INTERNATIONAL TROPICAL TIMBER ORGANIZATION / FLEGT INDEPENDENT MARKET MONITOR (IMM)

Assessing the impacts of timber legality on the European Union's wood-furniture sector and the associated VPA partner country timber trade

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Indonesian artisanal furniture making

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Contents

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About the IMM
Co-funded by the European Union and managed by the International Tropical Timber Organization (ITTO), the role of the Independent Market Monitor (IMM) is to use trade flow analysis and market research to independently assess trade and market impacts of FLEGT Voluntary Partnership Agreements (VPAs) in the EU and partner countries.

About the ITTO
The ITTO is an intergovernmental organization promoting the conservation and sustainable management, use and trade of tropical forest resources. Its members represent the bulk of the world's tropical forests and of the global tropical timber trade. ITTO develops internationally agreed policy documents to promote sustainable forest management and forest conservation and assists tropical member countries to adapt such policies to local circumstances and to implement them in the field through projects. In addition, ITTO collects, analyses and disseminates data on the production and trade of tropical timber and funds projects and other actions aimed at developing sustainable forest industries at both community and industrial scales.

Executive summary

Between 2016 and 2019 EU28[1] imports of wooden furniture from VPA partner countries have steadily grown from $1.2 billion to $1.4 billion. Viet Nam dominates the total, with nearly $800 million (54%) in 2019. The other major suppliers are Indonesia, Malaysia and Thailand. In 2019, before the market was hit by the COVID-19 pandemic, the EU recorded its strongest year for wooden furniture imports since 2007.

The EU imported wooden furniture with a total value of €7.07 billion in 2019. Wooden furniture imports from tropical countries (including the VPA partner countries) amounted to €1.91 billion.

In 2019 only four VPA partner countries were engaged to any significant extent (99.99% by value) in supply of wood furniture to the EU; Viet Nam, Indonesia, Malaysia and Thailand. Seven EU Member States accounted for 82% of all EU wood furniture imports; UK, Germany, France, Netherlands, Belgium, Italy and Spain.

This report is based on the information obtained from interviews with a total of 34 companies based in Belgium, France, Germany, Italy, the Netherlands and the UK. The companies represented diverse positions in the value chain, from design to manufacture and retail. More than half were distributors, typically importing manufactured furniture ready to be distributed to retailers.

Additional data regarding India, Indonesia and Viet Nam was obtained from 17 interviews with 15 trade associations. Two major associations (in terms of size and interest in furniture and handicrafts) were interviewed in both Indonesia and Viet Nam and eleven associations were interviewed across India. Between the three countries their membership represents over 7,100 companies, the majority of which can be regarded as small to medium-sized enterprises (SMEs).

With interviews conducted in the midst of the COVID-19 pandemic, opinions regarding confidence for the future vary widely, ranging from those hoping for a quick bounce back, to those facing a loss of customers or suppliers. Adaptability and resilience are the key words. At the time of writing, the impact on the industry and global consumers of the health crisis is still profound. The economic crisis of 2008 was, at the time, the worst case scenario. How markets and production will evolve post 2020 looks like an existentialist threat to some and opportunity to others.

Most associations were optimistic for market growth, with the strongest prospects forecast for Australia, Japan and the USA, where few of the respondents foresaw a decline in exports and most saw prospects for growth. This contrasts with the main EU market countries, plus the UK and Switzerland, where several interviewees predicted a decline in exports. The markets identified with greatest prospects for growth within the EU were Germany and the Netherlands.

The producer trade associations perceive China to be the overall most competitive producer, followed by Viet Nam. European, Indonesian and Malaysian producers were perceived at similar levels of overall performance. The lowest perceptions of competitiveness were for Thailand.

The EU- and UK-interviewed companies identified China with the most favourable perception of competitiveness, followed by EU member states. India clearly has the lowest perception of overall competitiveness.

Amongst EU27 and UK companies there is a wide range of perception of the degree of difficulty of proving negligible risk of illegality for furniture. China stands alone as the most difficult country to prove negligible risk, followed by non-EU countries in Eastern Europe. Viet Nam and India also have high levels of perception of difficulty to prove negligible risk. Indonesia has the lowest perception of difficulty of proving negligible risk of illegality from across all countries and regions within the comparison.

The EU and UK interviewees were asked what they considered to be the main challenge of EU Timber Regulation (EUTR) compliance. The overwhelming majority identified the issue of obtaining the required documents to satisfy their due diligence systems as the primary issue.

Nine percent of EU and UK interviewees stated they had stopped sourcing wood from certain countries to facilitate compliance with the EUTR. Twenty one percent of respondents had stopped purchasing from certain suppliers in order to facilitate compliance with their due diligence systems and 12% of respondents had stopped sourcing certain species as a response to their due diligence system. A quarter of respondents stated that FLEGT licensing influences their purchasing decisions and 11% are buying more products from Indonesia post the introduction of FLEGT licensing. A number of others indicated that they are not buying more products from Indonesia, but still see benefits in improved documentation and quicker customs clearance.

Overall, the Vietnamese associations perceived greater business value from the VPA process for their membership. They rated the value to existing markets highly and also saw good value in the potential to develop new export markets. The Indonesian respondents saw most value maintaining sales to existing markets. Overall the Indonesian associations had not seen great benefit to their membership from the VPA process of FLEGT licensing.

The report makes a series of recommendations that:

- the business benefits of FLEGT licensing scheme in Indonesia should be demonstrated to build trust.
- VPA implementation should be completed in other VPA countries as quickly as possible.
- companies not yet using FLEGT-licensed timber should be encouraged to do so.

1. The UK withdrew from the EU on January 31st 2020. For all statistics relating to calendar year 2019 or earlier, the UK's data will be included within the EU28 data. Where appropriate, "EU 27 & UK" will be used when comparing 2020 to 2019 or earlier.

Acknowledgements

This study was undertaken during a time of global pandemic and a time of great stress and uncertainty across Europe and the world. The author and Independent Market Monitor correspondents thank the companies across Europe who gave up their time to provide the insights presented in this report. The author thanks the IMM national correspondents for their efforts in recording interviews accurately and for the large amount of information they gathered and, above all, for their tenacity. The author would like to thank Quality Council of India (QCI), PT. *Ideas Semesta* Energi and the Centre for Rural Development in central Viet Nam for their efforts in gathering data from trade associations in their respective countries. The author would also like to thank Michael Buckley of Turnstone Singapore for additional insight to markets in India, Indonesia and Viet Nam.

IMM and the author would like to acknowledge the following trade associations for their cooperation:

Indonesia: ASMINDO (Indonesia Furniture Industry and Handicrafts Association) and HIMKI (Indonesian Furniture and Crafts Industry Association).

India: BENU (Bamboo Enterprises United), Export Promotion Council for Handicrafts; Federation of Rajasthan Handicraft Exporters; Federation of Rajasthan Home Textiles and Handicrafts; Jodhpur Handicrafts Exporters Federation; Kandla Timber Association; Kottakkal Furniture Consortium and Mizoram Wood-based Industry Owners' Association.

This report was prepared with the financial assistance of the EU.

Acronyms and abbreviations

$	United States Dollar
€	Euro(s)
EC	European Commission
EU	European Union
EUTR	European Union Timber Regulation
FLEGT	Forest Law Enforcement, Governance and Trade
FSC	Forest Stewardship Council
HS	Harmonised System
IMM	Independent Market Monitor
ITTO	International Tropical Timber Organization
SME	Small and Medium Sized Enterprise (with less than 250 employees)
UK	United Kingdom of Great Britain and Northern Ireland
VPA	Voluntary Partnership Agreement

1 Introduction

The study reported in this publication contributes to the primary role of the IMM, which is to use trade flow analysis and market research to independently assess the trade and market impacts of FLEGT VPAs between the EU[2] and VPA Partner countries[3]. The purpose of the study was to monitor against a comprehensive baseline developed in 2018[4] and to generate recommendations for the IMM's long-term monitoring of trends in the wood-furniture sector.

Assumptions
In developing the study, the following assumptions were made:

- 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 is worthy of further study.
- The furniture sector is of particular interest in assessing the impacts of the EUTR because it is of note in assessing the degree to which FLEGT licensing creates a favourable market position for timber from VPA partner countries in the EU.

Aims
The overall aims of the study were to:

- provide a follow-up the 2018 study
- describe and explain current market conditions and distribution channels for;
  - wood furniture exported by VPA partner countries and direct competitors into the EU
  - wood furniture in general
- better elaborate the type of wood furniture imported by the EU from VPA partner countries and competing countries
- elaborate and rank the factors determining the relative competitiveness of VPA partner countries in relevant EU furniture market segments
- elaborate on VPA partner countries' marketing priorities, including promotion strategies and priority target markets
- provide commentary on the current and potential role of FLEGT licensing to improve market access in the EU and other regulated markets, including commentary on EU furniture importing sector experience with EUTR due diligence and the role of certification and other forms of third-party legality verification
- identify market trends and developments for the period 2018 – 2020, specifically focusing on market developments in Indonesia, Viet Nam and India.

Product scope
The study covered imports of finished furniture products from VPA partner countries specifically identified as containing wood in Chapter 94 (furniture) of the EU's Combined Nomenclature

Geographic scope
Technically, the geographic scope of the study included all VPA countries and all EU Member States plus the UK[5]. In practice, however, the high degree of concentration in the furniture sector and trade meant that certain countries could be prioritized.

- Only four VPA partner countries are engaged to any significant extent (99.99% of total wood furniture imports from VPA partner countries by value) in supply of wood furniture to the EU27 and UK: Viet Nam, Indonesia, Malaysia and Thailand. Viet Nam and Indonesia together account for around 80%.
- Only six EU Member States and the UK account for 82% of all EU 27 and UK wood furniture imports from outside the EU; UK, Germany, France, Netherlands, Belgium, Italy and Spain.

India was included within the surveys as it is the fourth largest global consumer of furniture and the fifth largest producer and has not previously been included in the scope of these studies. India's exports of furniture have nearly trebled in value since 2010 and the country's furniture exports to the EU increased sharply, especially in 2019.

Global furniture trade overview
Key producers, importers and consumer countries are given in *Tables 1–3*. Within these tables countries featured within this report are highlighted.

Questionnaires
Two questionnaires (see *Annex*) were developed to guide the interview process. They were designed to allow statistical analysis where possible, as well as significant narrative answers. One questionnaire was designed for use within the EU and the UK and one for use in India, Indonesia and Viet Nam. Where possible the same, or similar, questions were used to those produced in 2018 to allow comparison.

Market country interviews
The IMM correspondents in six of the main EU markets were involved in both the selection of companies and the interviews of them.

2. As of 31 January 2020, the 27 EU Member States 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 and Sweden.
3. As of May 2020, the VPA partner countries are: Cameroon, the Central African Republic, the Republic of the Congo, the DemocraticRepublic of the Congo (DRC), Gabon, Ghana, Guyana, Honduras, Indonesia, the Lao People's Democratic Republic (Lao PDR), Liberia, Malaysia, Thailand and Viet Nam.
4. White, G. 2018. *A tabling of views: scoping study for assessing the impacts of timber legality on the European Union's wood-furniture sector and the associated tropical timber trade*. ITTO Technical Series No. 47. International Tropical Timber Organization, Yokohama, Japan. www.itto.int/technical_report/
5. The UK withdrew from the EU on January 31st 2020. For all statistics relating to calendar year 2019 or earlier, the UK's data will be included within the EU28 data. Where appropriate, "EU 27 and UK" will be used when comparing 2020 to 2019 or earlier.

Country	Rank	Value (2019 - Billion $ USD)
China	1	$179
United States	2	$59
Germany	3	$21
Italy	4	$19
India	5	$16
Poland	6	$13
Viet Nam	7	$12
Japan	8	$10
South Korea	9	$10
Canada	10	$9

Table 1: The world's ten leading producers of furniture by value in 2019. CSIL (2019) *World furniture outlook 2020, CSIL Milan.*

Country	Rank	Value (2019 - Billion $ USD)
United States	1	$38
Germany	2	$13
France	3	$8
United Kingdom	4	$8
Canada	5	$6
Japan	6	$6
Netherlands	7	$5
Australia	8	$3
Spain	9	$3
Switzerland	10	$3

Table 2: The world's ten leading importers of furniture by value in 2019. CSIL (2019) *Ibid*

Country	Rank	Value (2019 - Billion $ USD)
China	1	$127
United States	2	$92
Germany	3	$23
India	4	$16
Japan	5	$15
United Kingdom	6	$14
France	7	$13
South Korea	8	$12
Canada	9	$11
Italy	10	$10

Table 3: The world's ten leading consumers of furniture by value in 2019. CSIL (2019) *Ibid*

Rattan production in Indonesia. *Photo: George White*

With input from the study's coordinator, the correspondents were tasked with identifying key companies involved in the furniture trade in a given country—retailers, importers, wholesalers, and others with significant potential to influence market demand for furniture from VPA partner countries. Correspondents were encouraged to select a range of companies in terms of size (sales turnover) and a representative sample of the major elements of the sector.

The interviews 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
- identify, describe and rank the factors determining the relative competitiveness of relevant EU furniture market segments, including a comparison with the four major VPA partner countries engaged in the supply of wood furniture to the EU (Viet Nam, Indonesia, Malaysia and Thailand) as well as China, India and non-EU European countries
- obtain information on the current and potential role of FLEGT licensing to improve market access in these market segments while investigating the extent of compliance with the EUTR by the furniture sector in the given EU member country.

In the three producer countries, interviews were conducted with trade associations operating at a national or regional basis. With input from the study's coordinator, the correspondents were tasked with identifying key associations involved in the furniture trade in a given country. They were selected on the basis of their size of membership that includes furniture or handicraft manufacturers.

The interviews took place between April and August 2020 and typically lasted 30–90 minutes.

The EU & UK market interviews

This report is based on the information obtained from interviews with a total of **34 companies** based in Belgium, France, Germany, Italy, the Netherlands and the UK (*Figure 1*) (note, however, that some of the companies also operate outside their base countries). The interviews were conducted by the IMM national correspondents.

Sectors represented

The 34 companies represented diverse positions in the value chain, from design to manufacture and retail. More than half were distributors, typically importing manufactured furniture ready to be distributed to retailers. In total 10 retailers were interviewed, with eight of these being specialist furniture retailers. (*Figure 2*).

EU & UK relationship with producers in VPA countries

The participating companies indicated that they sourced furniture or raw materials to manufacture furniture from four of the countries engaged in VPA processes. Several companies indicated they had previously sourced from an additional country engaged in the process.

The dominant country in terms of trading relationships was Indonesia, with 29 out of 34 currently sourcing from that country. The second-largest relationship was with China (20), Viet Nam (16), followed by India and Malaysia (8) (*Figure 3*).

Producer country interviews

Additional data regarding India, Indonesia and Viet Nam was obtained in July and August 2020. This information was obtained from interviews with **15 trade associations** and was collected by the Quality Council of India (QCI); Indonesia based PT. *Ideas Semesta Energi* and the Centre for Rural Development in Viet Nam. The associations were selected on the basis of being known or thought to have furniture manufacturers amongst their membership.

The producer country sample

Two major associations (in terms of size and interest in furniture and handicrafts) were interviewed in Indonesia and Viet Nam[6]. The Indonesian responses were supplemented by the addition of regional offices of the two associations. Eleven associations (or similar organisations) were interviewed in

6. The nature of trade associations for the furniture industries varies widely between countries. India has a large number of regional ssociations, whereas both Indonesia and Viet Nam have a smaller number of national bodies with their membership drawn from across the country.

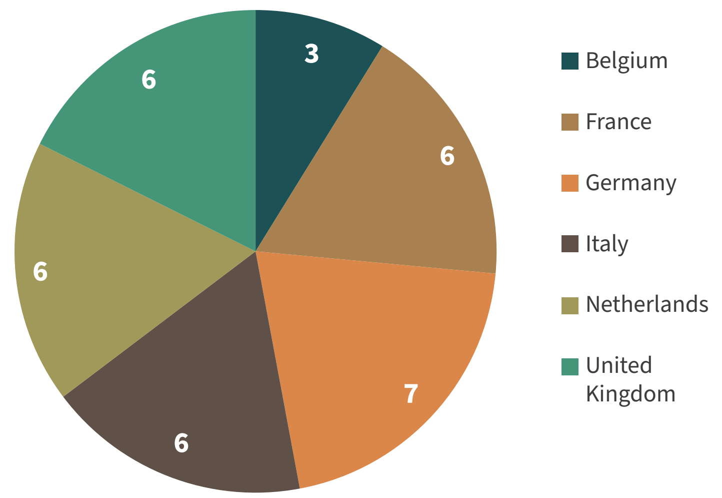

Figure 1: Number of companies interviewed for the study by country in which they are based.

