CBI Trends:

Timber in Europe
**Introduction**

The European tropical timber and timber product market is now slowly recovering from the economic instability that started in 2008. One of the most important developments has been the more stringent implementation of the European Timber Regulation (EUTR). As a consequence, the European market has more stringent requirements that are increasingly difficult for exporters in developing countries to meet. Accordingly, exporters able to adjust their products by means of certification and innovation will improve their position in the market and enjoy the benefits of this large market.

**Figure 1: the 5 drivers of change and the major trends identified for the timber sector**

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**Social market drivers**

**Workforce demographics stimulate outsourcing:**

An ageing European population, declining numbers of students enrolling in technical courses and increased price competition are leading to aggregation and a gradual decline in the number of timber processors in many Western European countries. Production is slowly moving to Eastern European and developing countries as a result. This has led to increasing knowledge, capacity and increased share of value-added timber products coming from these regions. In line with this trend, African countries are working towards promoting exports of value-added products and they are consequently banning exports of logs which have no or low value addition.

**Tip:**
- Consider working with European processors. They are looking for ways to outsource their production. Most EU importers are aware of, or see the need for, outsourcing and most are looking for their own channels and building up a network to put this into effect when required (Source: feedback from 17 importers during meetings and online questionnaire 2015).

**Consumers slowly return to construction:**

The period of economic recession took the European construction market into a downturn, since fewer parties would construct new homes. Nevertheless, the market for renovations remained steady, albeit slightly affected by the recession. Currently, and with the slow economic recovery on the way, the trends in the construction and renovation industry are changing. Despite new construction activity remaining low and fewer people moving house, residential construction is expected to grow by 2.0% in 2016 (Euroconstruct, 2015). On the other hand, the renovation and maintenance sector, which has been performing better, is expected to grow by only 1.2% in the same period (UEPG 2015). Therefore, the trend is slowly reversing, showing that consumer confidence towards the future developments of the market is positive. The
reverse trend in consumer confidence is going to affect the construction market significantly, resulting in increased demand for construction products, such as Floors, Decking, Mouldings and Doors.

**Tip:**

- Demand for tropical timber has been falling over the past few years as a result of the economic recession and the slow growth of the construction sector, but as mentioned above there are signs that the upturn has begun. The current timber shortages can create interesting opportunities for small and medium-sized enterprises to tap into the growing demand.

**Consumer awareness of deforestation and climate change**

Sustainability is high on the consumer agenda and hence also on that of governmental agencies, timber trade federations and big retailers in most European countries (especially in Northern and Western Europe) that are big importers of tropical timber – in particular the UK, the Netherlands, Belgium, Denmark, France and Germany. This topic is especially important for producers of tropical timber doors, garden furniture, decking and door & window frames.

All EU importers realise that consumers are well aware of the importance of climate change, deforestation, illegal logging and sustainable forestry. This awareness will only become stronger in the years to come. Most importers see FSC (the Forest Stewardship Council) as the answer to consumer concerns (Source: feedback from 17 importers during meetings and online questionnaire 2015).

**Tips:**

- For suppliers of certified tropical timber instead of conventional tropical timber; consider targeting buyers that have a Chain-of-Custody (CoC) certificate.
- You are strongly advised to look for buyers willing to pay premiums for certified products. Target those buyers who are committed to sustainability. You can find them on the FSC Global Marketplace website.

**Changing consumer preferences**

The use of tropical timber for some products like flooring and doors depends on consumer preferences and fashion trends, particularly with regards to the appearance of the product. Fashion can change very quickly, and vary from one EU country to another. For example, tropical timber is not considered fashionable in Eastern Europe, and it is only used in limited applications such as doors and window frames. Interest in tropical timber in the Baltic countries does not go beyond importing it for further processing and then exporting it to other countries. Fashion in Scandinavia is currently moving away from tropical timber towards native species that are more popular in terms of colour and fit in better with present-day fashion trends. Many markets such as flooring and doors where tropical timber was used until recently for its aesthetic appeal are now moving towards lighter colours such as oak. The substitution trend is also driven by the fact that certain tropical species such as teak, bangkirai and merbau are in limited supply, while other tropical alternatives such as Ipe are available.

