ASSOCIATION SURVEY FOR KNOWLEDGE (ASK)

EUROPE

Prepared by GTF

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Contents

GLOBAL TIMBER FORUM'S ASSOCIATION SURVEY FOR KNOWLEDGE (ASK)

This survey seeks to better understand the challenges faced by forest and wood-based industry and trade associations around the world. The responses from associations in Asia, Africa, Europe and South and North America will inform GTF's, and our project partners', knowledge about the skills and capabilities of associations and identify future support programmes particularly focused on priority countries.

The survey is focused on five themes:

Theme 1	Association's profile and capabilities
Theme 2	Priorities in delivering services to members
Theme 3	Challenges faced by the association membership
Theme 4	Analysis of domestic and regional markets
Theme 5	Analysis of international market and customer needs including legality and sustainability aspects

The survey was developed in collaboration with our project partners: FAO (Food and Agriculture Organisation of the United Nations) and WRI (World Resources Institute). The survey was made up of three complementary sections. Respondent associations were encouraged to complete all three sections.

The survey results are anonymised and non-attributable except at regional level. GTF will share relevant data with survey respondents and our partners to better assist the development and funding of trade-focused responsible timber trade programmes.

GTF wishes to thank the following organisations for their time in contributing to this survey:

Belgium

- Fedustria

Estonia

- Estonian Forest and Wood Industries Association
- *Eesti Erametsaliit* (Estonian Private Forest Owners' Association)

France

- *Le Commerce du Bois*

Germany

- *GD Holz* (German Timber Trade Federation)

Latvia

- Latvian Wood Construction Cluster
- Latvian Wood Industry Federation
  (including the Latvian Furniture Association and Latvian Association of Wood Processing Companies and Exporters)

Lithuania

- Forest Owners Association of Lithuania
- Lithuanian Private Forest Owners' Association
- West Lithuanian Wood Processing and Exporters Association
- Lithuanian Wood Traders Association

Poland

- *Związek Polskie Okna i Drzwi* (Polish Association of Manufacturers, Suppliers and Distributors of Windows & Doors
- *Polska Izba Gospodarcza Przemysłu* Drzewnego (Polish Economic Chamber of Wood Industry)
- *Ogólnopolska Izba Gospodarcza Producentów* Mebli (Polish Chamber of Commerce of Furniture Manufacturers)
- *Stowarzyszenie Dom Drewniany* (Polish Wooden House Association)

Romania

- Romanian Association of Forest Administrators (AAP)

Spain

- *Asociacion Espanola del Comercio e Industria de la Madera* – AEIM (Spanish Timber Trade Federation)

Ukraine

- Ukrainian Woodworking Industry Cluster
- Ukrainian Association of Furniture Manufacturers

United Kingdom

- UK Timber Trade Federation

Market & Political Context

Since the global financial crisis in 2008 – 2009 the European forest and wood processing sector has generally seen steady recovery to volume and value levels seen at that time. Micro, small and medium sized companies continue to be the backbone of the industry and form the core of the associations interviewed for this survey.

The apparent consumption of industrial round wood by the forest industry in Europe was 409 million m^3 in 2017[1]. Although only a marginal increase over 2016 it was the largest volume since the global financial crisis in 2008 and much higher than the ten-year low of 341 million m^3 in 2009. Consumption in 2017 comprised 314 million m^3 of coniferous species and 95 million m^3 of non-coniferous species. It is reported that there has been a substantial increase in industrial log demand in a number of European countries in the last five years, including Estonia, France, Latvia, Portugal and Romania.

Europe's total timber harvest in 2017 was estimated at 401 million m^3. Harvests increased in most log-producing countries in Europe in 2013-2017, but the largest increases have been seen in Poland (+19.5%), Turkey (+16.1%), Finland (+12.2%) and Sweden (+7.5%). The major driver of higher timber harvests has been increasing production in many European sawmills, with markets for softwood timber improving in Europe and overseas.

A continuing shortage of hardwood supply is exacerbated by heavy dependence on European oak. Thirty percent of hardwood sawmills in Belgium, France and Germany closed in the last ten years with increasing overseas log exports partly to blame.

Furniture consumption – another important source of demand for sawn hardwoods – grew by 2% in 2017 in France, Germany, Poland, Spain and the UK. Europe has continued to lose market share to Asia in both production and consumption of furniture.

