and *Amazon* will ensure the growing importance of this channel.

Characteristics by country

Belgium

The Belgian outdoor furniture market is typified by many small importers. The solid wood middle range market Belgium is made up of several small importers and manufacturers rather than the large buying groups (as found in Germany). Most of the Belgian furniture importers remain SMEs but the larger ones have developed their sales outlets.

France

It was estimated that in 2014 in France over 86% of the furniture distribution market was controlled by specialist retailers[21]. Of this figure it was also estimated in 2014 that around 37% of the specialist retail market was distributed by buying groups and franchises (for example: *UCEM*, *Mobilier Européen*, *MDF*, *Pem*, *Gram* and *Maxiam*).

> "The French furniture market is dominated by three specialised mass retailers: Ikea 19%, Conforama 16.1% and BUT with 13.4% market share."
> **French company**

> "Furniture distribution in France is very concentrated in the hands of a few large groups. Outside of those large players the market is very narrow"
> **French company**

Independent furniture chains (*Alinéa*, *Conforama*, *Ikea* and similar) were estimated to account for 32% of the specialist market. Around 4% of the market was shared by on-line operators and DIY chains. On-line operators (such as *CAFOM*, *Quelle* and *Redoute*) plus increased on-line sales of traditional specialists accounted for growth.

Germany

The German market is dominated by a large share of buying groups and is unique. Unusually larger chains and much smaller individual shops may be formally organised within the buying groups. The major buying groups include *Begros* working with very large retailers (e.g. *XXXLutz*, *Porta Möbel* and *Schaffrath* plus many others), *Union* with 29 associates, *EMV Europa Mobel Verbund* with 585 associates, and *Einrichtungs-parntnerringVME* numbering some 176 members with about 350 stores[22].

> "Most, of the larger retailers use the buying associations."
> **German company**

The German buying groups also represent a number of kitchen and bathroom specialists, such as *MHK*, *Der Kreis* (which includes several chains and franchises), *Küchen Treff*, *Küchen Partner*, and *Der Küchenring*.

> "Some retailers even have their own purchasing team in Asia that makes quality control much easier."
> **German company**

The buying groups have a greater presence in Germany than other parts of Europe and they make up almost 65% of furniture sales (in Italy and the UK this channel represents only about 10% of the market).

[20] eCommerce Marktanalyse und Fallstudie ikea.com (2016) *Der online Möbelmarket in Deutschland 2016*
[21] Centre for European Policy Studies (2014) *Op. Cit.*
[22] Centre for European Policy Studies (2014) *Op. Cit.*

Franchise retailers are not a major force within the German furniture market. Sales through independent retailers remain limited to the specialist field. Of the independent chains, *IKEA* is one of the leading players followed by *Höffner / Krieger Gruppe* and *Finke*. Compared to the rest of western Europe Germany has the lowest number of independent specialists

Significant on-line retailers include *Wayfair, Westwing, Home24, Lampenwelt* and *Schlafwelt*[23].

Italy

Italian home furniture sales are dominated by specialist channels (90% on 2010[24]). Non specialists distributors, mainly the DIY retailers and other distribution channels such as on-line sales, made up 10% of Italian home furniture sales in 2010.

> "The Italian furniture sector is characterized by a large number of small and medium sized actors"
> **Italian company**

Independent retailers continue to handle the largest share of sales made through the furniture specialist channel with 65% of sales. The Italian retailing sector is quite fragmented with many smaller companies. New operators have found the market difficult as selling in these countries requires local knowledge and a large network of contacts, thus favouring mainly domestic producers.

> "The import of semi-finished products made of tropical species is dominated by some big importers"
> **Italian company**

Buying groups are at their weakest in Europe with around 9% of sales in 2010.

The Italian producing furniture sector is characterized by a large number of actors typically small to medium sized and for logistical reasons imports from southern and eastern Europe are straightforward. For this reason there are a large number of Italian importers.

> "Imports from Africa and South-East Asia are dominated by a small number of importers."
> **Italian company**

Netherlands

The Dutch furniture sector is traditionally characterised by a noticeable openness, favoured in this by its key geographical location as the gateway to Europe. After Switzerland, the Netherlands is the Western European country with the highest imports to consumption ratio. A peculiarity of the Dutch distribution system is the presence of a specific format for some categories of goods that is the *boulevard*. The boulevards dealing in furnishing products are called *Woonboulevards*. Furniture retailers in the Netherlands have been making substantial investments in online activities in recent years[25].

Some of the larger furniture companies include: *BeddenREUS, Beter Bed, De Mandemakers Groep (DMG)* and *Leen Bakker.*

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[23] eCommerce Marktanalyse und Fallstudie ikea.com (2016) *Der online Möbelmarket in Deutschland 2016*
[24] Centre for European Policy Studies (2014) *Op. Cit.*
[25] www.worldfurnitureonline.com/research-market/furniture-distribution-netherlands-0058579.html *Furniture distribution in the Netherlands*

Spain

The Spanish retailing sector is quite fragmented with many smaller companies operating nationally and regionally. For furniture manufacturers selling in Spain require local knowledge and a large network of contacts, thus favouring mainly domestic producers. For this reason the furniture market in Spain is dominated by independent retailers though their share is under pressure from larger retailers[26].

Some of the larger furniture companies include: *Dormitienda, El Corte Inglés, Habitat Spain, Noctalia,* and *Rey Corporacion,*

United Kingdom

The UK market sees 66% of furniture retail through specialist retailers, 32% by non-specialist retailers and around 2% through direct sales[27]. Compared to other European countries, furniture distribution in the UK has the highest market share of non-specialist retailers (including , due to the relevant on-line sales, mail order catalogues sales and general department stores).

Leading kitchen and upholstery specialists include *Magnet*, *In-Toto*, *Wren* for kitchens, and *DFS*, *KA International*, and *Thomas Lloyd* for upholstered furniture.

Amongst the non-specialist retailers general department stores are significant with 22% market share. Non-specialists include: *Homebase, B&Q (Kingfisher Group), Wickes, Marks & Spencer*, and the *John Lewis Partnership*.

The leading specialist furniture distributors in UK are IKEA and the Home Retail Group, which includes the department stores Argos and Habitat, plus the Hygiena and Schreiber kitchen brands.