**Tips:**

- Tropical timber has various applications and its successful promotion requires creativity and innovation. Try to add value to your product before exporting it. This will benefit both you and your country’s image in the timber sector.
- To understand European trends, talk to both the buyer’s purchase manager and sales manager. They have a better idea of what is happening in their market and are able to help with product development.
- To find out more about product trends refer to CBI’s timber product factsheets in the CBI Market Intelligence database.

**Technological market drivers**

**Substitution by soft and temperate wood species**

The increased availability of thermally and chemically treated softwoods and temperate hardwood means that tropical timber is increasingly being substituted for furniture, joinery and garden products like decking. This benefits European producers, especially those from Eastern and Northern European member states. These countries are often perceived to be better trading partners than developing countries (in terms of distance and complying with agreed delivery times). As a result, the market for some tropical timber products such as decking will not grow much in the coming years. Nonetheless,
tropical timber in general will remain in demand in certain markets due to its strength, quality and durability. These characteristics are especially appreciated for products used outdoors (e.g. waterworks).

Substitution with non-timber alternatives

One of the consequences of more stringent requirements on the use of tropical timber is innovation, in particular, use of alternatives to natural timber. Companies do not like to make drastic business changes such as switching suppliers and consolidating their value chains, and use of timber alternatives may offer a solution in some such cases. Most EU importers know that there is a trend towards the use of substitutes, but are not actively planning to replace their own products and raw material supplies. Small contractors, project developers and architects are the main market players making use of substitution at the moment (Source: feedback from 17 importers during meetings and online questionnaire 2015). Thermally modified wood (TMW), for example, is one alternative to chemical treatment that offers many advantages. Thermal treatment makes wood more resistant to fungi and other microorganisms, and also more durable and less likely to warp. Aluminium and PVC window frames and frameless glazing systems are increasingly being used in the door and window-frame market. According to a report from Forest Industries Intelligence Ltd, plastic materials in particular will be a powerful competitor for timber in doors and window frames. Wood plastic composite (WPC) is another growing market as well. It is mainly used as a substitute for garden timber and in decking, fences and frames. Glued laminated timber (Glulam) is likewise gaining popularity, mostly for construction work but also in mouldings (where it tends to be used in finger-joint form). Making finger-jointed glulam products is good for your raw material efficiency, as it often allows you to use shorter pieces.

In France, companies like Neolife and Silvadeck create composites for terraces and shelves; in Belgium, Beologic offers wood pellet polymers; in Germany, Megawood makes composite garden fences while Staedtler produces composite pencils alongside traditional wood pencils and a whole range of other products. Ikea in Sweden is producing composite chairs and armchairs, Lunacomp makes composite corrugated panels, and UPM-ForMi makes components for Puustelli kitchens.

Tips:
- The threat of substitution can be partly countered by showing that you are a reliable trading partner. Live up to your promises on such matters as order volume and delivery time. Select a few reliable importers and stick to them. Long-term relationships are crucial.

Traceability systems are gaining importance

The growing demand for transparency in the timber supply chain is leading to an increasing use of track and trace. An interesting development in this field is the FSC’s OCP, which provides timely information about FSC products and the companies that produce them. Data from this digital tool make it possible to check the authenticity of FSC certification claims. Other tracking technologies such as barcodes and advanced traceability software, radio-frequency identification (RFID) chips and DNA or isotope sampling are forecast to play an important role in the future. These technologies will be useful for forest owners and operators in the supply chain. They are still expensive to implement and cannot yet be used in complex supply chains with different timber species and suppliers. Nonetheless, electronic tracking is expected to increase in the future and replace paper-based systems. Most tropical countries with significant forestry industries are expected to implement their own national tracking systems. A major driver is the enactment of the EU Timber Regulation, which obliges many countries to set up a robust track and trace system.

Tip:
- To read more about the development of tracking technologies, refer to the ITTO publication on this topic. For the moment, timber exporters in developing countries should be aware that this technology is on the horizon but wait for the system to mature (and costs to go down) before considering implementation.

More efficient processing, value added and innovation

To increase efficiency, there is a move towards processing techniques that enable the use of timber waste that would otherwise be discarded (e.g. finger jointing, lamination). Furthermore, processing techniques are advancing, working towards reducing waste timber volume. In addition, it is possible to adapt product design or produce other items made from smaller pieces (e.g. for crates used in the packaging industry). Waste can also be used for energy production (e.g. fire wood, wood pellets, chips, charcoal).