Germany was the largest importer of sawn softwood, at 19.3 million m^3 in 2017, followed by the UK and France. The five largest consumers accounted for 51% of consumption in Europe in 2017 as well as for 56% of consumption growth. European imports of sawn softwood grew by 5.1% in 2017, to 37.8 million m^3. Around 80% of Europe's imports are intra-regional, and extra-regional imports originate mainly from the Russian Federation, Belarus and Ukraine.

EU imports under HS code 44 from the main tropical producing countries reached an all-time low in 2017, at 4.4 million m^3 round wood equivalent - less than half the volume prevailing before the global financial crisis (9.2 million m^3 round wood equivalent in 2005[2]).

The EU FLEGT Action Plan, adopted in 2003, is an initiative to address illegal logging and the economic, social and environmental harm it causes through a series of measures in the EU and in countries that export timber and timber products to the EU.

One such measure was the adoption of the EU Timber Regulation (EUTR), which seeks to prohibit EU businesses from importing or trading illegal timber. The EUTR places a requirement on the first placers on the market (operators) to ensure that they practice due diligence to ensure that the material was legally harvested and traded. EU member states are now more actively enforcing the EUTR with a number of fines being issued to operators in 2018 in Sweden and Germany. Germany is reported as the most active EU member country, with more than 100 checks made in 2018. In the same period, nearly 500 inspections were made of domestic timber,

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[1] All trade data references in this section are taken from – UNECE FAO *Forest Products Annual Market Review 2017-2018*

[2] FLEGT Independent Market Monitor (IMM) data (downloaded Feb 1st 2019) – "*EU member imports of all wood products in HS 44 from VPA partner countries: RWE in cubic meters*"

with Slovenia and Lithuania reported as the most active. Not all countries inspect domestic timber though and only 12 EU member states were reported to have carried out frequent inspections in 2017.

The only non EU member state included in the survey was Ukraine which has around 9.7 million hectares of forested land. The wood industry of Ukraine passed through a crisis during the mid-1990s with privatization and the bankruptcy of many enterprises. Its further development is characterized by establishment of a high number of privately owned enterprises (including joint ventures with foreign investments). The development of the wood-working industry as well as furniture manufacturing is an especially significant in the north and west of the country, where the main forest resources are concentrated.

A log (unprocessed wood) export ban has been in place in Ukraine since November 2015.

The leading countries importing wood-based products from Ukraine are Turkey, Poland, Romania, Germany, Italy and other EU countries.

Overview of results

This report features eleven of Europe's main producing, manufacturing and consuming countries in the forest products sectors. The twenty associations represent a diverse range of players from forest managers to retailers and all supply chain stages in between with a combined membership of over 2,800 companies.

Whilst every country and association is different, there are some similarities in terms of approaches and challenges. The associations typically represent smaller (SME) sized companies, with less than 4% of their membership represented by companies with more than 250 employees. The vast majority of funds received by the associations are raised directly from their memberships through fees or through provision of services. Typically each association runs on a modest budget of around $250,000 USD per annum with a staff of around 6 people. Domestically produced softwood species from natural or semi-natural forests are predominant.

The most common challenges identified for the membership of the associations are the sourcing or access to raw materials. Other key challenges for these SMEs include a shortage of trained staff to employ and the levels of bureaucracy required to operate lawfully in their countries. Other common issues include a perception of unfair competition between markets in different countries, primarily through differing levels of law enforcement or regulatory implementation.

The most commonly related top priorities for the associations in terms of delivering their own activities feature efforts to maintain or rebuild the image of the sector – where externally it is often viewed negatively. Linked but also separate to this is the general focus of activities on maintaining government relations on behalf of the sector.

The most commonly identified priority for external outreach was the need to promote the sector – in particular to address issues around the sector's often negative image.

Services offered vary widely but a common feature was efforts to enhance supply chain management skills amongst the membership.

Part 1 - Association profile & capabilities

Geographical coverage

Eighteen of the associations interviewed have a national scope of activities and draw their membership from all regions of their country. Only two of those interviewed have a regional focus of activity.