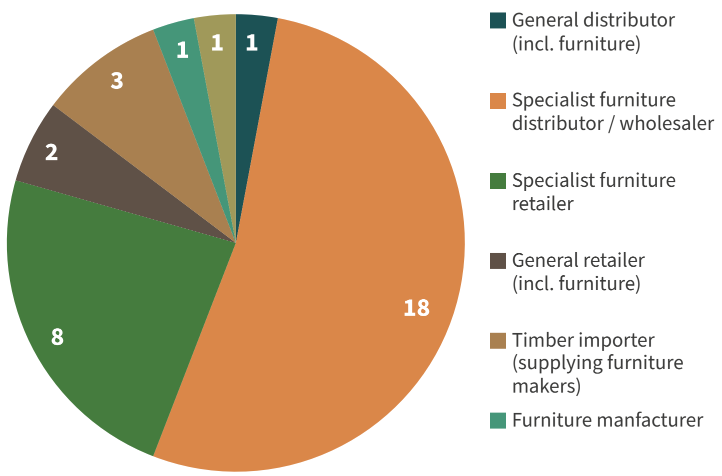

Figure 2: Position of interviewed companies in the value chain.

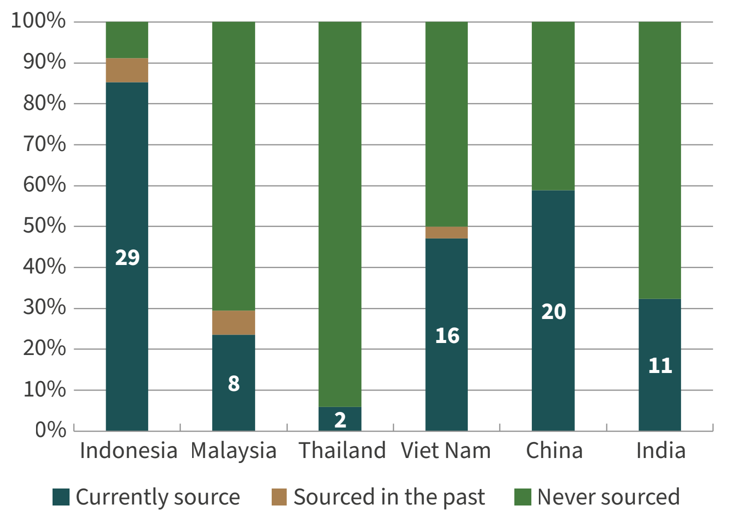

Figure 3: No. of interviewed companies sourcing materials from VPA countries and selected others.

Country	Approximates number of member companies	Number of associations interviewed
Indonesia	4,100	2
India	1,630	11
Viet Nam	1,400	2
Total	**7,130**	**15**

Table 4: Number and profile of associations interviewed

India. Between the three countries their membership represents over 7,100 companies, the majority of which can be regarded as SMEs[7].

All four of the associations in Indonesia and Viet Nam have exporters amongst their membership. Of the 11 Indian associations, six have members currently exporting, one with members that formerly exported and four that do not currently export. Exports markets currently include all seven major EU markets, plus the UK, Switzerland, Australia, Japan and the USA.

Sectors represented

The membership of the associations export widely, serving all the major EU market countries plus the globally significant furniture markets.

Study limitations

Sample size. A sample of fewer than 40 companies across several countries is tiny compared with the total number of companies involved in wood furniture value chains in the EU, estimated at more than 130,000 companies in 2014[8]. The results, therefore, should be extrapolated with caution.

The trade associations selected in the producer countries generally represent the majority of producer companies, though not exclusively. In addition, the views of the association as a body cannot encompass the wide range of views likely held by individual member companies.

Limited number of EU countries included. Only six of the 27 EU Member States were featured, and conditions and attitudes may vary widely in countries not included in the interviews. Note, however, that the six countries account for 67% of the EU's furniture imports by value ($39 billion out of $58 billion in 2019[9]).

Not all sectors are represented. The furniture market in the EU comprises a series of specialist markets, ranging from consumer-facing (with its own market segments), to specialist markets (such as contract furniture for hotels and conference venues). The sector also includes companies that supply manufacturers with basic materials (such as sawn wood) and machined components. The sample of interviewees was biased towards downstream participants (i.e. those dealing with assembled furniture), compared with upstream actors (i.e. those dealing with components or raw materials). Within the EU this bias was introduced to increase the likelihood of holding interviews with those trading with VPA countries.

Self-identification of participants. Participation in the survey was voluntary, and companies were able to specify whether their data were confidential; most opted for anonymity. About one quarter of companies approached for interviews were able to participate, with "lack of time" cited as the main reason for non-participation. Thus, the study comprises a sample of companies with "something to say". Their representativeness might therefore be questioned, given that the majority of companies approached chose not to participate for a variety of reasons.

Representativeness of participants. The study involved companies primarily involved in sales to end consumers or in supply chains that feed into retailers. Although retail sales account for the majority of the volume of furniture sales in the EU, the sample did not include companies that supply to contract markets (such as hotels). The sample also did not include specialist kitchen furniture companies, although some retailers interviewed did sell kitchens as a part of their wider ranges.

Type of furniture	Be	Fr	De	It	NL	Spain	Other EU states	UK	Switz.	Aust.	Jap.	USA
Outdoor	9	8	9	8	8	9	7	7	7	7	5	8
Kitchen	10	9	9	9	8	10	9	8	8	9	8	8
Bathroom	7	8	7	7	6	7	6	6	6	7	7	8
Bedroom	10	10	8	10	9	10	8	8	9	9	7	8
Seating & Sofas	8	10	9	9	9	9	8	8	8	8	8	9
Handicrafts / Decorative items	9	8	8	8	8	7	7	9	7	8	8	8
Other furniture	6	6	7	6	6	7	7	7	6	6	8	7

Table 5: Export markets of association membership *(n= number of associations identifying this market for their membership)*

7. For a more detailed assessment of forest industry trade associations see: GTF (Global Timber Forum) Association Surveys for Knowledge. *https://www.gtf-info.com/programme/association-surveys-for-knowledge/*
8. 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.
9. CSIL (2019) *Ibid.*

Executive summary of the 2018 study

The 2018 IMM / ITTO study[10] involved a series of semi-structured interviews conducted by IMM's network of national correspondents, with representatives of 47 companies based in the seven major European markets: Belgium, France, Germany, Italy, the Netherlands, Spain and the UK. Combined, these countries accounted for 83% of the value of furniture imported to the EU from VPA countries. It is estimated that there are 130,000 furniture companies in the EU, and approximately 90% of the furniture consumed in the EU is manufactured in Europe. Exporters based in the VPA countries, therefore, are entering a crowded and fiercely competitive market.

The companies that participated in the 2018 study 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 included indoor furniture of all types and outdoor furniture; in addition, a number of companies import raw materials such as sawn wood and panels, as well as furniture components, for furniture manufacturing within the EU.

The companies interviewed sourced—or have sourced in the past—from nine of the 14 VPA countries. Indonesia was the most popular VPA country (in terms of trading relationships), followed by Viet Nam and Malaysia. Overall, China was the origin of the majority of wood furniture purchased by the companies interviewed.

With a total of more than 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 various countries and regions. When asked to compare these variables on a country-by-country basis, it was clear that EU Member States were perceived as most competitive across the range of factors considered. The next most competitive region identified was that of non-EU member countries in Eastern Europe. Viet Nam, Indonesia and China were perceived to be the next most competitive.

Products licensed under the EU FLEGT initiative were more highly valued than non-licensed products by 45% of those interviewed (typically those sourcing from Indonesia). An additional 19% of those interviewed stated that FLEGT licensing could play a role in their purchasing decisions if it were available in other countries. Overall, the companies interviewed were positive towards the FLEGT process, although the lack of availability of licensed products from countries other than Indonesia was a common concern. Some respondents expressed doubt that it had led to on-the-ground improvements in forest governance. The chief benefit identified for those favourable to FLEGT licensing centred on the linkage with the EUTR and the simplified due-diligence process licensed product has to undergo to meet the latter's requirements.

The study asked interviewees for their views on the outlook for tropical timber in the European furniture trade. Forty-three percent considered that the market for tropical wood furniture would grow or stabilize in the next decade, and 32% thought demand and volume would shrink (25% expressed no opinion). The wide range of alternative materials and consumer and specifier attitudes towards tropical timber were seen as the main negative drivers.

Fashion largely drives the style and design of wood furniture, with end consumers destined to buy 80% of production. A complex web of interconnected drivers determines the choice of wood and accompanying colours and features. Consumers, retailers and manufacturers have a huge range of options for materials, and the choice of wood in furniture per se is no longer guaranteed. Retailers and manufacturers are promoting certified wood and certified tropical wood to varying degrees; FLEGT-licensed timber has a role to play—but only at a business-to-business level.

The report made the following recommendations, that;

- companies not yet using FLEGT-licensed timber should be encouraged to do so
- the bureaucracy involved in the process of importing FLEGT-licensed timber should be minimised to maximize the business benefit for operators
- the benefits of the FLEGT licensing scheme in Indonesia should be demonstrated to build trust
- the purposes of FLEGT-licensed timber and timber legality assurance schemes should be clarified within the trade
- introduction of FLEGT-licensed timber supplies from other VPA countries should be speeded up.

10. White, G. 2018 *Ibid*.

The furniture market in 2019

Global furniture consumption

Global furniture consumption was estimated at $450 billion in 2019. This figure includes all types of furniture and furniture made from all materials – wood, plastic, metal etc. Almost half of global furniture consumption (by value) is shared between China (28%) and the USA (21%). The third largest market is within the EU27, with a collective consumption of over 22%, led by Germany (5%), France (3%) and Italy (2%). The largest consumer countries outside the EU27 are India, with a share of over 4%, and the UK, with 3%.

Global furniture production

World furniture production was estimated at $462 billion in 2019,[11] with production dominated by China (39%), USA (13%), Germany (4%), Italy (4%), India (4%), Poland (3%) & Viet Nam (3%).

European Union consumption of furniture

CSIL data[12] for 2019 suggests that EU28 consumption of all types of furniture was around $100 billion, a fall of circa 3% compared with 2018 ($103.8 billion). The EU28 share of global furniture consumption in 2019 represented around 22% of global consumption, a figure that has been steadily declining from around 30% a decade earlier ($105 billion). CSIL estimated global consumption of furniture at $450 billion in 2019. The VPA partner countries were estimated to have consumed 2% of the global total – circa $7.8 billion.

VPA country exports of wooden furniture to the EU28

Between 2016 and 2019 VPA partner country exports of wooden furniture to the EU28 have steadily grown from $1.2 billion to $1.4 billion[13]. Viet Nam dominates the total with nearly $800 million (54%) in 2019. The other major exporters are Indonesia, Malaysia and Thailand.

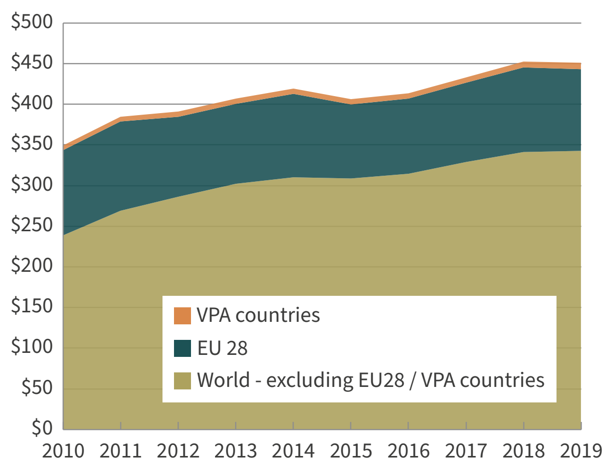

Figure 4: EU28, VPA and the rest of the world consumption of furniture 2010 – 2019 (billion USD). *CSIL (2019) op. cit.*

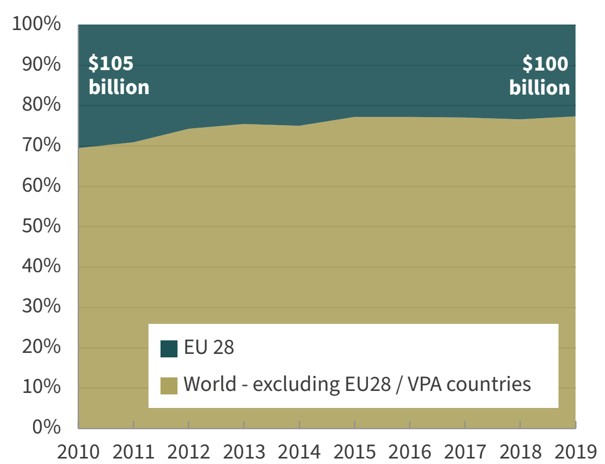

Figure 6: EU28 share of global furniture consumption 2010 - 2019

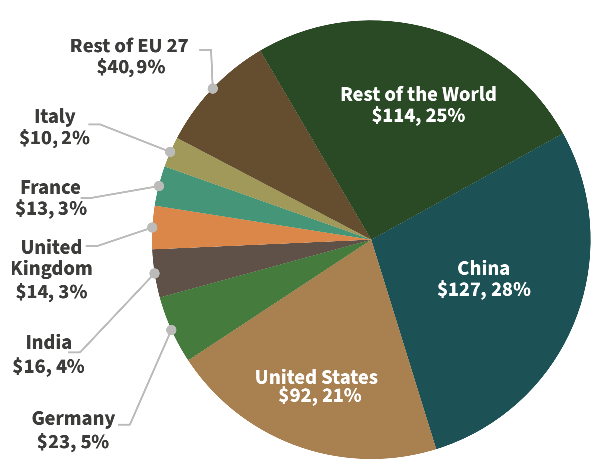

Figure 5: Global leading markets for furniture consumption (billion USD). *CSIL (2019) op. cit.*

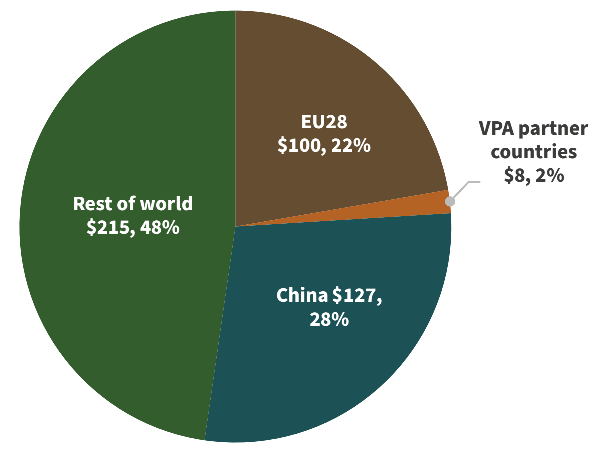

Figure 7: EU28 consumption of furniture in the global context 2019 (billion USD / share of global consumption – figures rounded).