About 6% of furniture sales in the UK in 2010 were through mail order and online sales. This total continues to grow with a wide range of specialist and non-specialist retailers all offering on-line sales of furniture.

Buying groups account for less than 10% of UK furniture sales (compared to 65% in Germany).

The outdoor furniture market is dominated in sales terms by the non-specialist retailers, especially the DIY stores (*B&Q*, *Homebase* & *Wickes* for example). Focusing on low price and more mid-range offers the high-end market is dominated by small and medium size operators selling via traditional stores and increasingly on-line.

> "The outdoor furniture sector is led by medium and large importers"
> **UK company**

[26] www.worldfurnitureonline.com *Furniture distribution in Spain*
[27] Centre for European Policy Studies (2014) *Op. Cit.*

Market leadership

The interviewees were asked whom they regarded as “leaders within their sector”. The question was left open ended and the respondents were encouraged to offer some rationale.

In total 28 different companies were mentioned. The chart below gives a list of the names of companies that appeared most frequently.

Perhaps unsurprisingly Ikea, followed by a list of larger retailers were the most frequent. Most respondents equated leadership with sales volume and the associated impact on the market. No respondents ascribed leadership to another companies marketing, advertising, or ethical stance.

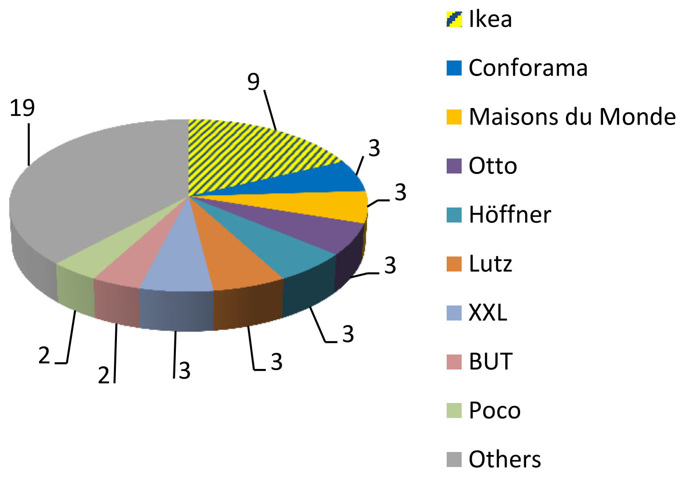

Figure 8 Companies regarded as industry leaders
(# = number of specific mentions)

Who decides what is fashionable?

More than ever before consumers and manufacturers have a huge range of choice when it comes to the choice of material and finish for furniture products. Timber and panel products have been the first choice for furniture since pre-history. In the past fifty years a range of other materials have evolved which now offer advantages in price, availability, finish, durability and in design options[28]. As a whole wood markets have suffered generally at the hands of other materials, such as metals and plastics, and none more so than in the furniture sector as a whole.

Despite the range of competition available the wood based furniture market continues to thrive though it has clearly had to evolve. Aside from the general competition between wood and other materials the tropical wood sector has had to contend with its own peculiarities and find its place. Wood as a choice for furniture in the past ticked three key boxes: it was plentiful and relatively cheap, plus it was suitable for being engineered at an affordable cost and it was aesthetically pleasing. For as long as these premises hold wood remains a viable option for many uses, including furniture. The same is the case for tropical wood, for as long as a given species was plentiful, cheap (or relatively cheap) and could be machined to suit an end purpose it can be competitive. Unfortunately wood *per se*, and tropical wood especially are also at the mercy of fashion and the choice made by consumers and those that supply their needs.

The whole value proposition for furniture depends entirely on what consumers are prepared to buy and at what price. The topic of consumer choice and how this can be influenced is beyond the scope of this paper[29 30], though it is worth looking at the range of forces at work that play some role in influencing consumer choice when considering the choice of materials for furniture.

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[28] ITTO Technical Series #36. (2010*) Levelling the playing field - Options for boosting the competitiveness of tropical hardwoods against substitute products.*
29 ATIBT (201?) *Étude de marché des débouchés des bois tropicaux certifiés sur le marché européen*
[30] ATIBT (2012) *Quel avenir pour les produits bois éco-certifiés africains sur le marché européen?*

The potential range of influences affecting consumer choice is huge. To a degree retailers are able to direct consumers through their own advertising and marketing, though this is to a degree a two-way process in that the challenge for retailers is to listen to their customers to anticipate their needs. Whist the consumer – retailer dynamic is perhaps the key aspect there are other forces at play. Consumer opinion is influenced by a huge range of opinion formers, some overt, such as campaigning NGOs and the media, and some less obvious such as legislation. Retailers are also influenced by their stakeholders, ranging from legislators and shareholders and the range of influences affecting their customers. Collectively the role of "society" has a huge bearing on what is considered fashionable. Whilst true for all product types the model is especially relevant for products made from tropical timber, and even more especially for products that are subject to fashion variation and which are destined to spend a great deal of time in the home. Unlike other products where the longevity of the product is relatively short lived (clothing for example), the choice of furniture centres upon choosing an item that will be both long lived and prominent in the home. Whilst the longevity of many furniture items is significantly shorter than in the past (years rather than decades) the cycle for change is still relatively long compared to many other consumer products. This tends lead to a level of conservatism in furniture fashions. It has been estimated that the cabinets in fitted kitchen should remain functional for up to 50 years[31] - suggesting a new kitchen would be a once in a lifetime decision. Therefore it is not need that drives replacement – it is a change in fashion that drives the average life of such a kitchen in UK at around 10 – 15 years[32] with strong linkage to the frequency of home moving (on average 8 times in a life time in the UK[33]).

Whilst many of the companies interviewed stated that they aspire to lead design trends and to therefore to dictate fashion in furniture, it is unlikely that any, beyond perhaps the giant retailers can actually impact the general market place. Companies such as *Ikea*, with their long held policies of not trading in tropical timber species sourced from natural forests, arguably can dictate fashion. There must be some linkage between *Ikea's* huge volume purchasing of species such as Acacia and the more general fashion for lighter coloured plantation species. Companies like *Ikea* argue that they source what material is available at a reasonable cost that is fit for purpose and that they have found species like Acacia (and pine, spruce and birch in the past) to fulfil their needs and to be available to their supply base. If any one segment of furniture distribution can to varying degrees lead the market, and set the fashion, it must be the larger retailers. The response to the interview question on this topic appears to support this view.