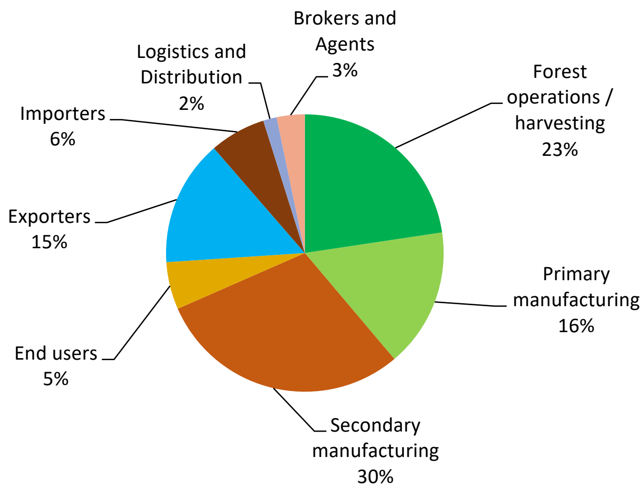
Membership & services offered

Profile of membership

Eighteen of the associations were able to provide information regarding membership numbers. The total membership stands at 2,838 member companies, with an average membership size of circa 158 companies. The range of membership is from 7 to 1,211 companies.

Sectors represented

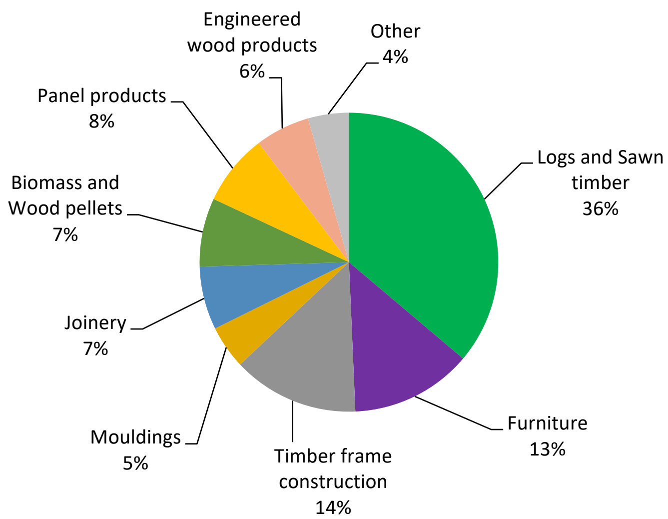
Membership is extremely diverse though dominated by forest operations, and primary and secondary processors.



Products traded

The membership of the associations is extremely diverse and they trade a full range of wood products. The dominant sectors are logs and sawn wood and furniture. The "Other" category is mainly comprised of flooring products.

Note: respondents were only allowed a single choice and have indicated



Volume and value traded by members

Ten of the associations were able to provide data as to the approximate volume of wood traded by their membership. This totaled over 32 million m^3 of wood with a traded value of USD$18.5 billion per annum.

Number of staff

Staff numbers vary widely between the associations. The average number of full time equivalent positions across the region is 6.2 members of full time staff equivalent (FTE). This includes senior management, policy managers, technical specialists, accountants, and administrators. The largest association has 49 staff (with 5 focused on wood and furniture) and the smallest has 1 FTE.

Technical staff

Seven of the associations have staff available to answer technical questions from the membership. These include specialists providing services and advice for members on meeting product standards to meet market requirements, processing, and compliance.

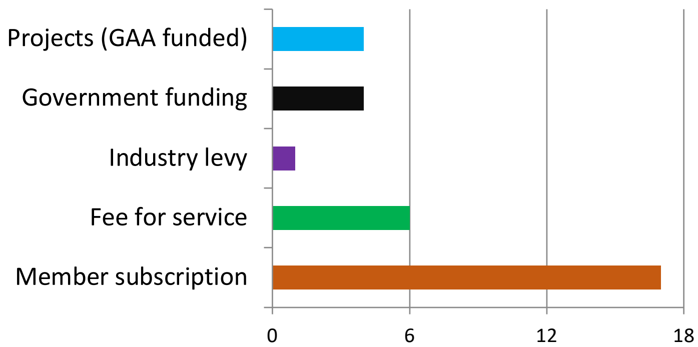
Overall budget

Fifteen of the associations were able to provide data regarding their annual operating budget. The largest budget was $1.2 million USD *per annum*, the lowest under $12,000 USD. The average budget was circa $257,000 *per annum*.