11. CSIL (2019) *op. cit.*
12. CSIL (2019) *op. cit.*
13. Data extracted from EU FLEGT Trade Dashboard - *https://stats.flegtimm.eu/*

Partner Country	2016	2017	2018	2019
Cameroon	$101,310	$25,509	$138,512	$90,420
Central African Rep.	-	-	-	-
Congo Rep.	$490	$36,434	$35,600	$58,740
Congo Dem. Rep.	$4,040	-	$24,691	$2,800
Cote d'Ivoire	$28,050	$91,254	$72,163	$38,070
Gabon	$82,610	$98,457	$10,510	$23,930
Ghana	$82,610	$252,683	$340,495	$415,730
Guyana	-	$204	$22,330	$2,350
Honduras	$17,580	$1,899	$2,750	$18,440
Indonesia	$299,371,260	$310,402,530	$303,091,530	$378,364,929
Laos	$32,930	$4,200	$2,610	$110
Liberia	$32,930	$242,190	$52,030	$11,740
Malaysia	$181,616,468	$200,797,951	$197,788,100	$235,606,334
Thailand	$63,325,750	$60,941,209	$55,910,727	$59,032,302
Viet Nam	$722,775,235	$727,794,160	$724,306,950	$788,541,685
Total	**$1,267,471,263**	**$1,300,688,682**	**$1,281,798,998**	**$1,462,207,580**

Table 6: VPA country exports of wooden furniture to the EU29 2016 - 2019

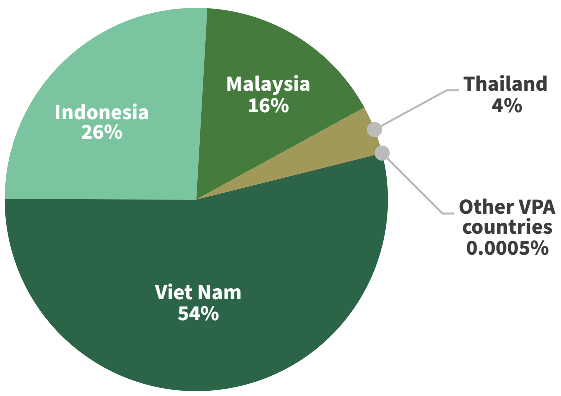

Figure 8: VPA country exports of wooden furniture by value to the EU28 in 2019 – share of total VPA exports to EU28 in this period

Member State	2016	2017	2018	2019
UK	1.350	1.355	1.242	1.417
France	0.515	0.522	0.571	0.565
Germany	0.400	0.426	0.398	0.428
Netherlands	0.241	0.272	0.292	0.356
Belgium	0.126	0.123	0.115	0.131
Spain	0.120	0.132	0.135	0.152
Italy	0.102	0.112	0.112	0.131
Rest of EU	0.509	0.536	0.552	0.638
Total	**3.363**	**3.477**	**3.417**	**3.818**

Table 7: Main EU28 markets for VPA partner country exports of tropical wood-based furniture 2016 - 2019 (billion USD).
Extracted from EU FLEGT Trade Dashboard - https://stats.flegtimm.eu/

EU28 imports of wooden furniture from VPA countries

In 2019 the EU recorded its strongest year for wooden furniture imports since 2007 (the last consumer boom prior to the financial crisis).

The EU imported wooden furniture with a total value of €7.07 billion in 2019[14], 10% more than the previous year. 2019 was only the second time in history, the other being 2007, when annual imports of wooden furniture into the EU exceeded €7 billion (at constant 2019 prices).

The EU imported wooden furniture from tropical countries with a total value of €1.91 billion in 2019, of which $1.46 billion was from the VPA partner countries[15], up 11% compared to the previous year. The main South East Asian supply countries all followed a similar trajectory in the EU wooden furniture market in the last five years. A period of flat or declining imports between 2015 and 2018 was followed by a sharp upturn in 2019

In 2019, the largest market was the UK, with imports over $500 million. France, Germany and the Netherlands imported similar amounts valued at around $180 million per country. Average growth for the EU28 as whole was 14% for 2018–19. The largest growth market was the Netherlands, with 40% year on year growth for 2018–19, with 70% overall growth since 2016.

EU28 imports of wooden furniture from non-VPA tropical countries

In 2019 the EU28 imported significant volumes of wooden furniture from China, India and Brazil, three countries that process considerable volumes of tropical timber[16]. The volume

14. ITTO (2020) A. *ITTO Market report 1st – 15th April 2020. https://www.itto.int/files/user/mis/MIS_1-15_Apr2020.pdf*
15. ITTO (2020) A. *op. cit.*
16. Data extracted from *EU FLEGT Trade Dashboard -* https://stats.flegtimm.eu/

Member State	2016	2017	2018	2019
UK	0.491	0.482	0.468	0.549
France	0.183	0.176	0.186	0.186
Germany	0.164	0.167	0.155	0.174
Netherlands	0.107	0.126	0.131	0.183
Belgium	0.062	0.061	0.058	0.073
Spain	0.048	0.053	0.050	0.054
Italy	0.047	0.044	0.042	0.041
Rest of EU	0.166	0.192	0.191	0.203
Total	**1.267**	**1.301**	**1.282**	**1.462**

Table 8: Main EU28 markets for Chinese, Indian and Brazilian tropical wood-based furniture 2016 - 2019 (billion USD)

from the three countries exceeded $3.8 billion, rising from $3.6 billion in 2016. A proportion of the wooden furniture from the three countries will be tropical wood, though this is less than that in softwood and temperate hardwoods.

The single biggest market in 2019 was the UK, with imports over $1.4 billion. Other significant markets included France, Germany and the Netherlands.

Average growth for the EU28 as whole was 11% for 2018-19. The largest growth market was the Netherlands with 22% year on year growth for 2018-19, with 47% overall growth since 2016.

In 2019 the EU import value of wood-based furniture from China, India and Brazil was considerably larger than the value imported from the VPA partner countries.

Spotlight on three key producer countries

India, Indonesia and Viet Nam represent three producer countries with huge potential to supply EU markets, though currently with widely varying market penetration. The charts below show the value of exports, imports, consumption and production for these three countries alongside two of the major competing tropical countries (Thailand and Malaysia).

Indonesia

The Indonesian furniture industry was previously divided between two trade associations, but these have now amalgamated into a single organisation (HIMKI Indonesia[17]). The President of Indonesia, Joko Widodo, is a former furniture trader, thus taking a special interest in the industry. He has set increased export goals, but these have not been realized due to a number of factors which include;

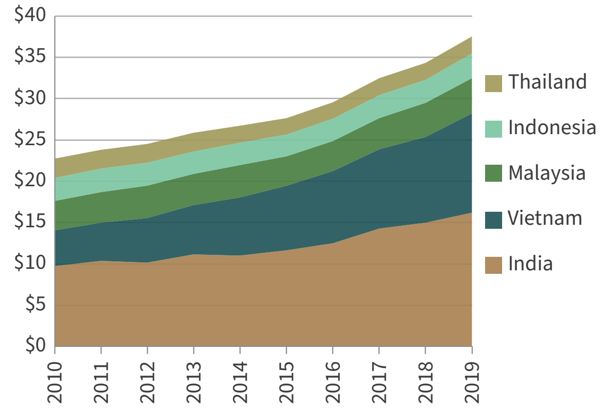

Figure 9: Furniture Production value 2010 – 2019 for 5 major producing countries (billion USD). *Source: CSIL (2019) Op. Cit.*

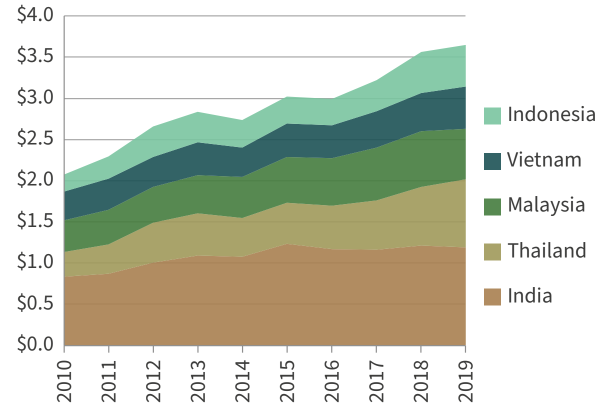

Figure 11: Furniture Import value 2010 – 2019 for 5 major producing countries (billion USD). *Source: CSIL (2019) Op. Cit.*

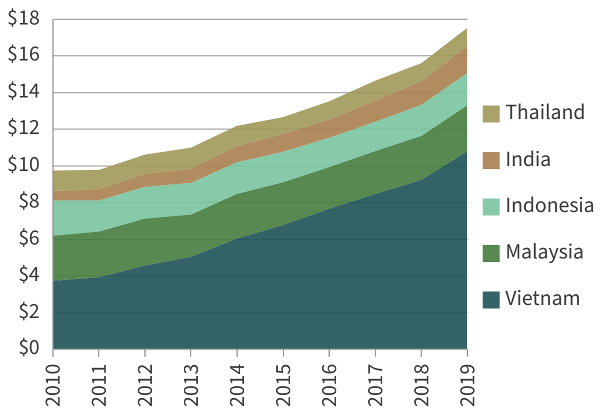

Figure 10: Furniture Export value 2010 – 2019 for 5 major producing countries (billion USD). *Source: CSIL (2019) Op. Cit.*

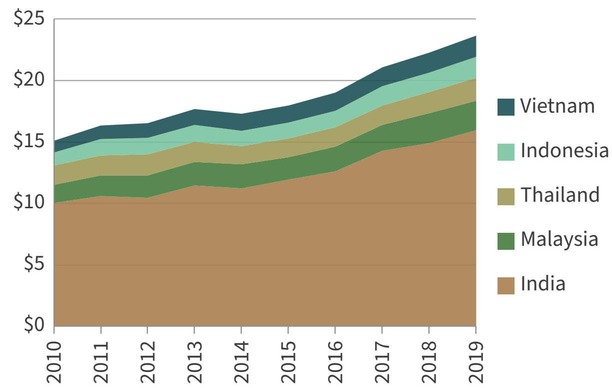

Figure 12: Furniture Consumption value 2010 – 2019 for 5 major producing countries (billion USD). *Source: CSIL (2019) Op. Cit.*

17. www.himki-indonesia.com

- lack of investment in furniture production plant
- insufficient infrastructure for transport, ports etc
- excess bureaucratic red tape for production and trading
- ongoing scepticism in markets on Indonesia's environmental record
- a craft industry culture
- devolution of power to regions making central government policies hard to implement.

Concerns over the development of the furniture industry have been expressed by the Secretary General of the Indonesian Light Wood Association (ILWA). He is reported[18] as saying that "*Indonesia has a long way to go before it can take its place as a force in the global wood and furniture business".* He expressed concern that the furniture sector suffers because the government issues regulations that are "*not pro-business and counterproductive*".

The Indonesian home furniture market was expected to register a compounded annual growth rate of 3.5% during the next five years (2020-2025). However, despite its natural competitive advantages in terms of its raw material resource, various hurdles have always hindered the growth of furniture production. These have ranged from historic levels of illegal timber trade, high levels of corruption, poor raw material supply, complex regulation and weak economic stimuli.

Indonesia is ranked 21st globally in terms of furniture export value, despite its extensive forest and plantation resources. The main export markets are USA (40%), EU, Japan, China and Australia. The furniture industry has begun to target additional markets in Africa, the Middle East, and Eastern Europe. Production hubs are centred in Java and to a lesser extent in Sumatra.

The government is reported to be introducing a law that will streamline many regional regulations and improve labour laws in favour of companies. The infrastructure has improved vastly under the current president, but the general view is that Indonesia still cannot compete with Viet Nam in furniture production. The bottom line, when comparing Indonesia and Viet Nam, is the whole factor of current production capacity. While there are a few large manufacturers in Indonesia, the existing capacity in Viet Nam is vast by comparison. Furthermore, while both countries are stretched over a huge area, Indonesia has the added disadvantage of being separated into five main Islands each with regional administration so that national policies are difficult to implement.

Java has some of the world's largest teak plantations which are key to many furniture producers. There are also cultural and craft reasons for the use of local teak, such as the hubs of hand-carving in places like Jepara in Java. Indonesia also has significant rubberwood plantations. Its natural forests of mixed tropical species are still in demand for plywood production, though not so much for furniture. Java's other main plantations are *Acacia falcata* and *jabon* (*Anthocephalus cadamba*), which are very much targeted for plywood and blockboard/ bare core and are too light for furniture. Indonesia does use some tropical hardwoods and fruit woods from both natural forests and plantations, but these are not generally preferred for export furniture. Anecdotally one can see the approximate range of species at the two main annual export furniture exhibitions, which are dominated by teak and rattan, evidencing very little temperate species on offer. Most imported temperate species used in Indonesia are for doors, floors and frame mouldings. Indonesia also has a substantial production of rattan furniture for export, as its export raw is banned.

The position of Indonesia's furniture exports over the past five years is somewhat of a surprise. With only 3% growth during the period and 2% in the past year, clearly the industry has failed to meet even the lowest expectations of the government. Potentially growth should have been possible, especially with the President's personal encouragement. The only significant growth has been in exports to the USA, growing by 19% in five years and now accounting for 46% of Indonesia's furniture exports. 2019 has seen sharp growth in exports to the EU, with the bulk of the growth evident in the Netherlands. At the time of writing, it is uncertain if this growth will be sustained.

Viet Nam

Viet Nam is the leading furniture producer in Southeast Asia. It is ranked seventh in the world for wood furniture exports and growing at a faster rate than China.[19] Its positive economic progress is ensuring a continuing flow of Foreign Direct Investment (FDI).

There are several associations in Viet Nam representing the furniture industry led by the Handicraft & Wood Industry Association of Ho Chi Minh City (HAWA). It is reported that the government of Viet Nam only recognises one national association for furniture and HAWA certainly works nationally with a close relationship with government. The leadership of HAWA, comprising some of the major players of furniture production in local ownership, has been particularly impressive in recent years. It is always open to discussion and ideas. The Prime Minister personally attended and addressed two furniture industry conferences in 2019, unprecedented except in Indonesia. Viet Nam is a major user of plantation rubberwood and acacia, established since unification and subject to

Figure 13: Plantation wood combined with other materials.
Photo: M Buckley, Turnstone Singapore.

18. https://republika.co.id/berita/qd3yst349/ilwaindonesia-tertinggal-dalam-bisnis-kayu-dan-mebel-dunia
19. Furniture production by value in Viet Nam for the period 2010 to 2019 has grown by 175%. By comparison China has grown by 86% and India has grown by 66%.

ambitious government targets of increased acreage. The use of mixed species hardwoods from domestic forests and neighbouring countries appears to be diminishing as environmental issues take higher priority now with government. Viet Nam is also the number two global destination of American hardwood graded lumber (mainly oak and tulipwood), used mainly for furniture. Canada also supplies hardwood lumber grown in the USA and more recently European hardwood consumption has increased when competitive. The main US, Canadian and European species imported is oak, which is also used for Viet Nam's increasing production of wood flooring. The use of wood species in Viet Nam is closely linked to quality demands and it is the industry's recent attention to international quality standards that has been a driver of its progress and enabled producers to afford high quality material.

Teak (mainly as logs) is also imported. Softwoods from New Zealand (*Radiata* pine) and more recently from Canada are used for low-end to medium quality furniture.

The US has taken the lion's share of Viet Nam's furniture exports over the past five years, and today accounts for three-quarters. The EU, UK, Japan and Canada's buyers also have some special connections with Vietnamese producers, which understand their market requirements and quality standards, thus resulting in steady growth.

Vietnamese wood product exporters should benefit from the Viet Nam-EU trade deal. The recently ratified EU-Viet Nam Free Trade Agreement (EVFTA) is expected to open the door wider for Vietnamese exports to the EU and help the economy regain its growth momentum following a difficult period due to the COVID-19 pandemic. Bilateral trade in 2019 was around US$60 billion, of which Vietnamese exports accounted for US$40 billion, a modest figure given the EU is the world's second largest import market with an annual value of US$2,338 billion. Vietnamese producers have benefited from the ongoing trade tensions between the US and China.

India

India has a long and well-established wood-working industry, particularly in panel production. Furniture is generally classified as 'handicraft' products. The structure is changing and there is reported to be a rapidly developing 'organised' furniture sector, employing up-to-date machinery and techniques, while still relying heavily on hand-finishing. Domestic demand for wood furniture is on the rise and this has been helped by online shopping platforms such as *Pepperfry*.[20] In addition, the export-focused wooden handicraft manufacturers of north India are turning more and more towards the domestic market, where they perceive long-term purchasing power to be located. Locally there seems to be little doubt that India will evolve into a substantial wooden furniture producer and consumer in the years to come and that imported hardwoods will be key.

While furniture is made all over India, there are definite hubs in the Delhi-National Capital Region (Delhi, Faridabad, Ghaziabad, Noida and Gurgaon) and also in Rajasthan, where the majority of the handicraft sector is located, particularly in Jaipur, Jodhpur and Saharanpur.

Figure 14: Furniture making in India.
Photo: George White

There are also smaller hubs in Maharashtra (Mumbai, Pune and Nashik), Tamil Nadu (Chennai) and Karnataka (Bangalore and Mysore).

Traditionally the country has been a log importer, ensured by very restrictive tariffs and regulations against imported sawn lumber. In the case of non-tropical lumber, most Indian importers had not, until recently, the knowledge or suitable facilities for storing and processing imported temperate lumber, particularly oak and beech. This also restricted the import trade to logs.

India is primarily a consumer of wood-based furniture; the fourth largest in the world, with a value of nearly $16 billion in 2019.Teak is king for furniture and joinery in India, which it imports as logs from many countries around the world including in Africa, Asia and South America. In the past Indian producers developed international markets for furniture made from the local plantation species mango, sheesham, acacia and rubberwood, mainly in rustic style, hand-crafted furniture in which quality standards were not high. There is a relatively small consumption in ebony and walnut as well as sandalwood and other scented species, which are banned from export as logs and sawn material.