The survey also revealed that some of the larger companies, both retailers and manufacturers utilise outside organisations to advise on fashion and trends. Such organisations clearly have a role to play in their ability to influence the purchasing decisions of both retailers and manufacturers and probably the decisions of the buying groups as well.

Placing a new furniture product on the market is a risk and the implications of misjudging what consumers will buy are profound. The interviews reveal that the manufacturers and retailers tend to manage the risk through a variety of strategies. Unique and in-house designed products offer some form of competitive advantage through the ability to differentiate companies at a business to business and consumer level. Around 50% of the manufacturers and retailers interviewed claimed to play some role in design, often with in-house or bought-in design skills. The remaining 50% claimed that they were "followers" and looked to see what was selling well and looked to develop products that matched their competitors - a safe and unadventurous strategy but probably one that at least ensures survival and which suits many business models.

31 www.nachi.org/life-expectancy.htm (undated)
[32] www.mumsnet.com/Talk/property/1836872-How-often-would-you-expect-a-house-to-have-a-new-fitted-kitchen
[33] www.zoopla.co.uk/discover/property-news/how-often-do-we-move-house-in-britain/#wfvUJTiLKsxP7uSw.97

Success in the sector relies on being able to identify, modify and sometimes predict trends and to successfully place furniture on the market a t the right time and price.

Views from the interviews

Who sets the trends?
The sample generally divided in to four groups of opinion as to who set the trends for furniture.

Broadly these groups were:

a) Their own designers
b) Furniture fashion media
c) The largest retailers
d) Specialist advisors

"Mostly the retailers and also the producers set the trends. We as a retailer collect requests from clients and then experiment and place orders accordingly. Some retailers tried to set a trend but this proved difficult and not very successful."
German company

"We have both our own in-house design director and we call on famous designers to expand our collections. We also consult experts on fashion and colour trends"
Belgian company

"Most of the large retail groups resort to trend consulting agencies that influence our marketing and purchasing policies."
French company

"Lifestyle TV and magazines help set the trend."
German company

"The large retailers set the trend."
German company

Clearly understanding who sets the fashions for colours, finishes and choice of wood species is not just an academic challenge. For the companies interviewed being able to answer this successfully is key to their business success. Getting this wrong can lead to unsold stock and price cutting. Getting it right can lead to major success. The answer is therefore a complex mix of different forces at play which successful operators at all scales can read and adjust their designs and material choices accordingly.

Harmonised System (HS) Codes

The Harmonized System is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes. At the international level, the Harmonized System (HS) for classifying goods is a six-digit code system[34]. The Harmonized System was introduced in 1988 and has been adopted by most of the countries worldwide.

In theory Customs understand the HS Codes and apply their knowledge equally at point of export and at point of import. This would result in clear statistics and no ambiguity. In reality different countries' Customs apply different codes and the industry in each country has varying degrees of understanding. Where HS Codes carry varying degrees of tariff there tends to be more focus, especially by those liable to pay. HS Code variability is not the topic of this study, though HS Codes and their usage for furniture products are of interest in that they relate to FLEGT Licensed shipments and form a part of the description of the material.

[34] https://unstats.un.org/unsd/tradekb/Knowledgebase/50018/Harmonized-Commodity-Description-and-Coding-Systems-HS

The interview process revealed a frustration by a number of companies with the variation in in the usage of HS Codes. As one interviewee put it: "*HS Codes are not the same in origin as in destination. This problem occurs especially in mixed material furniture. For example, for a piece of furniture made of wood, there is no difficulty in classifying it, in origin and in destination, according to the same HS Code. In mixed furniture, for example; aluminium legs and wooden top, in origin they will give you a different HS Code that the HS Code assigned at the destination.* Overall it was observed that *"If the HS Codes coincide in origin and destination, then the products arrived at port can be dispatched in two days. But if the HS Codes do not match, it can take about 10 days to solve the problem."*

Relative competitiveness of VPA partners

The interviews sought to help to begin to understand the relative competitiveness of the furniture industries in the VPA partner countries when compared to the non-EU producer countries and to domestic producers within the EU. It should be noted that the sample is very modest and not entirely representative of the overall trade between the EU and the VPA and other countries.

Perceptions of the companies were tested across a range of indicators that affect the choice of supplier or supplying country.

Specifically interviewees were asked:
How do you perceive the competitiveness in terms of [product range / lead times / logistics / price / quality] of the VPA partners both in competition with each other and with China and Eastern Europe? Please rate on a scale of 1 (very low) to 5 (very high)?

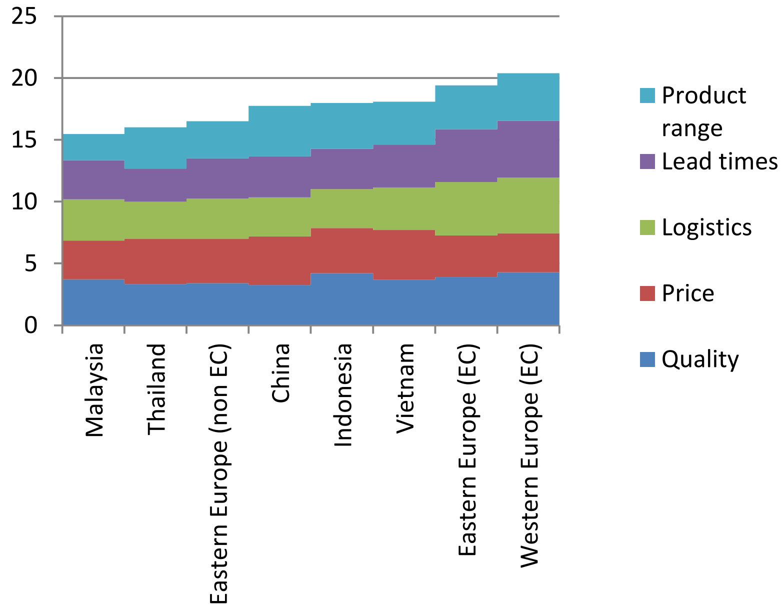

Figure 9 Overview of relative competitiveness

To visualise the responses they were weighted, with the least competitive given a value of 0, the most competitive given a value of 5 (see table).