Funding

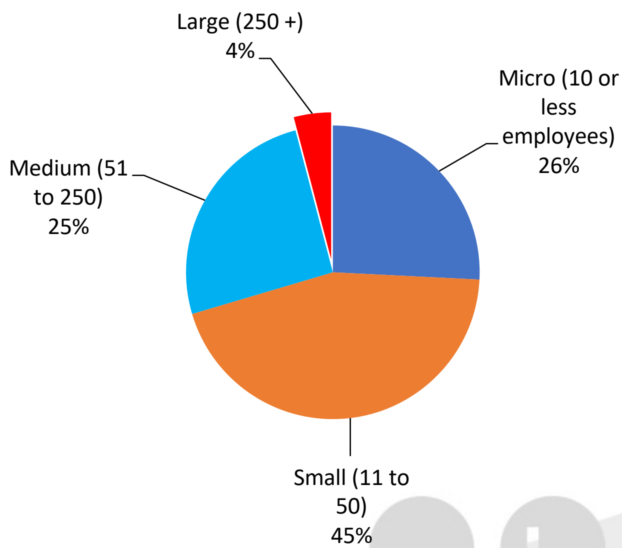
Seventeen of 19 associations that responded are primarily funded through membership fees.

Four eastern European associations receive some government funding. Four associations raise funds through offering services for fees. Four associations have some funds from implementing EU funded projects.



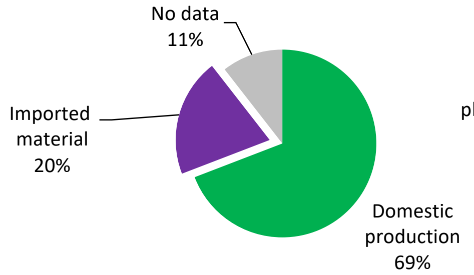
Size of member companies

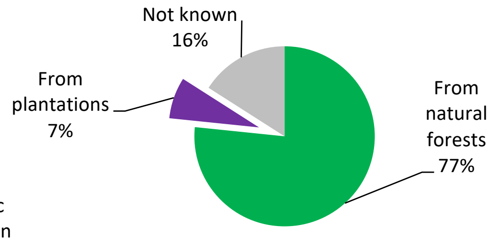
The members of the associations are dominated by micro, small and medium sized organisations. Around 42% of the member organisations have more than 250 employees.

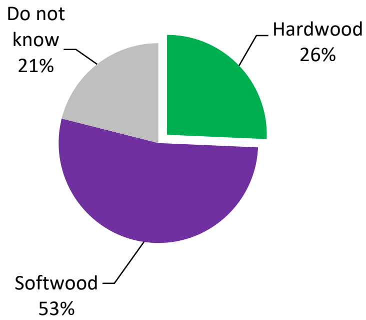


Raw material sourcing

The associations' members primarily source softwood species sourced primarily from natural and semi-natural forests. Domestic production dominates supply.



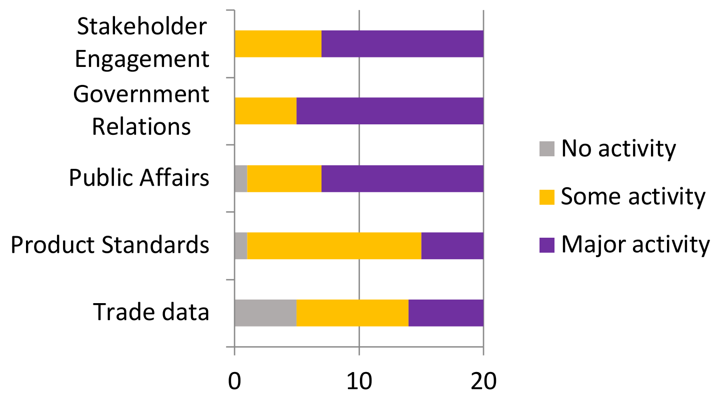




Part 2 – Priorities and challenges in delivering services to members

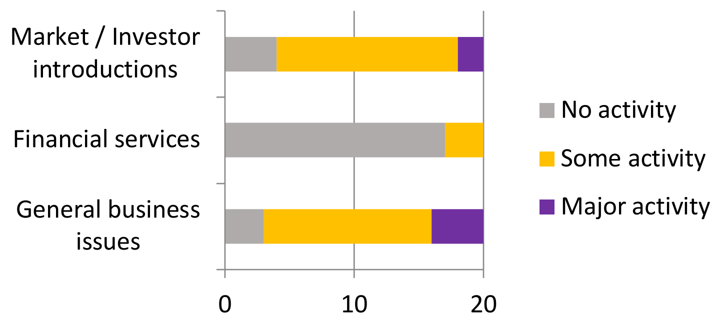
Services currently provided

All of the associations are engaged in a broad range of activities. Government relations and general stakeholder engagement are universal activities.