Indian hardwood import trends are changing and more and more sawn lumber is being brought into the country for furniture and joinery, particularly from Europe and North America. However, the volumes, when compared to log imports, still remain low. Teak is still highly prized for furniture and joinery, but there is more and more demand for what India calls "exotic" hardwoods, such as

20. www.pepperfry.com/

oak and walnut, in domestic consumption. The (mainly export-focused) "handicraft" centres of Rajasthan and North India are using less and less sheesham, as it is a CITES-listed *Dalbergia* species, and more mango. However, the supply and availability of quality mango lumber is decreasing rapidly and there is a real and urgent need to fill the gap with imported hardwood lumber.

India is estimated to rank as fifth largest furniture producer in the world, but only the 22nd biggest exporter. With a population of 1.353 billion and GDP per capita 89th or 91st (depending on PPP or not) in the world, it can be understood that domestic purchasing power is low. Latest data shows production at $16,213 million, exports $1,460 million, and imports $1,190 million; suggesting $15,943 million consumption. From this it is clear that producers work principally for domestic consumption.

There are literally millions of carpenters who buy teak or other hardwood logs and then painstakingly make domestic grade furniture. In recent years an increased demand for ready-made furniture in a "western style" has developed. There are few modern furniture plants in India that can supply quality furniture to compete with cheap imports despite the protective import tariffs. Two thirds of India's furniture imports come from China and almost half of India's exports are shipped to the US. Malaysia, as second biggest supplier with its significant ethnic Indian community connections, accounts for less than 8% of imports. Only Germany and Italy appear in the top ten suppliers to the high-end market in India accounting for another 8%. Five EU markets account for about 27% of India's exports (Germany, UK, France, Netherlands and Spain). Current US domestic policy warming towards India may serve to strengthen the Indian furniture trade with the country and even its supply of American hardwoods.

India's growth over the past five years of 54% and its exports growth to its main markets – EU by 65% and USA by 51% – still leave India as a very small export player at an early market development stage compared to China and Vietnam.

EU imports from India were rising without interruption in the period before the onset of the COVID-19 pandemic, hitting an all-time high of $379 million in the year to March 2020[21]. Import growth had been continuous in Germany, now the largest EU destination for Indian products. Imports from India mainly consist of wood furniture made from local plantation species such as mango, sheesham, acacia and rubberwood.

Factor	India	Indonesia	Viet Nam
Size of industry	• Production: $16.2 billion (2019) • Production rank: fifth • Exports: $1.5 billion (2019) • Export rank: 22nd largest	• Production: $3 billion (2019) • Production rank: 21st • Exports: $1.8 billion (2019) • Export rank: 19th largest	• Production: $12 billion (2019) • Production rank: seventh • Exports: $10.8 billion (2019) • Export rank: fifth largest
Main production hubs	• Delhi-NCR region (Delhi, Faridabad, Ghaziabad, Noida & Gurgaon) • Rajasthan (Jaipur, Jodhpur & Saharanpur. • Maharashtra (Mumbai & Pune) • Nashik • Tamil Nadu (Chennai) • Karnataka (Bangalore and Mysore)	• Java • Sumatra	• Ha Noi • Ho Chi Minh City
Main wood sources	US Myanmar Malaysia Domestic (plantation)	Domestic (plantation) US New Zealand Domestic (natural forests)	US Indonesia Myanmar Malaysia New Zealand Domestic (plantation)
Key wood species (sample)	*Dalbergia spp* (Sheesham) Ebony Walnut Sandalwood Teak Acacia Mango wood *Eucalyptus spp*	Rubberwood Acacia Eucalyptus spp Radiata Pine White Oak Tulipwood Teak *Shorea spp* *Parashorea spp*	Rubberwood Acacia Eucalyptus spp Radiata Pine White Oak Tulipwood *Shorea spp* *Parashorea spp*
Most significant export markets in 2019	US ($438 million) Germany ($99 million) Netherlands ($71 million) UK ($61 million) France ($53 million)	US ($770 million) Japan ($138 million Netherlands ($132 million) UK ($75 million) Germany ($64 million)	US ($7.12 billion) Japan ($726 million) UK ($375 million) South Korea ($306 million) Germany ($115 million)
EU market significance	Moderate	Moderate	Moderate
Significance and value of domestic market to producers	High $15.9 billion in 2019	Moderate $1.7 billion in 2019	Minor $1.7 billion in 2019

Table 9: Comparison of key features of furniture production in India, Indonesia and Viet Nam. *CValue data from CSIL (2019) op. cit*

21. ITTO (2020) B. *ITTO Market report 16th – 31st May 2020*

EU and UK market survey results

This section focuses on the main VPA partner countries with significant furniture exports and has also sought company views on other key producers – China and India. The charts below are therefore not an overview of all trading relationships between the EU and all exporters globally.

Sourcing by the interviewed companies

Companies participating in the study were asked questions on their sourcing profiles pertaining to product type, the country of manufacture and the reasoning behind these choices. More than half the interviewed companies sourced some material from Indonesia, primarily indoor furniture (***Figure 15***). The other dominant country was China, a supplier of 18 of the 34 companies, mainly of indoor furniture. India was the third highest, with 11 companies of the 23 using Indian suppliers exclusively for indoor type products.

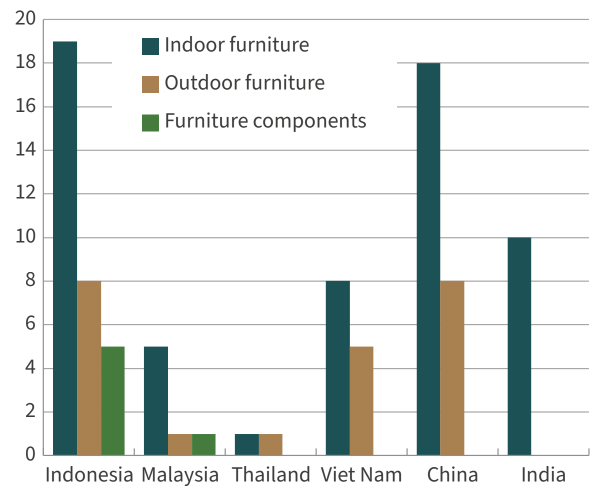

Figure 15: Number of interviewed companies obtaining materials from non-EU countries by product type.
(n= number of specific mentions)

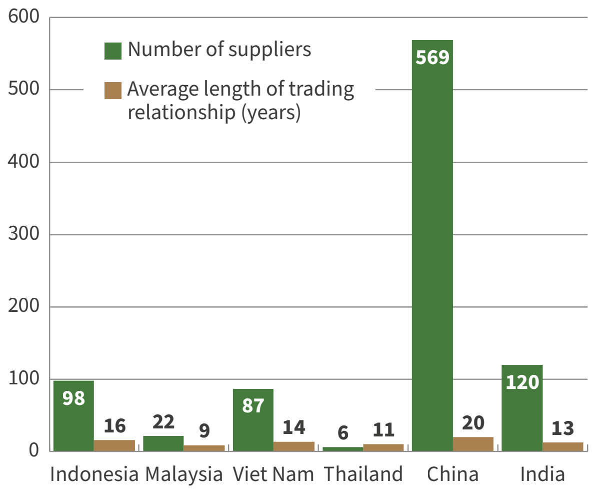

Figure 16: Number of interviewed companies with trading relationships with non-EU suppliers and average duration of those relationships in years.

Duration of trading relationships

Typical trading relationships with the four VPA partner countries tend to be in the range of five to 20 years duration. Supply chains are not static and numerous respondents indicated they had supply relationships of fewer than three years in duration.

On average, the longest trading relationships were with furniture manufacturers in Indonesia amongst the VPA countries. Overall the longest relationships were with Chinese producers, averaging 20 years.

Notably, the smaller buyers and importers interviewed indicated that they aimed to establish long-term purchasing relationships because switching suppliers required substantial work and involved economic risk. In contrast, the larger retailers said they mostly selected their suppliers on a yearly or seasonal basis.

Number of suppliers

Thirty-three of the 34 interviewed companies indicated the number of furniture suppliers they currently had per country. In total, these 33 companies had 216 suppliers across the four VPA countries and an additional 689 suppliers in China and India. The Indian suppliers were mainly characterised as being small in size.

Timber species used

The 32 companies that provided information indicated that they used a very wide range of timber species (***Figure 10***). Oak (primarily from North America) was the most popular species, with Indonesian grown teak following. *Acacia* and pine species were the next most commonly sourced species groups. Very few companies indicated that they used species from natural tropical forests (though this may be masked under the "Mahogany" responses, which will perhaps include both natural and plantation species). Sheesham (*Dalbergia spp.*) was sourced by five of the 32 reporting companies – in all cases sourced from Indian manufacturers.

The impact of Covid-19

This report was envisaged prior to the COVID-19 pandemic and much of the work to collate data and interview people was undertaken during the first six months of the outbreak. During this period, a third of the world population[22] was on some form of a lockdown, meaning their movement was being restricted by government.

The pandemic has triggered the most severe recession in nearly a century and is causing enormous damage to people's health, jobs and well-being, according to the OECD's Economic Outlook[23].

22. Statista (2020) *What Share of the World Population is Already on COVID-19 Lockdown?* (April 23rd 2020) www.statista.com/chart/21240/enforced-covid-19-lockdowns-by-people-affected-per-country/
23. OECD (2020) www.oecd.org/coronavirus/en/ June 10th 2020. Note all economic predictions in this section taken from this source unless stated.

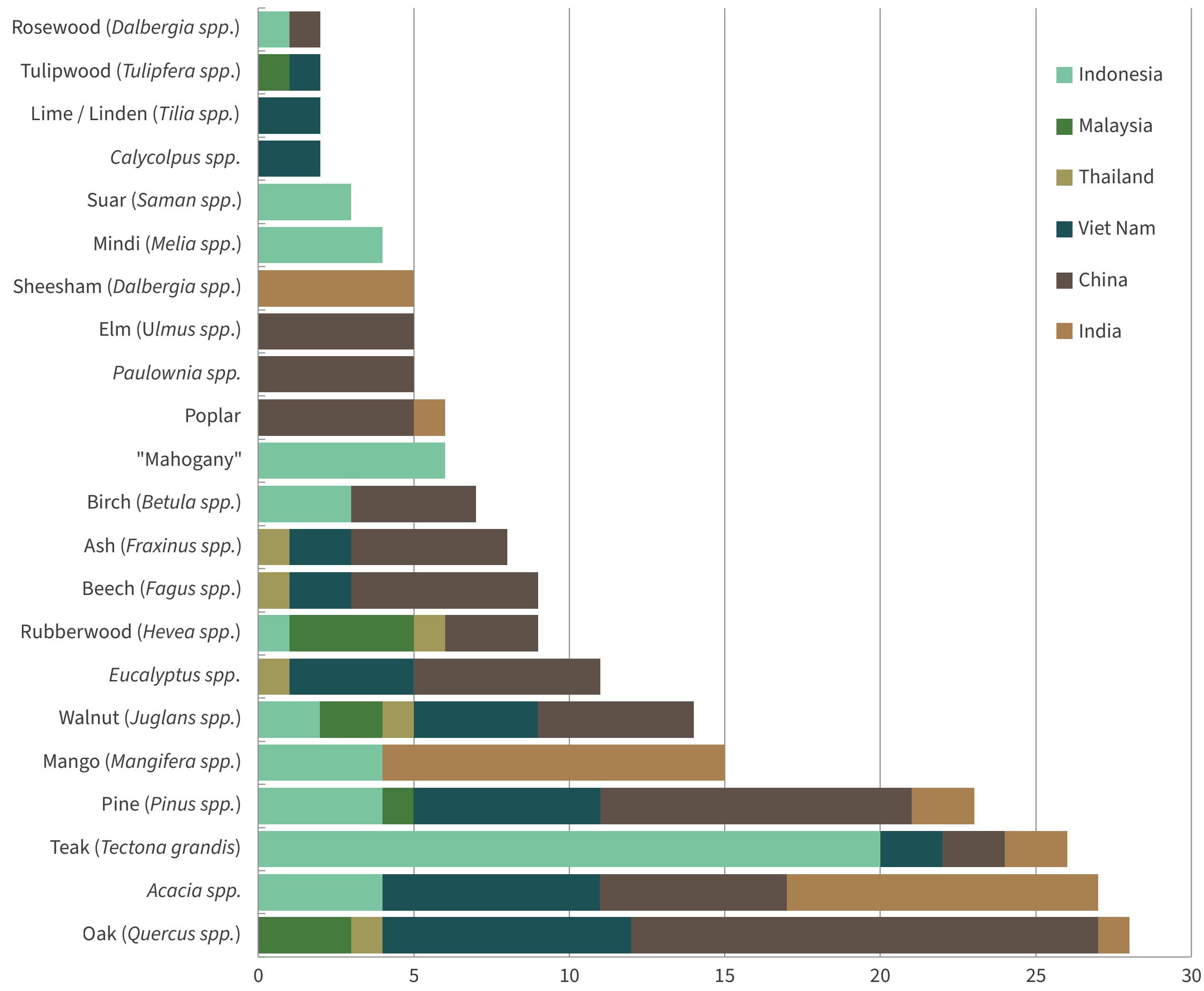

Figure 17: Number of companies importing certain species or species groups by non-EU source country.
Note: The total number of companies reporting this information = 32. Note 2: Around 20 other species were mentioned once by a single respondent.

Lockdowns develop over three phases; first as countries enter them, then as they exit, and finally, as they transition into the recovery phase, with this clearly influenced by the advent of medical solutions to the pandemic. Many countries at the time of writing this report are in the second phase, as they reopen, with early signs of recovery, but with risks of renewed waves of COVID-19 infection and re-imposition of lockdowns. For the forest industries, their trading partners and the societies within which they operate and rely, the story is the same – lock down, exit and, hopefully, a recovery.

As restrictions begin to be eased, the path to economic recovery remains highly uncertain and vulnerable to subsequent waves of infection. On the upside, at the time of writing a number of COVID-19 vaccines were expected to be cleared for use soon. But the containment measures brought in by most governments to slow the spread of the virus and limit the death toll, have closed down business activity in many sectors and caused widespread economic hardship.

The overall economic impact of strict and relatively lengthy lockdowns in Europe is expected to have been particularly harsh, with euro area 2020 GDP predicted to contract 7.8% in the EC Autumn Economic forecast. The EU's '*Summer 2020 Economic Forecast*[24]', published in July 2020, suggested that the EU economy will "*experience a deep recession due to the coronavirus pandemic*".

GDP in the USA, according to various sources, will contract 3.5% to 4.3% this year, in Japan 3.5% to 5.3% and the UK around 11.3%[25]. Emerging economies such as Brazil, Russia and South Africa, meanwhile, face particular challenges of strained health systems, adding to the difficulties caused by a collapse in commodity prices, with their economies projected by the IMF World Economic Outlook to contract by 5.8%, 4.1%, and 8% respectively. China's GDP is actually forecast to grow 1.9% this year, but India's to contract 10.3%.

24. https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/summer-2020-economic-forecast-deeper-recession-wider-divergences_en
25. November statement from UK Chancellor Rishi Sunak https://uk.reuters.com/article/GCA-EconomyUK/idUKKBN2851S4?il=0

Figure 18: Headline article in Construction Manager – May 2020. *www.constructionmanagermagazine.com/news/buyers-report-fastest-decline-activity-23-years-du/*

According to the OECD, the recovery from pandemic, after an initial, rapid resumption of activity, will take a long time to bring output back to pre-pandemic levels, and the crisis will leave long-lasting scars – a fall in living standards, high unemployment and weak investment. Job losses in the most affected sectors, such as tourism, hospitality and entertainment, will particularly hit low-skilled, young, and informal workers. At its peak, unemployment in the OECD economies during the crisis was estimated at more than double the level prior to the pandemic, with little recovery expected in jobs next year.

Looking forward, the euro area economy as a whole is predicted to see GDP rise 6.1% in 2021, while the EU economy grows 5.8%, but with rates of recovery varying widely between Member States. Following shrinkage of 4.9% in 2020, global GDP is forecast to grow 5.4% in 2021.

It is possible that, with pent-up consumer demand unleashed, there will be a quicker rebound, unlike after previous crises (such as in 2008). However, this is not guaranteed in a health crisis as consumers may change spending behaviour to minimise social interaction, and uncertainty can lead households to save more – and not to spend.