	Least competitive country / region				Most competitive country region
Value used for analysis	0	2	3	4	5
Value given by respondent	1	2	3	4	5

Table 5 Weightings used for competive perception analysis

Based upon the responses the analysis calculated the average perception value for each country and region. The following sections breakdown the perception by category and include quotes from the interviewees.

Product range

China was identified as having the widest range of products available. Western European / EU based countries were also perceived as offering a broad range of products.

Malaysia has the lowest perception in terms of the range of product types available.

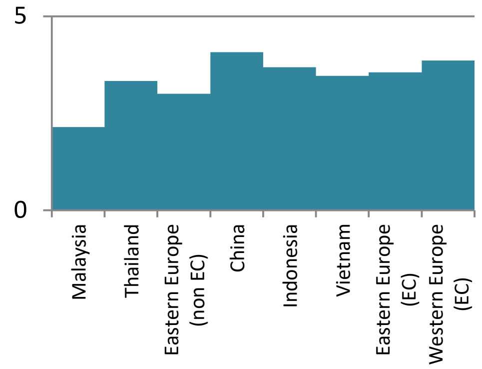

Figure 10 Perception on product ranges

Lead times

It should be no surprise that Western, followed by Eastern Europe are both perceived positively as having the shortest lead time. The ease of communication and shorter travelling distances aiding this.

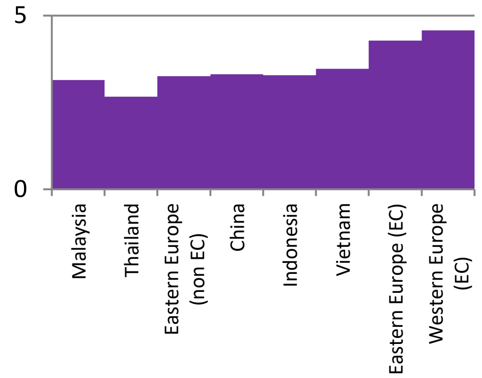

Figure 11 Perception on lead times

Logistics

Logistically Western, followed by Eastern Europe is both perceived positively. Vietnam and Malaysia lead the Asian producer countries.

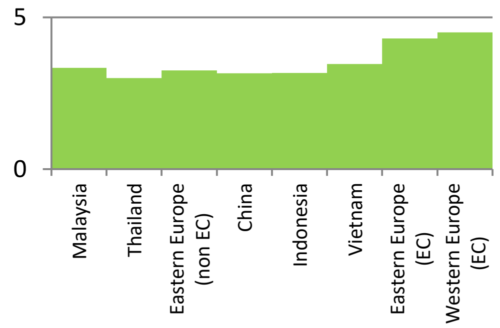

Figure 12 Perception on logistics

Price

Price perceptions vary widely. Vietnam is perceived as offering the lowest prices closely followed by China, Thailand and Indonesia. EU countries and Malaysia are perceived as the least competitive on price. Eastern European, non EU countries were perceived as being as competitive as many of the Asian producers and more competitive than EU countries.

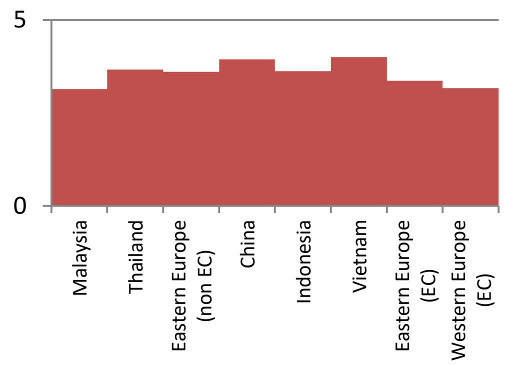

Figure 13 Perception on price

Quality

Western European and Indonesian producers came out on top in terms of perceptions of product quality. Eastern European EU producers, followed by Viet Nam and Malaysia also were perceived well. China has the lowest perception level for product quality.

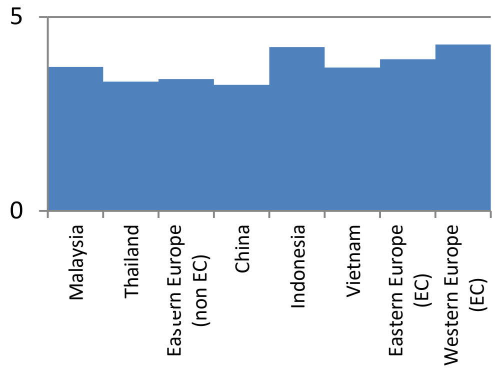

Figure 14 Perception on quality

Specific comments
Most of the companies interviewed were able to offer general comments on each country.

It should be noted that a number pointed out that their choice of supplier in a given a country reflected the fact that the supplier was able to meet their specific criteria and that that this was unique to their experience and therefore they were unable to make sweeping generalisations. Thankfully this did not inhibit general comments.

Note: All text in *italics* is direct quotes from the interviews.

Indonesia 	**Price:** • *Good quality price relationship.* • *Indonesia offers good quality and good prices.* • *Products from Indonesia are more expensive than products from Vietnam or China.* • *Indonesian furniture is made in certified wood which increases their cost.*
Lead time: • *They are a disaster!* • *We have to work with them closely to get this right*	**Quality:** • *Indonesian manufacturers are of a very high quality level. When manufacturing, they pay attention to the small details.* • *Manufacturers in Indonesia are very experienced in producing high quality furniture.* • *In Indonesia, finishing quality is higher than in Vietnam or China.* • *We do sometimes meet problems linked to the difference in wood moisture levels between Indonesia and Europe.* • *Indonesian products suffer from wood moisture content issues it is difficult to find wood that is properly dried* • *The best teak comes from Indonesia.* • *Air conditionning regularly breaks down which can affect gluing and paint finishes. On the other our Indonesian*

	suppliers will willingly work overtime to meet delivery deadlines. • *Indonesia has high quality furniture which is therefore somewhat more expensive (than India for example).*
Logistics: • *Indonesian infrastructure is not keeping up with the demographic growth of their cities. As a result longer delays in transport.* • *The level of infrastructure development is poorer in Indonesia.* • *Transportation in Indonesia should be improved.* • *We can trust them to meet our delivery deadlines.*	**Range of products offered:** • *We can import semi-finished products from Indonesia and finish them in our own plant.* • *Teak supply in Indonesia is competitive and abundant which is important to our product.* • *Indonesia offers a wide range of outdoor furniture products.* • *We only find in Indonesia the hand-made furniture products which correspond to our customers and our positioning.* • *Indonesia has the product manufacturing know-how, available wood species, fair prices, low transport costs, and flexibility we require* • *Indonesian suppliers don't renew regularly their product offer (unlike the Chinese)* • *Indonesian know-how in upholstery is very poor.*