Most EU importers state that innovation and re-thinking your product line will be key to staying in the market or conquering new markets. Think about adding value to your current products, identifying gaps in the market, using more attractive packaging and offering better services (Source: feedback from 17 importers during meetings and online...
questionnaire 2015). Importers are also looking for ways of standing out from the competition, which may help you to find customers.

**Tip:**
- Find uses for all your timber waste to boost efficiency. Consider investing in lamination lines and finger joint lamination to ensure a more efficient use of timber. Also make better use of leftovers and waste by adapting product design, developing new products and selling to local markets. Consider options for heat and electricity generation with use of organic residues e.g. in your kilns or make briquettes or pellets. Technologies that can be used to process leftovers are not so expensive nowadays.

**Economic market drivers**

**The economy is in recovery**

GDP in the EU is expected to grow by 1.7% in 2015 and by 2.1% in 2016 (EU Forecast 2015). A recovery in the economy of Europe will have a significant impact on the European market for timber and timber products, since the construction sector will be positively affected. The consumer sector will also be positively affected, since estimations of consumer confidence are positive for the next year. Overall, the European tropical timber and timber product market is expected to grow over the next few years in value and perhaps in volume, compared with current levels of demand (2.0 million m$^3$ consumed in 2014, see CBI Factsheet on Trade Statistics). On the other hand, from the perspective of the European market, the tropical timber market still poses several disadvantages, such as price fluctuations (exchange rate) and lack of continuous supply. Another disadvantage regarding producing countries is the lack of accessibility to finance.

**European markets are affected differently:**

The economic crisis has different implications in different EU countries. For example, the UK market for construction has not suffered significantly, making it possible for more people to buy homes and to develop the sector for tropical timber. In addition, the country is one of the most sensitive markets with respect to sustainability. Countries in the South of Europe such as Spain, Portugal and Italy were more severely affected and need more time to recover.

**Tips:**
- For more information on expected growth, refer to the document CBI Trade Statistics for Tropical Timber.
- Europe is attractive in terms of the size of its market and the signs of growth make it a more promising sector than in the past five years. However, before exporting to this market, be sure you are successful in your own market. This reduces risks and provides experience needed for the European market.
- Look at your own regional markets that are growing fast. Be aware, however, that sustainability generally has a lower priority than in Europe. It can therefore be harder to find buyers willing to pay price premiums for certified sustainable products.
- Look at existing timber products in the European market and consider how you can reduce the price of the species you use and improve its technical specifications and/or quality.

**The value of the Euro is on the rise**

The Euro has appreciated against the US Dollar, from a low of 0.72 Euro/US Dollar in April 2014 to a high of 0.88 in October 2015. This has influenced prices and price competitiveness. A stronger Euro means that EU buyers pay relatively lower prices for timber from many Asian and other countries that maintain timber prices in US Dollars or have currencies linked to the US Dollar. Many West African countries trade in Euros, so variation in the value of the Euro does not affect price levels in this case. But a weaker Euro makes Asian timber more expensive for EU buyers, who will tend to shift their trade to West Africa. A weak Euro will raise the value of most imports, since the Euro price of imported products will tend to be higher.

**Tip:**
- Monitor important developments to understand market dynamics: GDP forecast (EU), construction forecast (Euroconstruct), currency developments (Oanda).

**Rise of demand in emerging economies:**

The fast development of emerging economies is fuelling demand for tropical timber and timber products. In recent years the BRIC-countries (Brazil, Russia, India and China) have developed rapidly (although there was a slowdown in 2015; it
remains to be seen whether this will continue in 2016). In that respect, it is clear that South–South trade is becoming increasingly important, which makes suppliers of tropical timber less dependent on European buyers. In the long-term, the global population will keep rising and the growing importance of other cash crops (like soy, palm oil or rubber) will put more pressure on tropical forests (due to the conversion of forests into agricultural land). This means that tropical timber will become scarcer and European buyers will have more difficulty finding suppliers. As a result, they will look for ways to secure supply through establishing long-lasting relationships. Another implication is that they will prefer to do business with those that can provide them with supply guarantees. Suppliers with their own concessions are therefore preferred.

**Tips:**
- With buyers trying to secure supply, do your best to avoid being cut out of the supply chain. Work together with forest owners to find ways to complement each other and continue to be a valuable partner.
- If you wish to establish long-lasting relationships, sound contract management and effective logistics are crucial.