Some early signs from China perhaps offer some hope, with reports that GDP growth in the second quarter was at 3.2%[26]. The figure was higher than experts were predicting and points towards a V-shaped recovery – that is, a sharp fall followed by a quick recovery. Depending on their efficacy and the speed at which inoculation can be carried out, the introduction of COVID-19 vaccines is also expected to result in predictions for rate of global recovery being revised upwards.

It is too early to tell what the impact of the health crisis has been or will be upon the global timber industry as a whole and the tropical timber industry especially. Early indications though are that the impact has been profound where it has been measured. As seen in the table below, over nine hundred thousand workers have been directly affected in eight of the main tropical wood producing/processing countries. In addition, the numbers of impacted workers in the wood processing and construction sectors across the EU, US, China and India probably runs to many millions (in India alone it is reported[27] that "*over 136 million non-agricultural employees were at immediate risk of losing their jobs*").

The challenge of gathering data and insight from companies and trade associations at the current time illustrates the problem very well – many reported facing major threats to their business and were hard pressed to find time to comment.

At the same time, though, some early indications are that private sector firms are expecting an increasingly strong rebound in the year ahead, with confidence in the UK reaching a four-month high in June. *Markit Economics* in the UK noted that the easing of restrictions related to the COVID-19 pandemic had a favourable impact on economic activity, with business operations gradually resuming in a number of sectors and staff brought back from furlough.[28] The UK situation is indicative of that across Europe, where the lockdown is generally easing. However, there were also widespread reports that underlying demand remained very subdued and cutbacks to client spending had acted as a continued drag on overall business activity. Government introduction of modified lockdown rules and tiered or local restrictions late 2020 to tackle new spikes in COVID-19 infection also added to uncertainty.

Initial studies[29] and reports[30] on the impact on the forestry and wood processing sectors have begun to highlight its scale. FAO's study[31] indicates that 68% of 150 global company, government agency, association and NGO respondents are extremely or very concerned by the impacts on their business or operations. Their chief concerns being the closure of sales outlets, lowering of staff salaries, permanent and temporary staff lay off and lost income. The trade associations in Gabon, Brazil and Malaysia have all reported that the depth, longevity and true impacts are still unknown and that a return to normality may take months or even years.

The furniture sector has been affected in several ways. Relative to manufacturing industry, forestry and

26. BBC (2020) Coronavirus: Chinese economy bounces back into growth. www.bbc.co.uk/news/business-53399999
27. ITTO (2020) *ITTO Tropical Timber Market Report*: Volume 24 Number 7, 1st–15th April 2020
28. IHS Markit / CIPS Flash UK Composite PMI® (2020). www.markiteconomics.com/Public/Home/PressRelease/31975bdd766349268b37c9856621dcea?s=1
29. Linhares-Juvenal, T. (2020) Covid-19 impacts on wood value chains. Forest Governance and Economics, Forestry Policy and Resources Division, Food and Agriculture Organization of the United Nations, FAO Sustainable Wood for a Sustainable World (SW4SW)
30. Annie Ting, Sarawak Timber Association, Malaysia; Ivan Tomaselli, STCP, Brasil; Francoise van de Ven, General Secretary of UFIGA, Gabon. Presentations at FAO Forest Week - June 24th 2020.
31. Linhares-Juvenal, T. (2020) Covid-19 impacts on wood value chains. *Op. Cit.*

Country	April	May	June	Note
Malaysia	-	-	105,000	Estimated figure based on FAO statistics where „50% of work force laid off“
Indonesia	280,000	-	-	
Myanmar	-	50,000	-	
India	-	90,000	-	Mid-estimate
Viet Nam	21,410	112,950	-	Estimated figure for May based on FAO statistics where "45% of factories were closed in April / May"
Brazil	-	260,000	-	
Gabon	-	-	16,000	Estimated figure based on FAO statistics where „50% of work force laid off“
Cameroon	-	--	11000	Estimated figure based on FAO statistics where „73% of work force laid off“
Totals	**301,410**	**512,950**	**132,000**	**3 month total: 946,360**

Table 10: Estimated number of workers laid off or made redundant due to temporary or permanent closure. *Data collated from multiple sources: ITTO Tropical Timber Market Report: Volume 24 Number 7, 1st–15th April 2020; Volume 24 Number 9, 1st–15th May 2020; Volume 24 Number 10, 16th – 31st May 2020; FAO Forestry Week seminars June 24 & 25 2020; FAO (2014) Contribution of the forestry sector to national economies, 1990-2011, by A. Lebedys and Y. Li. Forest Finance Working Paper FSFM/ACC/09. FAO, Rome.*

harvesting of timber has been little impacted in terms of lockdown restrictions. Harvesting has continued after a brief break in most producer countries.[32] Closure of mills and manufacturing plants started in China in February and March 2020 and then the phenomenon spread to other countries. It was too early at time of writing to assess the full impact of COVID-19 on EU furniture imports in 2020, but early signs were that the downturn would be at least as great as during the financial crises of 2008-2009. With trade fairs cancelled, showrooms closed and deliveries of larger items largely curtailed due to social distancing, the furniture industry in Europe has been particularly badly hit by current restrictions on trade and travel. Some brands which were already in a perilous position, such as Lombok and Laura Ashley, have collapsed.[33]

According to a study quoted by Statista on the projected impact of COVID-19 on retail sales in Europe, between March 9, 2020 and April 21, 2020, retailers were projected to face a loss of $4 billion due to disruptions caused by the current outbreak. Furniture was one sector expected to be hit hardest as consumers refrained from discretionary purchases in favour of stocking up on food and household supplies.

EU imports from Indonesia, which are dominated by outdoor furniture, tend to be strongest in the spring season. In contrast to Indonesia, imports from Viet Nam are dominated by interior furniture and tend to be strongest at the turn of the year, in time for the January sales, and to be very slow during the summer and early autumn. Vietnamese suppliers have been more fortunate because the lockdown in EU countries occurred after a large proportion of shipments to the EU in a typical year had already arrived. The import data[34] also shows that quite a lot of shipments from Viet Nam continued to arrive in the EU during April 2020. The full effects

'We're at a moment of real change in the world of work'

Figure 19: BBC website headline July 2020. Article discusses 65,000 bank employees working from home for a further six months.

of COVID-19 on EU imports from Viet Nam were only expected to become truly apparent later in 2020 when next season's products arrived.

The larger, better-resourced furniture retailers, particularly those with a large and highly evolved online presence, have been better placed to respond to the crisis. As the world's largest furniture retailer, Ikea's range of responses have been of a different order and scale than most of its competitors. It has refocused on its e-commerce platform[35] and reported a surge in demand for many products, particularly in the home-office category. Ikea is also trying to ensure the robustness of its supply base, offering loans and speeding up the payment of invoices to embattled suppliers. The impact of the downturn on smaller retailers and manufacturers worldwide will be profound, threatening their very survival.

For producers of furniture, the challenges are illustrated in a statement by the Viet Nam Timber and Forest Product Association (VTFPA) that the wood industry in the country faced a 'disaster' with many businesses left without orders until 2021 due to the COVID-19 pandemic. "*Many Vietnamese wood processing enterprises have had orders cancelled or suspended. Since March 2020, 80% of Vietnamese exporters to the US and EU markets had received cancellations or delays until the situation improves*".[36] The seasonal nature of many Vietnamese products and long lead times meant

32. Not all countries closed milling operations. For example, US mills were / are exempt from closure as they are considered a critical part of the national supply chain
33. ITTO (2020) B. *op. cit.*
34. ITTO (2020) D. I*TTO Tropical Timber Market Report*: Volume 24 Number 13, 1st–15th July 2020
35. ITTO (2020) D. *op. cit.*
36. Quoted within ITTO (2020) D. *op. cit.*

that orders placed in 2019 were supplied, but orders for 2021 remained uncertain. It was also reported[37] that the Indonesian furniture sector planned to set its sights on developing the domestic market in the future as a buffer against export market volatility.

Wood processing businesses are also reported to be facing sharp rises in input prices for wood and other materials while freight costs have increased $500–1,000 per container. Some Vietnamese furniture companies are now sitting on hundreds of containers of finished goods that cannot be shipped and must be stored in warehouses at considerable cost for an unknown length of time.

Unfortunately, this same situation now prevails in many furniture manufacturing regions where the survival of companies has become heavily dependent on the extent, efficiency and effectiveness of government intervention to help them ride out the storm.

Initial evidence indicates that the residential market is already adapting to the post-COVID-19 'new norm',[38] with home designers focused on emergent new work patterns. The home-office may prove to be a very rapidly growing market, as many office workers and their employers decide not to revert to previous patterns and stick with new ways of living and working adopted during the health crisis.[39] The change to greater home working is certainly enough to warrant business leaders[40] to foresee office districts becoming 'ghost towns', perhaps leading to major changes in the construction sector as commercial office space becomes less desirable. Lloyds Banking Group is reviewing its office space needs and working practices after concluding that most of its 65,000 staff have worked effectively from home during the crisis and others including NatWest, Fujitsu, Facebook, Twitter and HSBC have also said they plan to allow much more flexible working in future.

The furniture industry that eventually emerges from this crisis may be very different from that which entered it. As countries begin to come out of lockdown, typically manufacturing plants reopen, though local lockdowns have the potential to bring production to a halt. Port, customs and shipping delays have also been experienced. With varying lockdown conditions in different countries and different regions within certain countries, the logistics of shipping products has been impacted and in some cases extended periods have been needed for customs export or import clearance. The closure of retail stores has ensured that for extended periods (up to three months in some European countries) consumers have been restricted to online purchases. Similarly, disruption to construction sites and refits of hotels and offices has also severely impacted the market. With increased home office working, sales of office furniture are also likely to increase. What is apparent is that the whole supply chain, from forest to end consumer, is interdependent and that where one or more players are unable to trade or severely restricted, there are huge implications, both up and down stream. In terms of confidence for the future – opinions vary widely, ranging from those hoping for a quick bounce back to those facing a loss of customers or suppliers.

Producer country survey results

4

This section analyses the responses from the 15 associations interviewed in India, Indonesia and Viet Nam. The responses from two regional offices of the associations within Indonesia are treated as separate, bringing the total sample size to 17 responses.

General prospects for exports

The associations were asked "*how do your members view the market within these countries?*" and were presented with a range of EU and non-EU market countries.

Most associations were optimistic of market growth across all of the countries listed. The most notable responses concerned the prospects for Australia, Japan and the US, where few of the respondents foresaw a decline in exports and most saw prospects for growth. This contrasts with the main EU market countries, plus the UK and Switzerland, where several predicted a decline in exports. The EU markets identified with the greatest prospects for growth were Germany and the Netherlands.

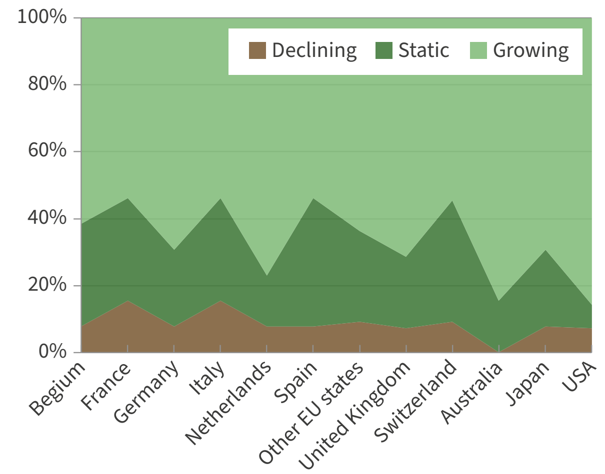

Figure 20: Responses to the question: How do your members view the market within these countries?
(n= percentage of overall responses in each category)

37. ITTO (2020) E ITTO *Tropical Timber Market Report*: Volume 24 Number 14, 16th – 31st July 2020
38. ITTO (2020) C ITTO *Tropical Timber Market Report*: May 1st -15th 2020
39. BBC (2020) Article: *Barclays boss: Big offices 'may be a thing of the past'*. Accessed 29th April 2020.
40. BBC (2020) Article: *Warnings of 'ghost towns' if staff do not return to the office*. Accessed August 27th 2020.

Producer comments on specific markets

The following section features producer association thoughts regarding some of the major export markets. The interviewees were asked for their opinions regarding export prospects over the next five years.

Indonesian exporter views
The US is generally considered the most important furniture export destination country and the market is developing well. Generally it is seen as offering more opportunities to develop over the next five years. The influence of the trade war between the US and China is perceived to have opened up opportunities for Indonesian products to replace products from China even though their prices are higher. Some Indonesian exporters have even found opportunities in China.

> *"Indonesia must improve manufacturing technology to make it more efficient and cheaper"*

The EU market is perceived as having unique consumer behaviour, especially in the outdoor furniture market. Unlike counterparts in other markets, European consumers are considered as most likely to change a product for fashion reasons rather than due to wear and tear – "*if the model is outdated, then they will look for a new model that is more interesting*". The demand for furniture combined with aluminum-type metals is increasing.

Australian importers are perceived to prefer outdoor and to a lesser extent indoor furniture. The distinctive feature of Australian importers is that they only buy furniture products "at very cheap prices", but the quality standard requirements are very complicated. Usually Indonesian furniture entrepreneurs "will export to Australia when other countries no longer need them", meaning that Australia is not a very attractive market.

Russia was noted as a growing market for Indonesian furniture exports. In recent years Russian buyers have begun participating in furniture exhibitions and conducting trade visits to Indonesia.

Indian exporter views
Interviewees noted that, after February 2020, the US has started to increase imports from India. For some the US is the largest furniture export market so they are increasing their efforts to sell more. They cited good economic conditions as the key driver. They also cited duty advantages – "The *US has increased import duty to 25% on Chinese furniture but furniture from India is duty free until now*".

> *"China is one of the biggest competitors of Indian handicraft products in world market. [We are] now having more opportunity from the US – China trade war"*

Interviewees reported that the Netherlands market has grown greatly in the last three years, a consequence of business consolidation into larger units. The German market was noted as having good economic conditions, while France was also seen as an important export destination, with good financial and economic conditions and customers willing to spend money on furniture.

The interviewees also perceived that the EU are net importers of furniture, and with the exception of Italy, there should be good prospects to export more furniture.

Australia is already a large market and is seen as a good prospect for export growth. With an economy perceived as growing and specialist markets (such as the tourism industry) are seen as of particular interest.

5 Relative competitiveness of VPA partners and selected others – producer perspectives

The interviews in India, Indonesia and Viet Nam examined the perception of relative competitiveness of the furniture industries in the VPA partner countries compared with those of non-EU producer countries and producers in the EU (*Figure 21*). Note that the sample is modest and not entirely representative of the overall trade between the EU, VPA countries, and others.

The perceptions of associations in the three countries 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, India and Eastern Europe?*

To visualize the responses, they were weighted with a value of 1–5, where 5 is considered "most competitive".

Based on the responses, the analysis calculated the average perception value for each country and region. The table above shows the five sets of criteria combined. China has the best overall perception followed by Viet Nam and these two countries are perceived as well ahead of competing nations. European, Indonesian and Malaysian producers were perceived at similar levels of overall performance. The lowest perceptions of competitiveness were for Thailand. China and Viet Nam are clearly perceived as the leaders in terms of overall competitiveness.

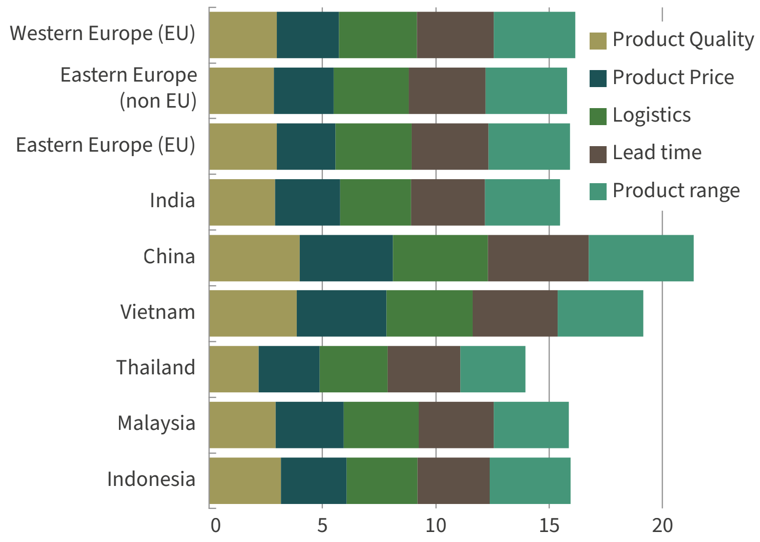

Figure 21: Overview of relative competitiveness between VPA partners and selected other countries – India, Indonesia and Viet Nam perspectives. *F or the purposes of this report following groupings of countries have been used. Western Europe (EU): Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Malta, Netherlands, Portugal, Spain, Sweden, United Kingdom. Eastern Europe (EU): Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania. Poland, Romania, Slovakia, Slovenia. Eastern Europe'(non-EU): Belarus, Bosnia Herzegovina, Moldova, Montenegro, North Macedonia, Russia, Serbia, Turkey, Ukraine*

Demand for `legal' and `sustainable' products

The interviewees were asked to characterise the level of demand for both legal and sustainable products for a range of different export countries.