Viet Nam 	
Quality: • *They use very good raw materials.* • *Production in Vietnam is also growing in terms of quality and consistency thanks to US funding and technical supervision.* • *The Vietnamese furniture industry is technically much more evolved than other Asian producer countries.* • *Vietnamese furniture quality is almost at European standards; i.e. in terms of machinery and processes, as well as the resulting quality [of product].*	**Price:** • *They are very competitive.* • *There is a very good quality price relation.*

China 	
Quality: • *China more advanced in terms of mechanisation but requires close follow up because there can be drastic drops in*	**Price:** • *The price is too high for the poor quality of the product they offer.* • *New environmental laws are making*

quality. • *China offers good value for money but the overall quality is inferior.*	*prices rise fast in China.* • *Chinese manufacturers have the best prices, however, the environmental and legality issues related to China products remain as big problems*
Product range: • Any furniture that has metal parts or glass attached to it originates from China • *China is good manufacturing with aluminum, plastic, but in wood manufacturing it is still far from being able to provide good quality products*	**Lead times:** • Chinese suppliers are more reliable.

Malaysia 	**Price:** • *Furniture plants in Malaysia have products that are top notch at competitive prices.*
Range of products offered: • *Malaysian offer is more limited*	**Quality:** • *Malaysian suppliers offer a well mechanised production process* • *Their production is catching up with EU standards.*

Eastern Europe – EU countries 	• *Wooden furniture from Poland can be of good quality.* • *They do not respect product developers and importers like LDK.* • *They are countries that are too close and they try to do business with our clients directly.*
Eastern Europe –Non-EU countries	• *Wooden furniture from Belarus can be of good quality.* • *They do not respect product developers and importers like ourselves.* • *They are countries that are too close and they try to do business with our clients directly.* • *Corruption leads to hickups in production and transport - sometimes leading to payments at the border which causes unforeseen delays*
India 	• *India meets current customer trends.* • *Indian producers are very good value for money.*

Most of the companies interviewed do not approach the supply of product from a perspective of choosing a country of supply and then choosing a supplier. The longest established companies

interviewed at some point in their existence sourced locally or domestically. Over time they have expanded their supply base and in many cases have become global in their outlook. The choice of one supplier over another is a complex one involving a wide variety of considerations. Suppliers are chosen though a combination of factors which include all of the factors considered here and often a great deal more. Factors such as long established personal relationships between key staff and trust amongst peers should not be discounted.

It is clear from the interviews that price and quality remain high on the agenda and that many of those interviewed see a close relationship between the two variables and most commerical decisions taken striking a balance between the two considerations.

The range of products available from a given country generally was of little concern to those interviewed. For some it makes sense to try to and purchase a wide range of products from a given country or region within a country. For others interviewed there was clearly no merit in having multiple suppliesr around one geographical location.

Lead times are clearly an important part of the consideration and attitudes varied. The larger companies interviewed saw it as their role to manage the supplier and to ensure that there was no commercial impact.

Similarly with logistics it was seen as the role (by many) to manage and allow for difficulties with logistics. It was generally noted that Indonesia has out-developed its infrastrcture and that this is a burden.

With many furniture products having become commoditised with very little differentiation beyond price.

As one interviewee put it: "*the choice of country depends on available timber species and not on where the country is situated*". A steady, predictable and affordable raw material that is suitable for purpose is clearly a prerequisite for a successful furniture business.

> "All our suppliers, whether they are in China, Vietnam or Poland are capable of producing good quality products within a given time frame which meet EU industrial standards.
> The only difference is that if you lower the product cost too much, a European supplier will not accept to produce it whereas a Chinese supplier will supply you with a cr@p product."
>
> **French company**

African furniture

None of the 47 interviewed company's imports furniture from African VPA countries. One German company reported it had previously sourced furniture in South Africa but has stopped purchasing due to a shift in fashion trends. According to the interviewees, it is highly unlikely that producers from the African VPA countries will evolve in to becoming to suppliers for the furniture market, due to the available species but more so due to a lack of the required technical capacities.

Sheet materials

The manufacturers of semi-finished products source the sheet material itself in Europe, and mostly from the same producers (i.e. *Egger, Pfleiderer* and *Kronospan*). Manufacturers report that the homogeneity of the particle board is extremely important for the finishing, and hence the furniture industry relies on the European producers of particle board in terms of consistent quality, volume and availability. Only Chinese particle board and MDF made of poplar is being imported by some furniture manufacturers due to its light weight and robustness (compared to the European softwood products).

Preliminary assessment of the current & potential role of FLEGT Licensing to improve market access

Company purchasing policies

Since the early 1990s the private sector has been taking steps to ensure that they exclude unsustainable and illegal wood from their supply chains. Corporate procurement policies are now more prominent in developed countries and among companies with global reach. With time, these purchasing practices are becoming more and more integrated in corporate business practices, and contained within a larger sustainability and/or corporate responsibility policy covering several other aspects[35].

A comprehensive responsible sourcing policy and associated programme for sourcing products should aim to improve the environmental and social performance of the supply base by ending the purchase of products that contain timber or fibre from sources that do not comply with stated company policy. The programme should also continuously increase the proportion of forest products purchased that contain timber from credibly certified forests[36].

The interviewed companies were asked if they have policies which gave preference to legally harvested or to third party certified materials. All 47 of those interviewed were able to respond and many gave some additional information.