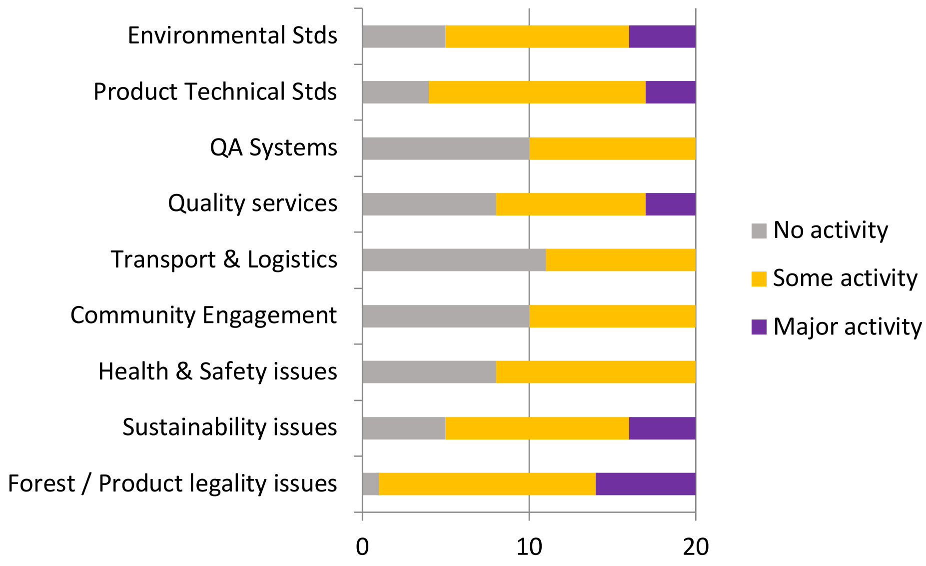
Business services provided

The associations offer a wide range of business services.



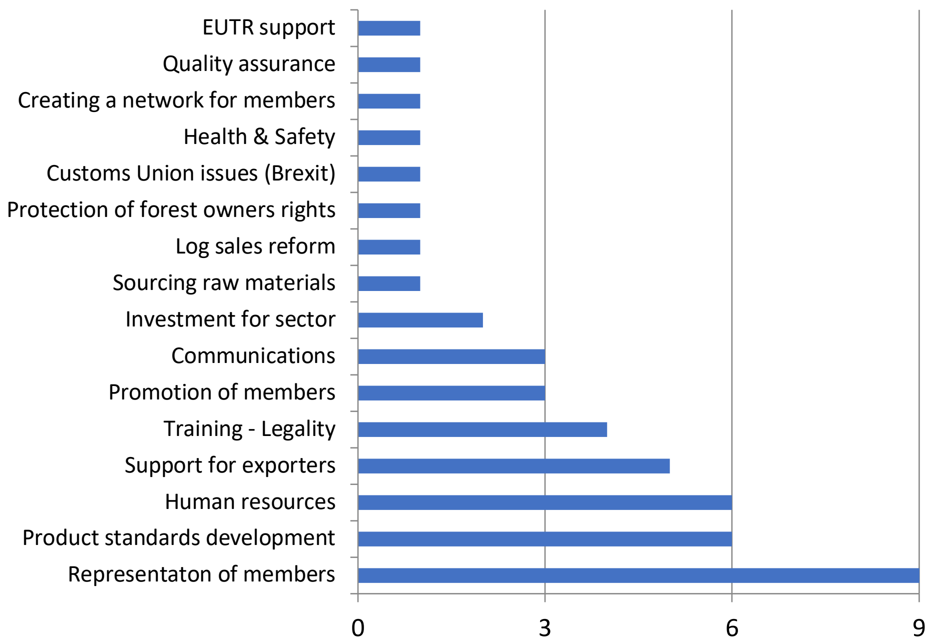
Technical services provided

The associations offer a wide range of technical services. The most common services offered are those relating to forest product legality, sustainability issues and product technical and environmental standards.