Specifically, interviewees were asked:
How do your member's view the demands from these countries for LEGALITY / SUSTAINABILITY of the wood component?
Score 0 = Customers Never ask
Score 3 = Customers Sometimes ask
Score 5 = Customers Always ask

In general terms `legality' as an issue is perceived as more important to export customers than `sustainability'. This perhaps should be unsurprising given the presence of statutes in virtually all of the countries listed. For enquiries regarding legal status the UK, Germany, the US and the Netherlands were perceived as the most demanding. For questions regarding sustainability France, Spain and the US were marginally perceived as the most stringent, though the range of responses was very narrow.

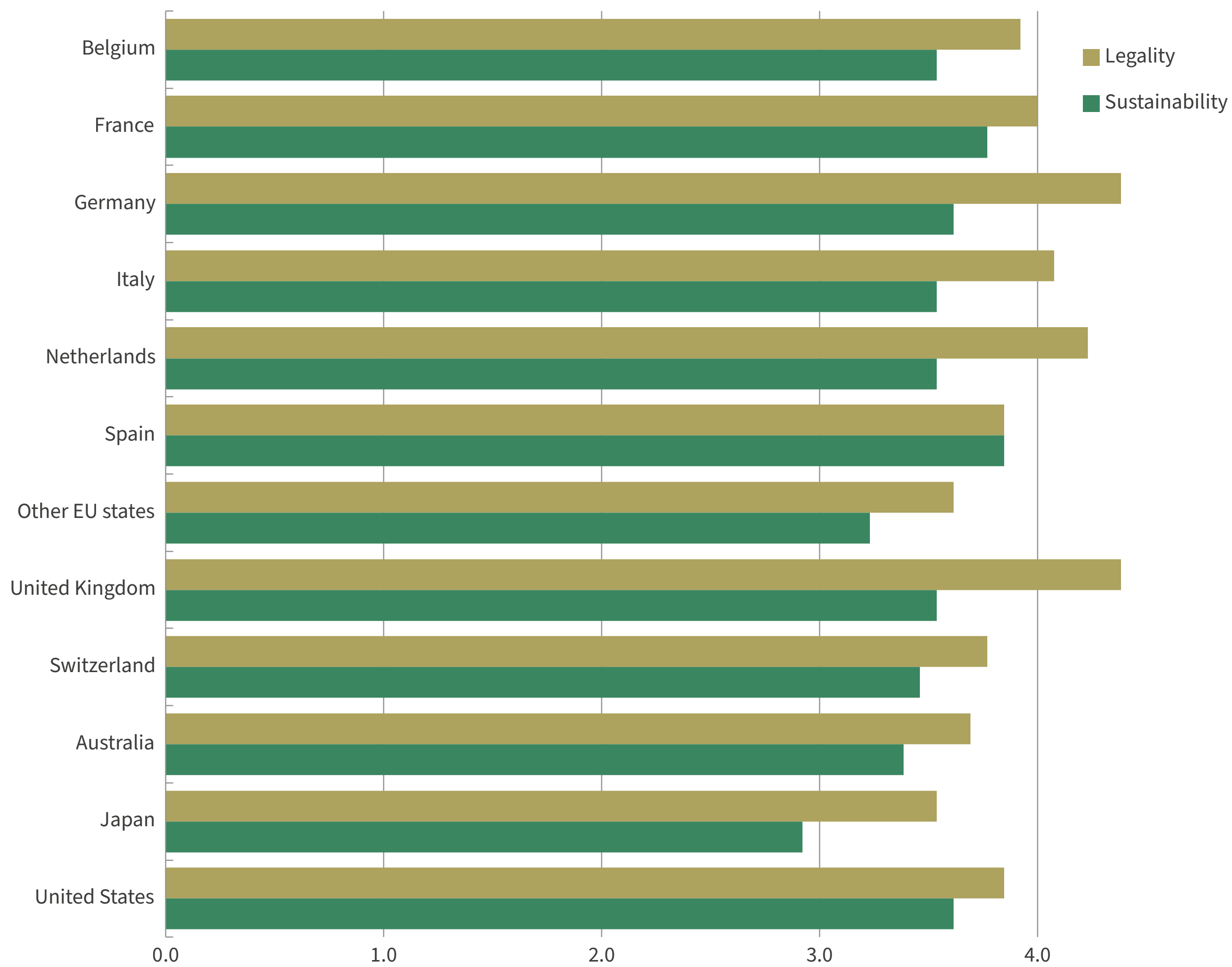

Figure 22: Perceptions of demand for 'legal' and 'sustainable' products

6 Relative competitiveness of VPA partners and selected others – EU and UK perspectives

The interviews in the EU and UK examined the perception of relative competitiveness of the furniture industries in the VPA partner countries compared with those of non-EU producer countries and producers in the EU (*Figure 14*). Note that the sample is modest and not entirely representative of the overall trade between the EU, VPA countries, and others.

The perceptions of 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, India and Eastern Europe? Please rate on a scale of 1 (very low) to 5 (very high).

To visualize the responses, they were weighted with a value of 1–5, where 5 is "most competitive".

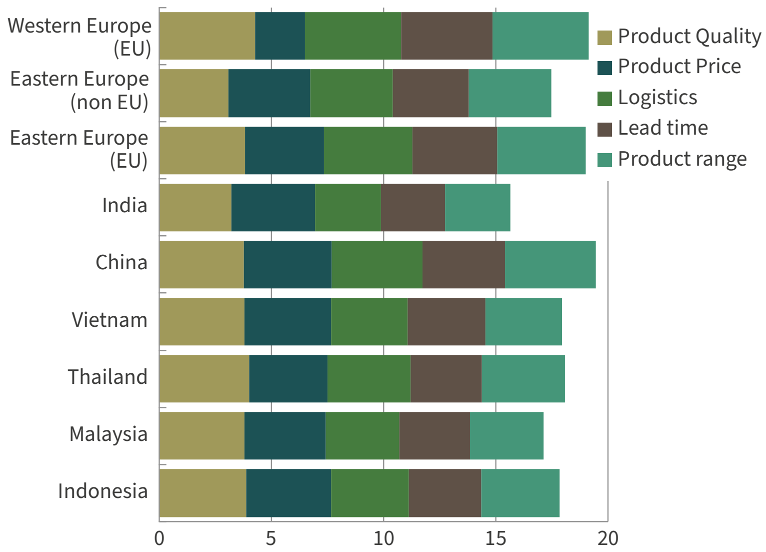

Figure 23: Overview of relative competitiveness between VPA partners and selected other countries – EU and UK perspectives.

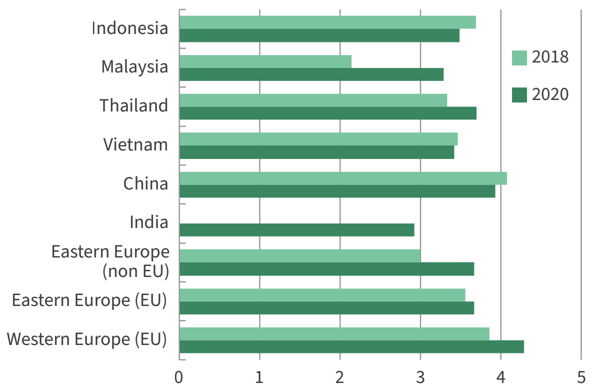

Figure 24: Perception of product range

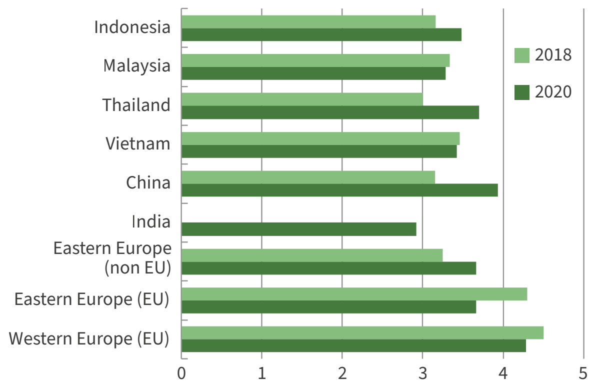

Figure 26: Perception of logistics

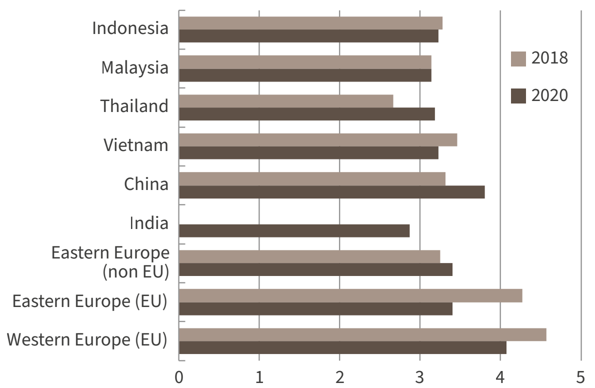

Figure 25: Perception of lead times

Based on the responses, the analysis calculated the average perception value for each country and region. The table above shows the five sets of criteria combined. China has the best overall perception followed by Eastern European EU member states and thirdly, western European member states. India clearly has the lowest perception across the five indicators.

The following sections break down perceptions by individual category.

Product range. Western and Eastern European EU countries were perceived to offer the broadest range of products. China was perceived to have the widest range outside of Western Europe. India was perceived to have the lowest.

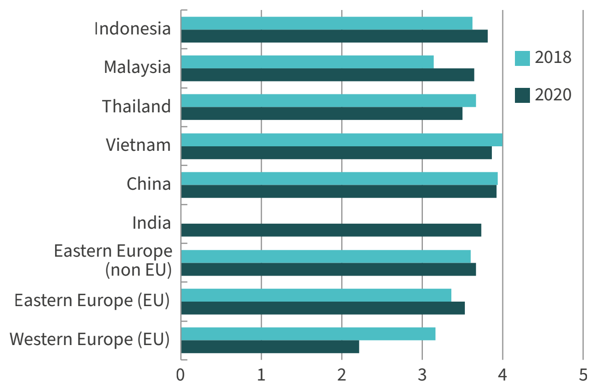

Figure 27: Perception on price

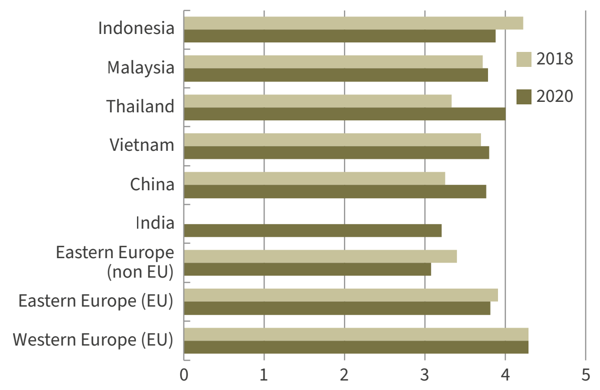

Figure 28: Perceptions of quality

Lead times. Western EU countries, followed by eastern EU countries, were perceived to have the shortest lead times, aided by the ease of communication and shorter travelling distances.

Logistics. Logistically, Western Europe, followed by China, was perceived to have the best logistics. Outside of Western Europe, China's logistics are perceived as better than all other countries or regions under consideration.

Price. Price perceptions are fairly uniform. China and Viet Nam were narrowly perceived to offer the lowest prices, followed closely by India and Indonesia and non-EU Eastern Europe. Western European EU countries were clearly perceived to be least-competitive on price.

Indonesia	*Note: All comments in italics are direct quotes.*
Price ✓ *Good quality–price relationship* ✓ *Suppliers provide a good quality product and we have the assurance and trust developed through long-standing relationships.* – *Indonesian furniture is generally our most expensive, mainly due to the highly intensive manufacturing process.* – *Demand has declined in recent years, due to a combination of cost and greater limitations on design than in Viet Nam, and if we enter an economic downturn their prices will count against them.*	
Lead time ✓ *Good flexibility in terms of production*	
Quality ✓ *Suppliers meet our quality and design specification consistently and are reliable.* ✓ *Suppliers provide a good quality product and we have the assurance and trust developed through long-standing relationships.* ✓ *High level of craftsmanship*	
Range of products offered ✓ *Availability of teak resources* ✓ *Growth in demand for rattan* ✓ *Good flexibility in terms of production*	
Other comments ✓ *Imports from Indonesia have been positively influenced by FLEGT.* ✓ *Flegt licence!* ✓ *We will keep buying providing SVLK certified wood remains available.* – *Albeit it was dropped, the Indonesian proposal to end obligatory provision of legality assurance on all timber exports this year was disappointing. The risk was immediately flagged to senior management. If it had gone ahead it would have had repercussions for our sourcing.*	
Viet Nam	
Quality ✓ *Vietnamese producers are quality oriented, we also have good, long-term relationships with suppliers*	
Price ✓ *Suppliers offer good prices, which allow us to compete with other companies.* ✓ *Our biggest suppliers are based in Viet Nam and, while their costs are also rising, they remain more competitive.* ✓ *It is highly likely we will be sourcing significant and increasing volumes of product from our Vietnamese suppliers.* ✓ *Pricing is competitive*	
Other comments – *We find Indonesian products a better fit with our brand and struggled with legality assurance/ compliance with EUTR requirements.* ✓ *They are adept at developing new product designs.* ✓ *They are well supported by their government.* ✓ *Viet Nam's progress through its VPA is encouraging.*	

Table 11: Country-specific comments by EU and UK based company interviewees

China	*Note: All comments in italics are direct quotes*
Quality ✓ *One must keep a close watch on production: there can be drastic drops in quality* ✓ *Competitive on quality* ✓ *Good quality products and finishing* ✓ *The quality of the wood in China is much better than in Indonesia* – *The quality of furniture from China is lower than Indonesian furniture and the prices are similar.*	
Price ✓ *Chinese suppliers remain competitive and reliable.* ✓ *Competitive prices*	
Product range ✓ *In general, we find that Chinese factories are well organised and developing a new range is a relatively straightforward process.*	
Lead times ✓ *Chinese suppliers have the ability to adapt quickly to the requirements of our design and purchasing teams* ✓ *Chinese suppliers are more flexible (than Indonesia)*	
Other comments – *Corruption is an issue* – *Customs controls are weak.* – *They import a lot of illegal wood* – *It is not as easy to get the relevant documentation through the Chinese supply chain.* – With respect to legality - *Chinese suppliers are still not a patch on manufacturers in Viet Nam and Indonesia* – *We continue to regard China as a medium to high risk country with regards legality and compliance with the requirements of the EUTR* – *The problem is finding the right supplier to comply with the EUTR* – *The only issues that we envisage may arise concern timber sourcing* – *Chinese supply chains are often complex and it isn't always easy to get them to provide the paperwork needed to satisfy the EUTR.*	
Malaysia	
Price ✓ *Pricing is very competitive.* ✓ *Good pricing.*	
Range of products offered ✓ *Manufacturers offer a good range of products, from traditional and retro to contemporary.* ✓ *They have the know-how.*	
Quality ✓ *They make good quality products,* ✓ *High level of craftsmanship.*	
Other comments ✓ *Suppliers meet our quality and performance standards and meet our legality and sustainability assurance requirements.* – *It would be a good move to get their VPA back on track, however.*	
India	
General comments ✓ *In terms of legality we trust it is done OK in India.* ✓ *In general, certificates are true.* ✓ *The Indian government is very bureaucratic. Everything has to be right and is double checked.* ✓ *It is difficult to cheat there.* ✓ *Unique products and finishing know how and skills of suppliers which we don't find in other supplier countries* ✓ *Local species that correspond to the design and quality standards of our products* ✓ *Indian suppliers are able to supply some specific components that are very difficult to find in other countries.* ✓ *They are even better than in China.* – *It is difficult to obtain reliable supply chain and traceability information.* – *Business is more difficult than in other countries. But they are getting better* – *It can be quite difficult. Factories often deviate from the designs and specification we have provided.* – *Obtaining timber sourcing paperwork can be hard work.* – *Indian suppliers are not, it seems, as accustomed as those in Indonesia and Viet Nam in the workings of the EU Timber Regulation and the legality documentation it requires for due diligence.*	

Table 11: Country-specific comments by EU & UK based company interviewees

Quality. Western European EU countries and Thailand (narrowly) came out on top in perceptions of product quality, followed by eastern European EU producers, Viet Nam, Indonesia and Malaysia. India followed by Eastern Europe (non-EU) was perceived to offer the lowest product quality.