Responses generally fell in to 4 different categories:

- The company does not have a formal policy

Or

- The company has a policy that makes reference to legal timber / legally harvested material

Or

- The company has a policy a policy that makes reference to third party certification (such as PEFC or FSC)

Or

- The company has a comprehensive policy that covers both legality and sustainable and often a variety of other environmental, social or ethical factors

The large retailers are exposed to reputational risks and therefore mostly have purchasing policies to assist with minimising the risk of reputational damage. For example the interviewed larger German retailers have a policy for wood products from outside the EU shall be sourced only as FSC certified. Generally respondents believed that a FLEGT licence makes compliance with the EUTR easier but does not satisfy the purchasing policies of the interviewed retailers (nor will it in the future). Smaller importers mostly do not have

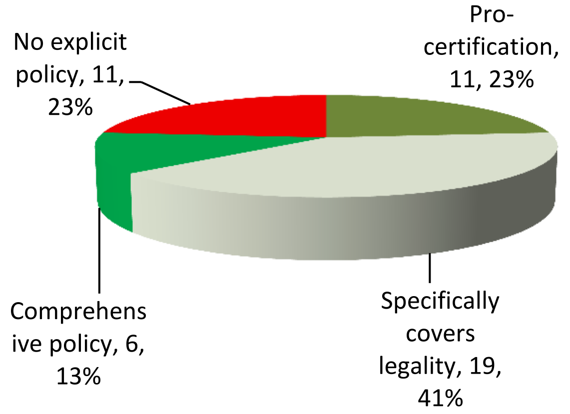

Figure 15 Existence and content of purchasing policies

[35] Forest Legality Alliance (2015) *Sourcing legally produced wood - A Guide for Businesses*. Edited by Ruth NoguerÓn and Loretta Cheung

[36] WWF Global Forest & Trade Network (undated). http://sourcing.gftn.panda.org/index.php?id=2

purchasing policies but aim for sourcing FSC products from non-EU countries to minimise their efforts with regards to EUTR compliance. Reportedly accomplishing a FSC-only policy with European suppliers is much more difficult due to the shortage of FSC certified particle board.

Just under a quarter of those interviewed did not have a policy. 41% of those interviewed had a policy that referred to legality of materials and 23% had polices that related only to one or more form of certification. Six companies out of 47, 13% have policies that might be regarded as comprehensive.

Selected quotes:

- *For our clients is very important to know the wood is legal wood and imported from plantations that respect the environment.*
- *One of our pledges to our customers is that all the wood used in its furniture products must be legally harvested.*
- *We put in place a social and environmental responsibility policy with a range of environmental objectives such as increasing the share of certified wood used in our products.*
- *We have also put in place a sustainable design policy with a LCA analysis of our products.*
- *We have recently obtained FSC certification and our Due Diligence System is regularly updated.*

Role of FLEGT Licenses *vis a vis* policy

The interviewees were asked about the role that FLEGT Licensed timber currently (or might) play within their purchasing policy or purchasing decisions.

45% responded positively stating that FLEGT Licensed products are already traded or that their purchasing is geared towards such licensed material where it is available. 19% responded that they would view licensed material favourably if it was available. 36% of respondents stated that licensed timber currently does not feature and that it will not feature in their purchasing decisions.

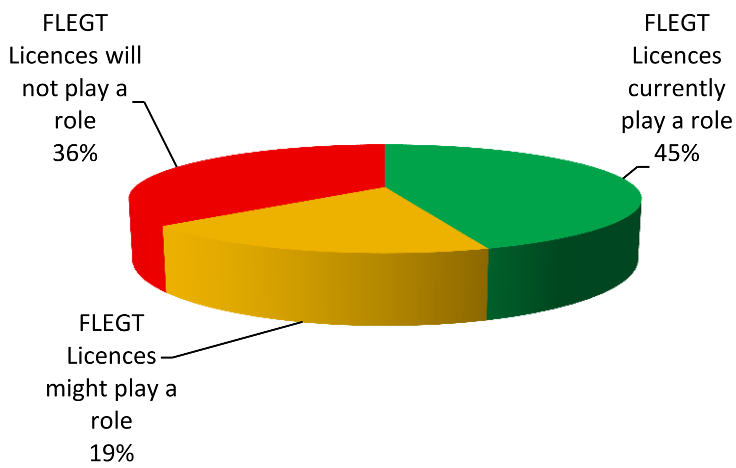

Figure 16 The role of FLEGT within purchasing policies and decisions

Generally the interviewees were positive in outlook towards FLEGT Licensed materials and had a positive outlook. Typical points of view are quoted below:

Positive views

- *FLEGT will make our legality pledge all the more concrete but does not correspond to a strong demand from our customers today*
- *We are completely in favor of a system that prevents the illegal extraction of forest resources*
- *FLEGT brings us added value by demonstrating the legality of the wood we use.*
- *FLEGT licensing simplifies our trade relations with our Indonesian suppliers*
- *It makes it simpler in terms of exempting products from EUTR due diligence*

- *It is a means of reducing time and money spent on EUTR due diligence*
- *FLEGT guarantees us a green lane which makes it easier to work with our Indonesian suppliers.*
- *The system appears efficient with clear rules*
- *FLEGT Licences are an important tool to guarantee legal wood and save money in the context of EUTR*
- *FLEGT licences has brought more transparency in the import from Indonesia.*
- *EUTR creates an enormous workload and requires much more menpower for every import.The FLEGT licence of course makes things a lot easier*

Qualified views

- *It would play a role if there would be not just one country supplying FLEGT products.*
- *Choice for Indonesia is based on the available product, not on the fact that Indonesia is FLEGT licensed*
- *FLEGT licensing simplifies our trade relations with our Indonesian suppliers but it is not a selection criteria*
- *I wish to see licensing applied to all imports from all supplier countries to the EU so that we and our suppliers are all on a level playing field and competing fairly.*
- *Proof of legality is a basic customer requirement. It does not give us a competitive advantage.*
- *All our wood products needs to be legally verified - it's a basic requirement*
- *We need Licensed material from a range of other countries*