**Environmental market drivers**

**Sustainable sourcing may be under pressure**

Compliance with the EUTR is the top priority for most EU importers. Maintaining FSC/PEFC certification is an important objective too, but comes in second place. Most importers see FSC certification as an effective response to consumer demands for sustainability, but state that it is expensive and that the market hardly pays for it. The frequently heard comment “legal is good enough” might become reality if sustainable timber with an FSC certificate is not strongly promoted in the future (Source: feedback from 17 importers during meetings and online questionnaire 2015). Nevertheless governments, trade associations, importers and retailers have drafted many policies and taken many initiatives to promote the sourcing of sustainable timber. FSC is still the most widely recognised certification scheme in Europe, and most certified tropical forests get their certificate from FSC.

**Pressure on price premiums**

The price premiums for certified tropical timber and timber products are coming under pressure as certification becomes “business as usual”. It used to be common for buyers to pay a 5-30% premium (depending on species, scarcity, quality, country, segment and buyer) for certified timber. Typical premiums have now fallen to between 1% and 6%. Some importers foresee a drop in the sales of FSC timber in 2016-2017 as buyers judge that legal (EUTR) is good enough. This puts the margins for FSC certification under even greater pressure (Source: feedback from 17 importers during meetings and online questionnaire 2015).

**Tips:**
- Take certification one step at a time. Start with legally verified wood, then controlled wood, then sustainable certification.
- Find out what is necessary for CoC-certification. The website of the Global Forest & Trade Network (GFTN) provides a roadmap to certification.
- If you are a small supplier, it is possible to share costs with others by applying for group certification. More information on this topic is provided by FSC International and PEFC.
- To find European or local buyers (e.g. importers, processors and retailers) and suppliers of certified timber and timber products go to FSC Global Marketplace and the PEFC database. An overview of certified concessions is provided by GFTN. Knowing who certified forest owners are can provide opportunities to cut out possible links between you and forest owners.

**Lesser-known species in demand**

An important part of sustainable forest management schemes is the promotion of lesser-known species. Scarcity of well-know/popular tropical timber species (e.g. bangkirai, teak, merbau) offers opportunities for new species. These often have the same product specifications but might look different. Lesser-known timber species that are available in large supply have the greatest potential. These timber species are often tested and introduced by larger European players before they are accepted by the mainstream market. However, marketing lesser-known species is not popular in every country in the EU. For example, non-species-sensitive products are popular in Dutch DIY and construction market segments (the product label simply states “tropical hardwood”). On the other hand, different species do play an important role on the German timber market, where individual species names are given on product labels.
Fair trade timber new to the market:

FSC in collaboration with Fairtrade International is looking for ways to differentiate products from communities and smallholders in the marketplace, and to certify timber and ecosystem services. It is currently testing dual certification: FSC-Fairtrade and Ecosystem Services certification. In addition to sustainable sourcing, this would ensure a fair price for producers and small forest owners. It might prove to be a way to cater for niche markets and address issues such as carbon capture provided by forests, as part of global moves to reduce emissions from deforestation and degradation (REDD) within the sustainable timber market.

Tip:
- For more information go to the website of FSC International.

Stricter energy saving requirements:

The European Directive on the energy performance of buildings prescribes increasingly strict energy efficiency requirements for newly constructed buildings. Many Northern and Western European countries are implementing green building initiatives (GBIs). A widely recognised European example is the Building Research Establishment Environmental Assessment Method (BREEAM). This legislation is expected to have a significant impact on the use of tropical timber in construction such as doors, window frames and cladding). On one hand, solid tropical timber has a smaller CO₂-footprint than alternatives (e.g. steel, aluminium or plastics). On the other hand, solid tropical timber is generally less energy efficient when used (tropical timber is dense and therefore a good conductor leading to energy loss). It is therefore likely there will be a shift from using solid tropical timber to more engineered products (e.g. with thermal breaks) and tropical timber used in combination with other materials.

Political market drivers

EUTR is only partly meeting expectations

The EU Timber Regulation (EUTR) came into force in March 2013. This law prohibits illegally harvested timber from all countries from entering the European market and has been specifically developed to protect tropical forests. EU buyers that place timber or timber products on the market for the first time have to show due diligence, both in framework contracts and in one-off arrangements for each container you send. In addition, the EUTR forces operators to trace their products back to the source. This means that suppliers of legal timber who cannot produce well-documented guarantees of legality will be denied access to the EU market. The easiest way to prove compliance is through a voluntary legality verification system or regular sustainable forest management certification schemes like FSC.