Specific comments

Most interviewed companies offered general comments on each country. Several pointed out that their choice of supplier in a given country reflected the fact that the supplier was able to meet the company's specific criteria;

Figure 30: Hand crafting teak furniture in India. *Photo: George White*

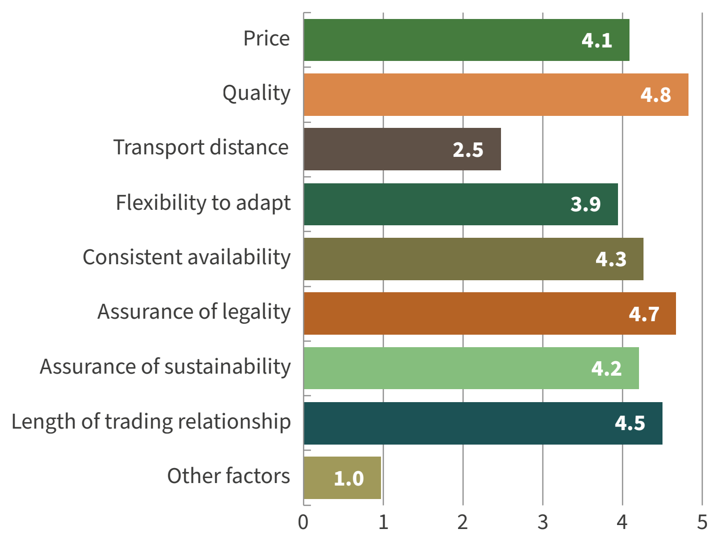

Figure 31: Purchasing decision priorities

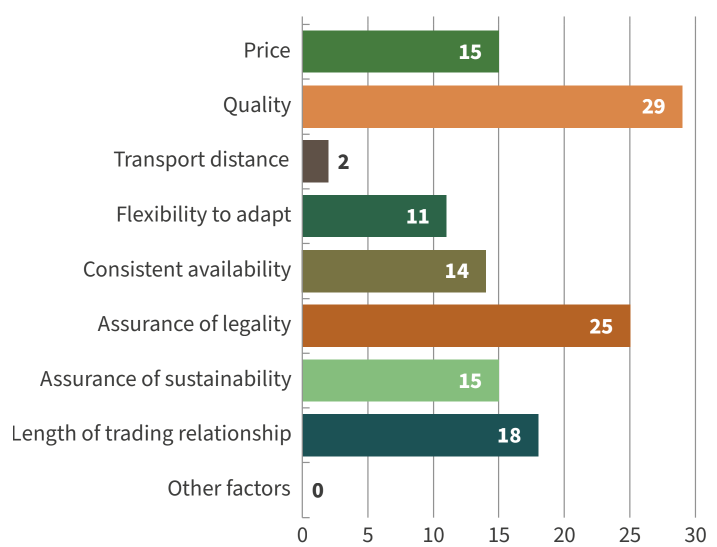

Figure 32: Purchasing decision making – award of highest priority level

the companies, therefore, were unable to make broad generalizations. This did not inhibit their general comments, however. The tables present a sample of comments from interviewees by source country.

Purchasing decisions

The interviewees were asked about their decision making priorities when purchasing furniture. They were asked to consider nine different attributes and to indicate the most and least relevant to them by putting them in order of relevance where 1 = lowest priority and 5 = highest priority.

The figure below shows the average ratings across the nine categories. Quality was narrowly the leading criteria, closely followed by assurance of legality of production. The length of the trading relationship was the third most prevalent consideration. Consistency of availability, assurance of sustainability, product price and flexibility to adapt to new designs were in a group. Transport distance was of lowest priority.

Consideration of how the rating points on the 1 to 5 scale were awarded shows that quality (with 29 maximum scores) and assurance of legality not only score the highest overall they are consistently the highest priority consideration.

EUTR compliance of imported furniture

EU and UK-based interviewees were asked if EUTR compliance of imported furniture is a major issue for them in terms of achieving compliance in their country. Half of those interviewed believed that it was a major issue.

Most companies interviewed were familiar with the EUTR and well aware of the need to practice due diligence. Several noted a high level of scrutiny from their Competent Authority. Overall most respondents believe that companies have become accustomed to the demands of the EUTR and have the due diligence systems in place. One note of caution concerned a perception of wide variation in compliance with the requirements of the EUTR within the furniture import sector across Europe.

The challenges of proving negligible risk

As the figure indicates there is quite a wide range of perception of degree of difficulty

"Our impression is that most of the companies that have been inspected by the competent authority have been found to meet due diligence requirements."

"For most companies it [EUTR} has now become embedded within their business management and administrative processes."

EU based furniture importer and distributor

of proving negligible risk[41] of illegality for furniture imports from across the selected countries and regions. China stands alone as the most difficult country to prove negligible risk, followed by non-EU countries in Eastern Europe. Viet Nam and India also have high levels of perception of difficulty to prove negligible risk. Indonesia has the lowest perception of difficulty of proving negligible risk of illegality from across all countries and regions within the comparison.

The main challenges of importing furniture with respect to EUTR compliance

The EU and UK interviewees were asked what they considered to be the main challenge of EUTR compliance. The overwhelming majority identified the issue of obtaining the required documents to satisfy their own due diligence systems as the primary issue. A small number identified the need to re-source materials (in some cases to Indonesia) and the associated business risks of using different materials or suppliers; whilst others identified the additional cost of compliance. Two respondents identified the difficulty of proving recycled wood to be negligible risk. Four respondents stated they had no major challenges and that they believed their due diligence systems to be functional and working well. Incidentally a number of respondents noted that a functioning Indonesian SVLK system has reduced their risk to negligible levels.

> *"The key is obtaining the right documentation and checking its veracity. We only source products that are compliant with the requirements of the EUTR. If the supplier cannot provide us with all the supply chain documents and evidence from forest source to shipping, then we will not entertain using them."*
> **EU based furniture importer and distributor**

Changes to purchasing behaviour

Nine percent of EU and UK interviewees stated they had stopped sourcing wood from certain countries to facilitate compliance with the EUTR. The named countries were Viet Nam, China and Myanmar. Twenty one percent of respondents had stopped purchasing from certain suppliers in order to facilitate compliance with their own due diligence systems. Twelve percent of respondents had stopped sourcing certain species as a response to their due diligence system. Named species include Bubinga, tropical wood in general, and temperate hardwood species from the Russian Far East (oak and ash). A quarter of respondents stated that FLEGT licensing influences their purchasing decisions and 11% are buying

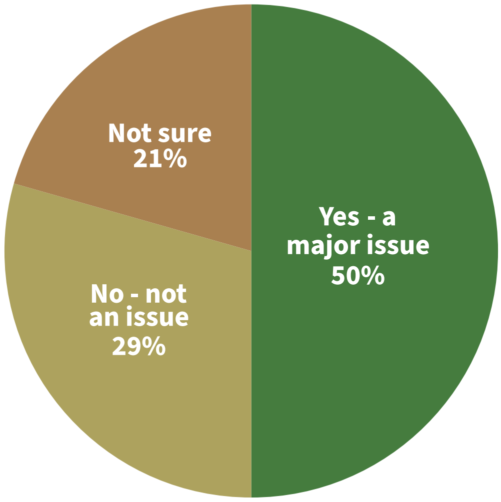

Figure 33: EUTR compliance for imported furniture

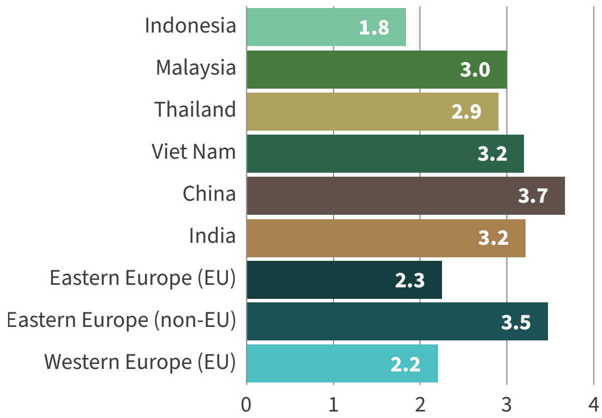

Figure 34: Perceived difficulty of proving negligible risk of illegality for furniture imports from selected countries / regions. *Note: Interviewees were asked to rate between 1 (lowest level of difficulty) & 5 (highest level of difficulty). Numbers indicate the average of those that gave a score.*

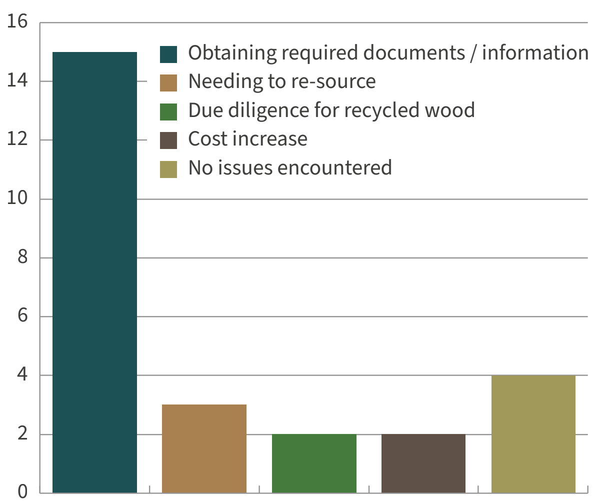

Figure 35: The main challenges of importing furniture with respect to EUTR compliance

41. "When exercising due diligence under the EUTR, the mitigation measures should aim at minimising to a negligible level any risk identified during the risk assessment. The higher the level of risk the more rigorous mitigation measures are needed. In cases where the available information for the estimation of the level of risk is assessed as not sufficient, the Operator has to conclude that the risk of illegal logging is not negligible. The Operator then has to either take mitigation measures, followed by a new risk assessment, or to refrain from placing this/these timber or timber-product(s) on the EU market." Source: Expert Group on the EU Timber Regulation and the Forest Law Enforcement, Governance and Trade (FLEGT) Regulation. Guidance document - Risk Mitigation measures.https://ec.europa.eu/environment/forests/pdf/Guidance%20-%20Risk%20mitigation%20measures.pdf

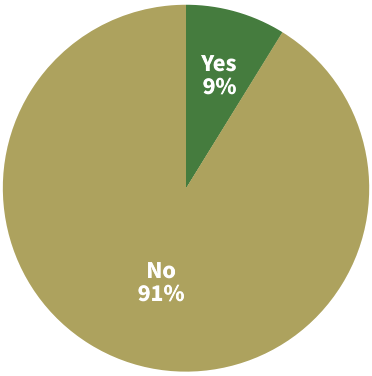

Figure 36: Have you stopped importing furniture from certain countries / regions due to EUTR due diligence?

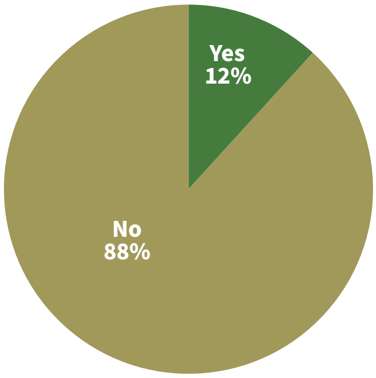

Figure 38: Have you stopped importing furniture containing certain wood species due to EUTR due diligence?

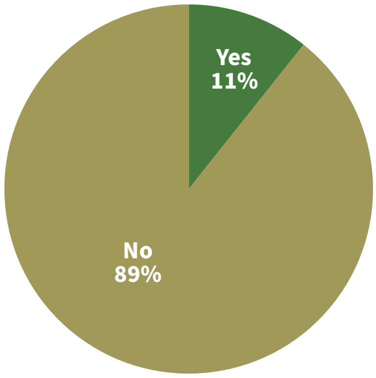

Figure 40: Are you importing more furniture from Indonesia than before the beginning of FLEGT licensing?

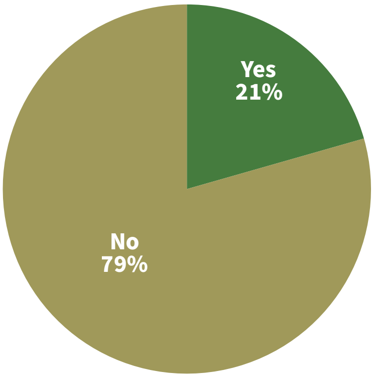

Figure 37: Have you dropped suppliers due to EUTR due diligence?

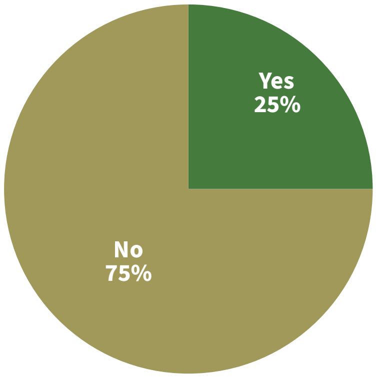

Figure 39: Does FLEGT licensing influence your purchasing decisions?

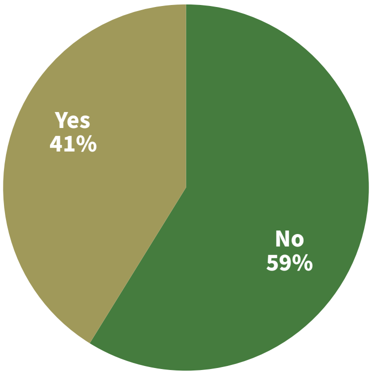

Figure 41: Have you been checked by the EUTR Competent Authority in your country?

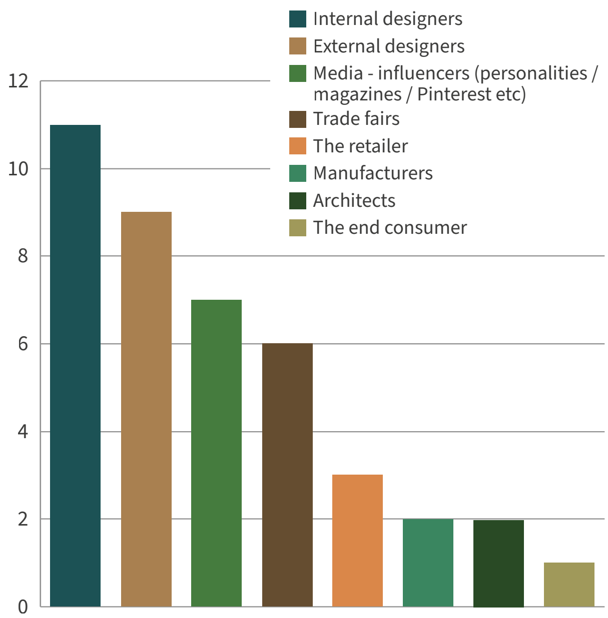

Figure 42: Chief influences on furniture fashion.
N= number of specific mentions

more product from Indonesia post the introduction of FLEGT licensing. A number of others indicated that they are not buying more product from Indonesia but see benefits in improved documentation and quicker customs clearance.

Forty one percent of interviewees stated that their company had been checked by the competent authority at some point in the past four years. In some cases the checks were annual and one indicted that they had been prosecuted for failing to practice due diligence.

Who sets the fashions for colours, finishes and choice of wood species?

The EU and UK based interviewees were asked about influences on designs and material choice. Designers, both in-house and external to the company, are considered to have the most influence on the choice of material. Other significant influences were identified as media influencers and trade fairs. Media influencers are a wide group that include magazines, social media, design websites and individual social media users.

The range of influences on material selection is very broad, though most of the companies interviewed believe that their own internal designers have most say in decisions.