Negative views

- *FLEGT only demonstrates legality- what adds value is the certification that resources are sustainably managed.*
- *No we do not use it and will not. We have a FSC-only policy.*
- *A big actor like China is not properly controlled by the FLEGT Regulation and this brings unfair competition.*
- *There are FLEGT system problems*
- *The system is very poorly developed.*
- *HS Codes are not the same in origin as in destination.*
- *FLEGT licences appear only an extra cost.*
- *The on-line procedures are not effective or well structured.*
- *No real impact for our customers.*
- *There is a low level of experience of competent Italian institutions in these issues.*
- *We do not see the added value of FLEGT yet.*
- *FLEGT licences from Indonesia are very disorganized and chaotic.*
- *The registration system for Licenses is not efficient and very repetitive (and therefore costs money).*
- *The system is bureaucratic and of doubtful use to us.*
- *FLEGT licences from Indonesia are very disorganized and chaotic. I am not convinced anything has imporved in Indonesia. Is it really worth the effort?*

General views on FLEGT licenses

A follow up question on the role of FLEGT licenses sought to provoke further comment. Overall responses revealed that 45% of those interviewed were positive towards the licences and 26% were unsure as to the merits. 23% offered no opinion and 6% could be classified as negative.

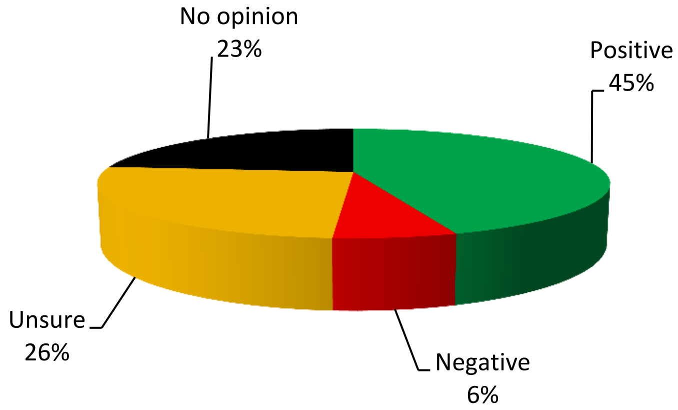

Figure 17 Opinions on FLEGT Licences

Whilst outside the scope of the questions, a number of those interviewed expressed dismay at the apparent variation in understanding and enforcement by the Competent Authorities of the Timber Regulation, reflecting the points raised in the 2018 UNEP-WCMC report on EUTR enforcement [37].

Outlook for tropical wood in European furniture markets

Tropical wooden furniture outlook

The interviews were used to try and gauge views as to the role of tropical wood in the European furniture market over the next decade.

Thirty four of those interviewed were able to offer a perspective.

Overwhelmingly (97%) of respondents believed that tropical timber would have some form of role to play in the European furniture market.

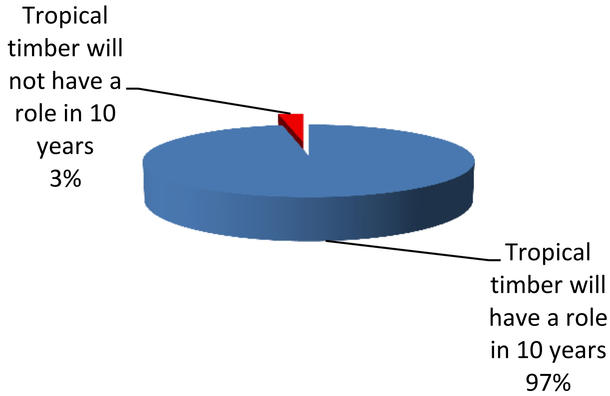

Figure 18 The role of tropical timber in European furniture markets in 10 years

From the answers it was possible to analyse the outlook in terms of whether the believed that the market for tropical timber furniture would grow, maintain or shrink in size.

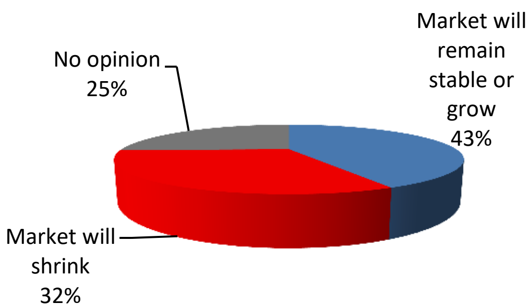

Figure 19 Outlook on the role of tropical timber in European furniture markets in 10 years

Opinions were fairly evenly matched between those with a positive outlook and those with a negative outlook.

[37] UNEP-WCMC (2018) Overview of Competent Authority EU Timber Regulation checks, June-November 2017

Positive themes

- *Tropical timbers are very suited for outdoor furniture and they offer a lower carbon footprint compared to other materials (metal or plastic)*
- *Tropical timber could remain relevant for outdoor furniture. More difficult with indoor furniture where specifying a tropical hardwood can only be done for aesthetic reasons. Plus there are substitute products such as US Walnut.*
- *The market for tropical species will remain good also in the future due to the mechanical and physical characteristics of the tropical timber. In fact there are no European species with the same features*
- *Tropical timber will continue to have an important role in luxury market*
- *Yes for its aesthetic appeal in indoor furniture and for its natural properties in outdoor furniture*
- *Probably but rising prices for teak could lead designers to switch to cheaper African wood species that are becoming more trendy.*
- *Yes, as tropical timber offers more diversity than common timbers.*
- *As long as it can meet ever higher standards of legality and sustainability assurance then it can have a role as it offers unique performance and aesthetic*

Negative themes

- *For internal furniture the role of tropical timber will remain marginal.*
- *Yes, but less than now. Garden furniture industry is looking for other materials than teak, because consumers ask for furniture that needs less to no maintenance. Materials like ceramics and high pressure laminated timber grow more popular.*
- *Aluminium has become the dominant material but wood will always have a role to play*
- *95% of consumers are not capable of appreciating fine quality products - they are happy to buy pinewood products. In fact certain Indonesian competitors are already manufacturing furniture made with pinewood re-imported from China*
- *In the luxury sector (interior), the role of tropical timber, in next future, will decrease*
- *The demand of tropical timber species in interior design (furniture) will decrease French consumers are turning away from things that look too exotic*

With regards to tropical wood veneer interviewees report that the volumes are marginal and decreasing. A main reason is the technical capabilities of the manufacturers of decor panels (mostly Italian companies) who are getting to a state to where the general buyer would not notice a difference between a real wood surface and artificial decors. The artificial decor panels cost a tenth of the price compared to a panel with real wood veneer.