Priorities for service provision

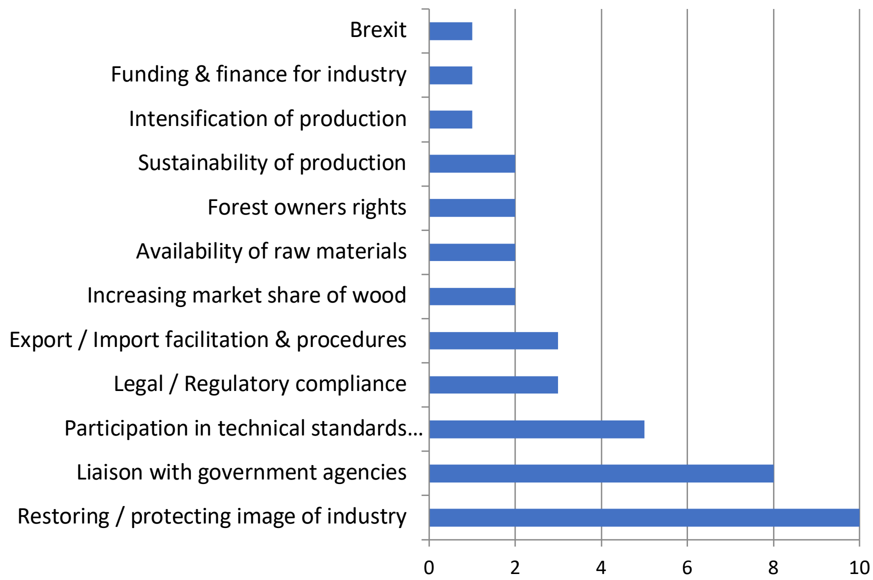
The current top priorities for the associations in terms of services offered are dominated by representing the membership amongst key stakeholder groups. More specific priorities include participating in standard setting processes, developing skills within the sector and providing information to support exporters.



Priorities for Public Affairs / Government Relations / Stakeholder engagement

The most commonly identified priority for external outreach was the need to promote the sector – in particular to address issues around the sector's image.

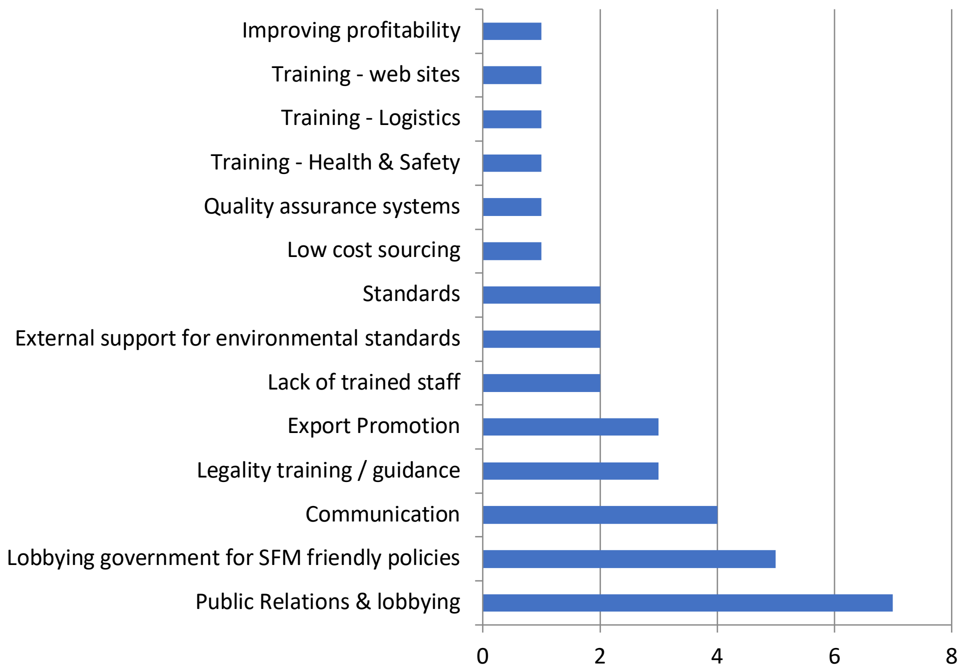
Government relations are dominated by efforts to be involved in processes which impact forestry and forest product legislation. Related to this was the identified priority to engage in advising on legal sources of materials and the practice of due diligence.



Challenges in delivering current services

The most challenging service to deliver was identified as providing public relations on behalf of members and the process of lobbying.