7 Indonesia and Viet Nam association views on FLEGT

The associations in Indonesia and Viet Nam were asked a series of questions concerning understanding of the VPA process across a range of stakeholder groups. They were asked to rate their answers from `1 – little or no understanding' to '5 – detailed and knowledgeable understanding'.

A sample consisting of only two associations per country is very modest but the responses offer some insight.

Overall all interviewees perceive all groups of stakeholders to have a reasonable level of understanding of the VPA process. The Indonesian government agencies were perceived as having a very high level of understanding as were the association membership within both countries. Civil society organisations and overseas customers were perceived as having the lowest level of knowledge of the process.

The associations were asked as to their perceptions of the business value to their membership of the VPA process. They were asked to rate this on a scale of 1 (little or no value) to 5 (high value).

Overall the Vietnamese associations perceived greater business value from the process for their membership. They rated the value to existing markets highly and also saw good value in the potential to develop new export markets. The Indonesian respondents saw most value maintaining sales to existing markets.

The Indonesian associations believe that the EU member states still lack urgency on consistently prioritizing FLEGT. This causes the furniture industry to feel that FLEGT does not provide any benefit, *"it does not even increase the value of sales or expansion of new markets"*. Inconsistency between EU member states has also been noted in the implementation and enforcement of the EUTR. Some felt that providing documentation for compliance with EUTR due diligence systems was easier than becoming SVLK certified and exporting FLEGT-licensed timber. Comments included *"unfair and discourages efforts to implement FLEGT. The effort to implement SVLK requires a large amount of money."*

Interviewees also felt the fact that the product scope of VPAs varies between signatory countries was a disadvantage for Indonesia. The interviewees strongly believed that the EU has an obligation to promote Indonesian legal products to make them more accepted in the market. Their justification is that the impact of the VPA for their members, especially SMEs, is large as a result of increased compliance costs – *"the furniture industry as a downstream industry should not be burdened with legality*

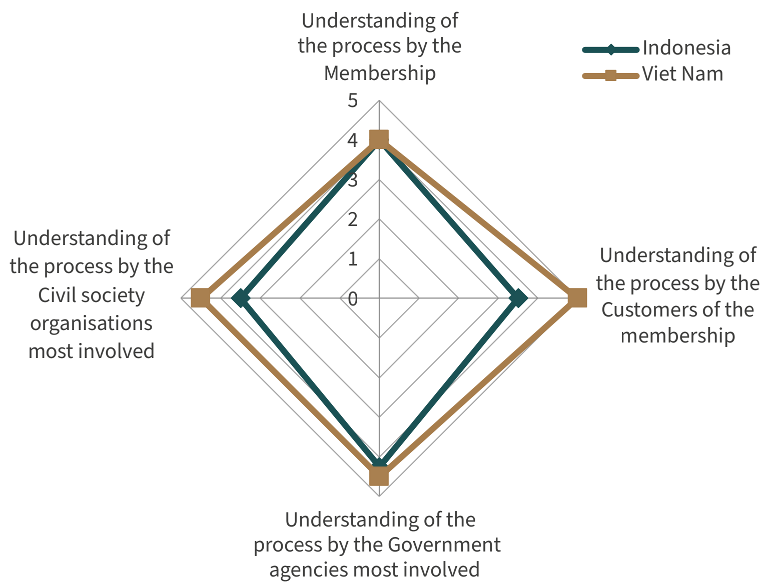

Figure 43: Perceptions of understanding of the VPA process.
(n= average response value)

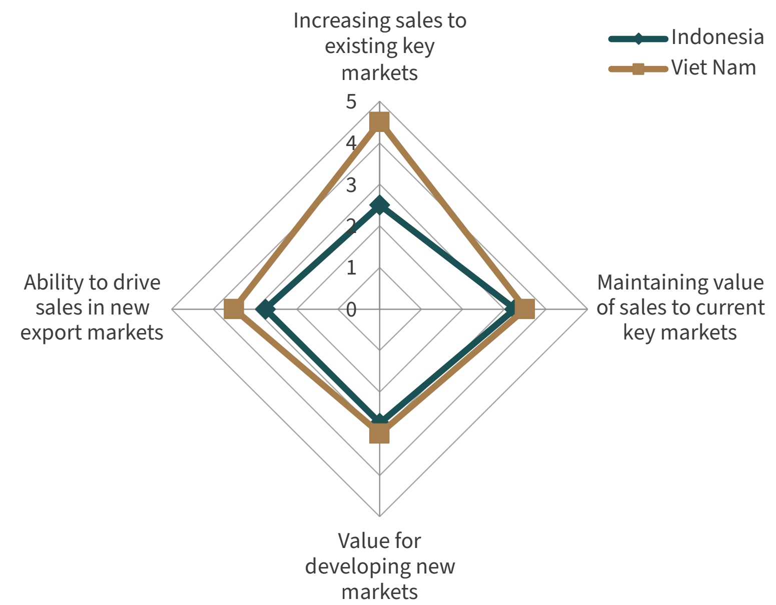

Figure 44: Perceptions of the business value of the VPA process.
(n= average response value)

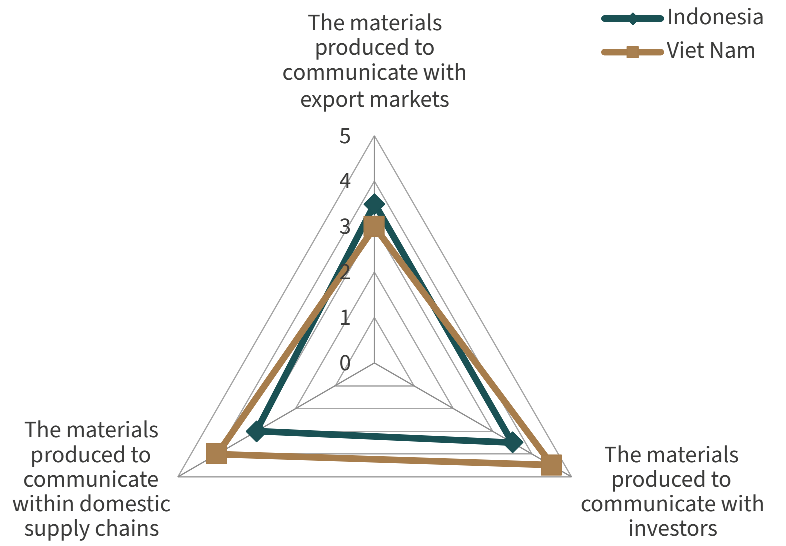

Figure 45: Perceptions of communications materials.
(n= average response value)

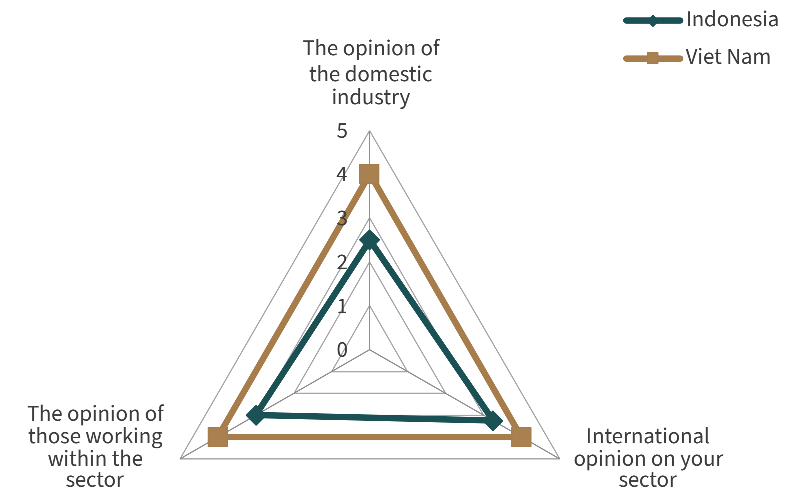

Figure 46: Perceptions on the effectiveness of promotion and communication of the VPA process. *(n= average response value)*

obligations for raw materials because in reality they use wood from legal sources or from community forests. SVLK should be implemented upstream as a timber legality guarantor."

The associations were asked as to their views on the communication of the VPA process. They were asked to rate on a scale of 1 (no available materials) to 5 (highly effective materials).

Overall the Vietnamese associations were more satisfied with the communications material produced, with information for investors and for use within their domestic industry the most high regarded.
The Indonesian responses indicated they are less impressed with the availability of materials across the three target audiences identified.

The associations were asked to assess the effectiveness of the promotion and communication of the VPA process. They were asked to rate on a scale of 1 (no change) to 5 (a more positive outlook).

Overall the Vietnamese respondents were far more satisfied with the effectiveness of communications materials for the VPA process. Indonesian respondents were only moderately satisfied with the efforts to communicate to international audiences and even less impressed with the efforts to communicate within the domestic industry and to change domestic opinion of their sector.

Discussion

The Indonesian producers have lived and worked with FLEGT licensing since 2016 and the wider VPA development for much longer. Whilst a small sample of views, the two associations represent a large number of exporters and their quotes indicate a large degree of dissatisfaction with the process. It is difficult to isolate the role of the VPA process and FLEGT licensing in Indonesia and the general trends in market development. It would be unwise to solely base the poor growth in furniture exports on extra bureaucracy required for compliance. Systemic issues handicap the development of furniture business in Indonesia which go far beyond any potential positive impacts to business. The Indonesian situation contrasts with the Vietnamese association views which are generally more optimistic, though as yet not based on the reality of shipping FLEGT-licensed products.

The EU and UK company responses should provide some reassurances to the Indonesia producer associations. It is clear that they do perceive a value in terms of proving negligible risk and perceive Indonesia as the easiest country from which to establish negligible risk – easier than even within the EU and Europe.

Legal compliance alone though is not the determining factor in EU or UK purchasing decisions. Other factors, such as quality, trust, price and a host of other factors form a complex equation that lies behind them. FLEGT licensing offers value and the results indicate recognition of this – but licensing alone is not a determining factor in sourcing of furniture for EU and UK furniture importers and distributors.

8 Outlook for VPA partner timber in European furniture markets

Future trends for wood-based furniture

The following are series of selected quotes from interviews in the EU & UK.

Positive outlooks

- *There will be increase in demand for solid wood furniture or wood veneer finishes.*
- *The trend towards solid wood furniture continues to develop combined with dark metal components.*
- *Teak elements in garden furniture will remain popular.*
- *There will be an increase in demand for certified sustainable timber.*
- *End consumers increasingly prefer solid wood furniture.*
- *Wood-based furniture will be more and more important.*
- *Wooden furniture will increase, especially indoor (dining tables, sideboards, beds).*
- *The health crisis has accelerated the trend to home working, which was already significant, and we've seen demand for home office furniture increasing markedly.*
- *We see wood products having increasing appeal with consumers, given growing preference for natural materials. But we will see increasing requests for product provenance information and data on biodiversity and other natural impacts.*
- *There is a growing demand for more quality products made from solid wood as opposed to a wood-based substrate and veneer. And while trends change and we respond to them, there is also still a healthy demand for traditionally designed furniture that we introduced 20 years ago.*
- *We see an increasingly strong future in the use of decorative veneers, both because of the increasing variety and quality and also because of their environmental credentials, in terms of making the wood resource go further.*
- *We see natural finishes and wild grains becoming more popular given consumers growing affinity for natural materials in the home generally, driven by environmental concerns around man-made materials and also the well-being benefits of wood around the living and workplace, which are also getting increasing media coverage and scientific backing.*

Negative outlooks

- *It is very difficult to project ourselves in the current business climate.*
- *Wood will be replaced (in some cases) by PVC.*

VPA partner wood furniture outlook

Interviews in the EU and UK revealed a mixed view of the prospects for wood from VPA partner countries.

> *"There is a positive outlook for tropical wood both for its aesthetic qualities indoors and its resistance for outdoor furniture."*

Positive outlooks centred on the aesthetic and physical properties of tropical wood species. Contrary to producer views regarding disposable furniture products, several respondents noted a move away from *"the throw-away society of the past"*.

> *"We are not sure how aware end consumers, or retailers, are of the EUTR regulation – probably not very, if at all – but there is increasing environmental awareness more generally and, while it may not be the prime factor in their buying decisions, more can be influenced by assurances that products have not caused adverse environmental impacts."*

Several respondents noted that compliance with legality and sustainability requirements will become stricter and put a significant strain on the market, though they believe that the sector is increasingly aware of these issues and becoming more accustomed to providing the necessary documentation and supply chain scrutiny control.

Several respondents noted that ultimately the industry is market-led and that, as long as there is demand for furniture made from uniquely beautiful and high performance wood species, then there will be companies supplying it.

Several respondents noted that architects and designers prefer minimalist interior design and that, within this type of design, dark-coloured tropical timber has a very marginal role, with trends leading to the use of more metal (steel/aluminium) in furniture collections. Some respondents noted that the impact of shipping products is set to become an increasingly important consideration. If that becomes less viable on a cost, environmental footprint or reputational basis, there will be a trend back to local sourcing and on-shoring of production.

Some respondents gave a very dismal prognosis for tropical wood in EU markets, typified by: *"no one wants tropical timber anymore; not the importer, not the trader, not the client. It is just too risky"*.

Discussion

Based upon the responses to the questions regarding the outlook for VPA partner timber use in furniture, it appears that viewpoints range from a glass half full and a glass half empty. Many see pressures continuing to grow and numerous 'safer' alternative materials. Others believe their ability to re-source and provide customer reassurance on environmental credentials,plus the innate performance characteristics and aesthetics of the material can underpin the future of tropical wood in the furniture market.

Recommendations for optimizing the market benefits of FLEGT licensing

9

The study's findings give rise to the following recommendations for optimizing the benefits of FLEGT licensing in the marketplace.

- **Demonstrate the business benefits of the FLEGT licensing scheme in Indonesia to build trust**. Indonesian furniture producers clearly see the licensing process as a bureaucratic hurdle rather than as business opportunity. The current view is that it is not cost effective and any formerly promised market advantages are not tangible.

- **Complete VPA implementation in other VPA countries as quickly as possible**. The 2018 baseline study identified a clear message from the European furniture sector that FLEGT-licensed timber and wood products from a single country are insufficient. This study reinforces the view that EU-based companies will not re-source to Indonesia purely due to there being licensed material. Purchasing decisions are complex and, whilst easier compliance with the EUTR is a factor, it is not sufficiently important in its own right to drive a switch.

- **Encourage those companies not yet using FLEGT-licensed timber to do so**. Awareness of EUTR varies among EU-based furniture businesses. Some potential buyers of FLEGT-licensed timber are almost certainly unaware of it, what it stands for and what the benefits are for their businesses. Increased awareness at the business-to-business level would add value to the "brand" of FLEGT-licensed timber.

Conclusions

10

The acceptance and use of FLEGT-licensed timber in the furniture sector is tied to the overall acceptance and use of tropical timber. Fashions in design, colour and texture dictate what will sell and what is therefore offered for sale. Furniture made from tropical timber 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 there is strong support for the use of wood in general; moreover, some interviewees were very supportive of tropical timber for certain applications. Despite this, many of the forces at play in decisions on wood use are beyond the control of single actors, and there is an overall declining trend in the use of tropical timber in the European market.

The EU and UK interviews revealed a generally positive outlook towards FLEGT-licensed timber and a reasonable or good level of understanding of FLEGT licensing; overall strong recognition of the business benefits of EUTR compliance; and a desire for more choice of countries offering FLEGT-licensed timber. EUTR compliance has impacted sourcing decisions and there is evidence that importers do value FLEGT Licences from Indonesia as a means of assuring negligible risk. The Indonesian, Indian and Vietnamese interviews revealed that producers view view the Chinese and Vietnamese industries as the most competitive operators. As to FLEGT licensing and the VPA process, Indonesian views tended to be muted and perhaps best described as underwhelmed by the process. Vietnamese associations remain positive towards the process and its future impact.

From the perspective of the furniture industry, a successful FLEGT licensing scheme would involve multiple countries offering FLEGT-licensed timber and wood products and strong awareness within EU and UK Competent Authorities and at a business-to-business level. Compared to the 2018 study, this study indicates increased levels of awareness and support for FLEGT licensing from the EU and UK markets. Unfortunately, the furniture producers in Indonesia clearly are not feeling any benefit from this. The Vietnamese viewpoint is more hopeful, but lessons will need to be learned if this outlook is to remain post a functioning licensing system.

The rational market that existed in 2019 has become the COVID-19 market of 2020 and beyond. At the time of writing the impact on the industry and global consumers was still profound, moreso than the economic crisis of 2008. How markets evolve post 2020 will pose major challenges for some, but provide huge opportunities for others.

IMM

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