General wooden furniture trends

The interviewees were asked to more general outlook for wooden furniture.

Recurring themes included:

- Dark woods are becoming preferred.[38]
- Textured finishes on wood are becoming more popular.
- Wood and metal combinations will grow.
- There is increasing demand for Oak, Ash and Elm.
- There is increasing demand for certified products.
- Growth in demand for real wood veneers

[38] www.idealhome.co.uk/news/home-decor-trends-2018-191244 (Article dated March 6th 2018)

- On-line only retailers (without show rooms) will drive down quality.
- Ready to assemble / flat pack furniture has peaked.
- Customers are ready for solid assembled furniture again
- Plantation wood at low cost and with consistency will be able to compete with other materials.
- With techniques such as brushing and varnishing, specie such as acacia is very adaptable to the consumer trends and (colour) fashion. Therefore, presumably those species will remain the key species used for solid woods products from Asian VPA countries.

Figure 20 Tropical wood producers hope that *Ideal Home*'s prediction for dark woods is correct.

Recommendations for a strategy to optimise FLEGT licensing benefits in the marketplace

Broaden understanding of what Licensed Timber is (*and what it is not*)

- **Keep the process of importing FLEGT-licensed timber as un-bureaucratic as possible.**
  All efforts that lead to an easier entry to the market are business benefits which favour FLEGT Licensed Timber products. The “green channel “offers value to operators.

- **Encourage companies that are not using Licensed Timber begin to use it.**
  Levels of awareness amongst furniture businesses are variable. Some potential buyers of Licensed Timber are almost certainly unaware of it, what it stands for and what the benefits are to their business. Increased awareness at the business to business level can only add value to the Licensed Timber “brand”.

- **Demonstrate the benefits of the licensing scheme within Indonesia to build trust.**
  Countries like Indonesia have long been demonised regarding their forest practices and the legality of their timber products. Many companies are wary of the EU and the Indonesian Government. There is a degree of mistrust and cynicism around the impact and benefits of the licensing system. Demonstrating the impacts and the integrity of the system (as a whole or solely for Indonesia) is important to build trust in the wider system.

- **Clarify what Licensed Timber and TLAs systems actually achieve**
  The interviews revealed a range of understanding, some accurate and some inaccurate as to the attributes of a Licensed Timber and the attributes of a timber licensing system. Some interviewed saw Licensed Timber as being an indicator of sustainability in forest management, others doubted it even equated to legal compliance. Whilst it should be seen as a positive that there is a good level of awareness of Licensed Timber and that furniture businesses are well disposed towards it, this should be based on a clear and unambiguous understanding of what it actually represents in terms of legal compliance and social and environmental performance.

Speed the introduction of more VPA countries and their Licensed Timber

Whilst it is not the role of the IMM to hasten the introduction of Licensed Timber there is a clear message from the European furniture sector that Licensed Timber from a single country is not enough. For some companies exclusively sourcing furniture from Indonesia there have been benefits from the introduction of Licensed Timber. Despite this, very few medium or large companies source exclusively from Indonesia and the key roles of Viet Nam and China are mentioned time and again.

An increase in options and wider availability would build the commercial proposition and offer choice in the market place. Until more countries are able to participate Licensed Timber is exclusively an Indonesian proposition and limited in impact.

Conclusions

The finished wood furniture sector consistently accounts for nearly 40% of the total value of EU imports of timber and timber products from VPA partner countries and therefore a significant factor in evaluating the impact of FLEGT Licensed Timber.

Unlike the timber and sheet material sectors in Europe furniture is distributed through a complex and heterogeneous network of retailers, importers, agents, buying groups, manufacturers, component suppliers and primary producers. The channels of distribution vary somewhat between countries. Distribution channels and factors affecting competitiveness in the furniture sector are distinct from the traditional wood importing sector.

The modest sample of forty seven companies across Belgium, France, Germany, Italy Netherlands and the United Kingdom covering both internal and external furniture, retail, distribution and manufacturing allows for some insight of the perceptions of the VPA countries and their furniture industries. Whilst none of the companies interviewed source on a country basis (choosing individual supplier companies on a case by case basis) they were able to provide a range of views at national level.

China dominates the furniture trade and the majority of suppliers of furniture used by the interviewed companies are based there. China’s relative competitiveness is therefore of importance in any assessment of competing VPA countries.

The acceptance and utilisation of FLEGT Licensed Timber in the furniture sector is tied to the overall acceptance and levels of utilisation of tropical timber. Fashions in design, colour and textures dictate what will sell and what is therefore offered for sale. Furniture made from tropical wood is the result of a long and complex set of interactions that lead to design and procurement decisions. It is clear from the interviews that many of those interviewed strongly support the use of wood in general and some are very supportive of tropical wood for certain applications. Despite this the range of forces at play that affect what wood is chosen is beyond the control of a single player and as tropical wood is suffering in the European market, tropical wood furniture seems to be closely tried to its fortunes.

The interviews revealed a generally positive outlook towards FLEGT Licensed Timber and a reasonable or good level of understand of what it represented. The business benefits of EUTR compliance were also recognised. The lack of alternatives (i.e. only Indonesia) was also highlighted. A successful VPA scheme from the perspective of the furniture industry would lead to multiple countries offering Licensed Timber with high levels of awareness amongst the Competent Authorities and at a business to business level. The interviews did not reveal any desire for Licensed Timber to be a consumer issue; those interviewed not seeing any merit in trying to sell the "legal timber" message to consumers.

FLEGT Licensed Timber alone will not reverse the trends that are impacting on tropical wood in Europe. Licensed Timber has a value and a role to play in trying to reverse trends, but it alone is only a tool that can be utilised in a wider process that might help maintain market share. This though would take a wider range of players, involving major retailers, trade associations, national governments, NGOs and architects, and other opinion formers. Licensed Timber is the physical manifestation of "something good" happening in a far way producer country. It could be used to form a part of the process of building confidence in tropical timber though it suffers from not having the "glamour" of forest certification where sustainability is the main focus. Therefore the role of FLEGT Licensing is not a consumer facing activity, it is about offering assurance to business to business buyers operating at the base level of responsible purchasing.