The EUTR is part of the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. This plan also includes the voluntary partnership agreements (VPAs), which are voluntary trade agreements between the EU and timber exporting countries. A country that fully implements a national control scheme receives an EU FLEGT license and all timber exported from that country is considered legal. Note, however, that FLEGT does not prove sustainability, nor does it address deforestation; only legality.

Current state of affairs:

The implementation of the EUTR is still in its infancy. Many EU member states still do not monitor illegal timber trading adequately. On the supply side, at the time of writing (Sept 2015) 9 developing countries are in the final implementation
stage and another 9 countries are still in the negotiation phase. None of them has reached the FLEGT licensing stage as yet (check the website of the European Forest Institute EU-EFI for the current status). As a result, no FLEGT-licensed timber has yet entered the EU market since the implementation of the EUTR. There are reports that Indonesia and Ghana will have completely implemented their FLEGT legality assurance system by the end of 2015, despite several delays so far. Regardless of these shortcomings, most large professional buyers already comply with EUTR requirements and are asking their suppliers to prove the legal origin of any timber they deliver. Compliance is especially common in Northern and Western EU countries where there is a strong commitment to legality and sustainability. Even in these regions, however, some buyers (mainly the smaller ones) may be less pro-active and not yet fully compliant. What has in any case happened since the implementation of the EUTR is that the timber supply chain has become more transparent, leading to major improvements in legality controls and better overall environmental and social performance of the timber and forestry industries. It may still take some time, but the EU is heading towards stricter implementation of the EUTR.

In the meantime, buyers consider sustainability certification **important** and compliance with the EUTR **essential**. Consumer demand for sustainable products will not fall in the future, when the difference between "legal" and "sustainable" becomes more widely known (Source: feedback from 17 importers during meetings and online questionnaire 2015). DC suppliers tend to regard the EUTR requirements as complicated and expensive, and hence a threat to their exports to the EU.

**Tips:**
- Read more about control on illegal timber and timber products, on the EU Export Helpdesk. The European Timber Trade Federation and EU FLEGT facility provides regular updates on the implementation status of the EUTR. The Guidance Document for the EUTR also provides further information. In the interests of establishing long-term business relations, suppliers are advised not to wait for the EUTR and FLEGT system to be fully up and running, but to be pro-active in ensuring full transparency and legal sourcing and taking their own measures to this end if necessary.
- If you have not already done so, start documenting issues (such as permits and concession rights) relating to the legality of timber.
- A “Green Deal” for promoting the use of sustainable timber in the Netherlands was signed in 2012 by bodies such as the Dutch Timber Trade Federation (VVNH). Visit their website to find out more and make contacts. The European Sustainable Tropical Timber Coalition was launched in 2013 and aims to increase demand for timber from sustainably managed forests to a mainstream level. Find out how you can join this coalition.
- With the implementation of the EUTR, the EU has become less than ever a market for incidental selling. If you decide to keep selling to the EU market, bear in mind that verified legality is an essential aspect of trade nowadays, alongside price and quality.

**Declaration of performance (DoP) and CE marking for construction products:**

Timber construction products placed on the EU market need a declaration of performance (DoP). The DoP provides information about the characteristics of a product. This obligation applies to manufacturers of finished construction products placed on the market. Manufacturers will pass this obligation onto the suppliers of parts. The DoP has been part of EU CE marking legislation and Construction Products Regulation (CPR) since 1 July 2013. It is mandatory for all construction products.

**Tip:**
- Read the CBI Factsheet on Buyer requirements for the timber sector for a detailed explanation of the DoP and CE marking.

**Tariffs and taxes in exporting countries:**

Developing countries are increasingly stimulating their own timber industry to add value by raising tariffs and taxes for log exports. As export costs rise, this forces timber operators to invest in the local timber processing sector. Many countries such as Ghana, Gabon and Burma, have banned the export of logs to stimulate processing locally into (semi) finished products. In many countries this has led to an increase of industrial timber processing from logs to sawn wood. Planing and moulding operations are however still sporadic (FSG).

**Tip:**
- Refer to these ITTO, FAO and CIFOR publications for data and ideas about adding value in the sector.
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This survey was compiled for CBI by the Forestry Service Group (FSG) in collaboration with CBI sector expert Marco Bijl.

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