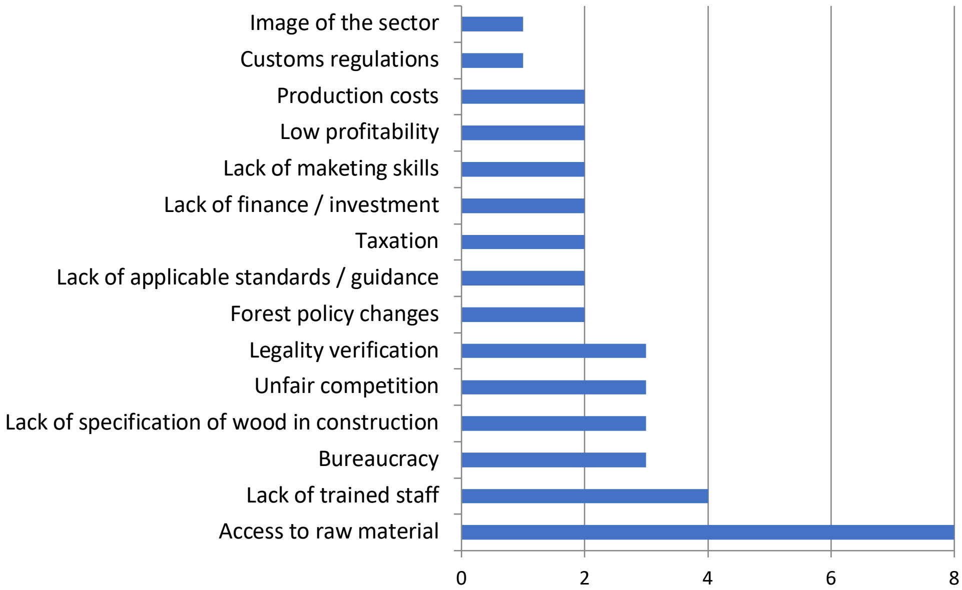
Other significant areas identified as challenges included communicating about the sector and providing guidance or training on legality issues.



Part 3 – Challenges faced by membership (particularly SMEs)

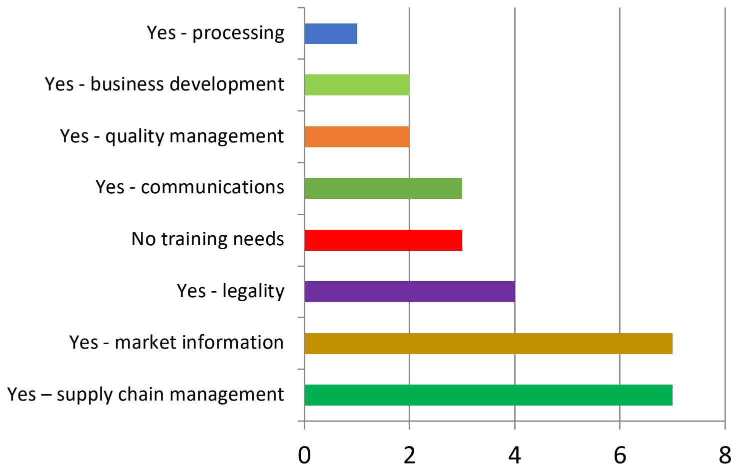
Top challenges for members

The most common challenge identified was the ability to access raw materials. The second most commonly identified challenge for members related to a lack of suitably trained staff. Other common issues included high levels of bureaucracy; the lack of demand for wood based materials in high value applications (such as buildings); unfair competition resulting from uneven implementation of regulations across the EU and the process of verifying legality of wood.



Training needs

Training needs identified were dominated by the need to train members on supply chain management and on methods of gathering market information. Other needs commonly identified include: legality and legal compliance and enhancing members' ability to communicate.



Additional services requested

The range of additional services requested is extensive. The most commonly mentioned additional services include the provision of marketing support and specifically support in entering or identifying new markets. Other important areas identified include communications support, provision of legal services; environmental or sustainable forest management training and provision of more networking opportunities for the membership.

Part 4 – Analysis of domestic and regional markets

Exports – significance to members

The range of estimated exports by the members ranged from 0% to 95% with an average across the region of 54% of trade being for export. All of the associations had members supplying domestic markets.

Export challenges

No single issue was identified, varying from there being no export challenges for the membership through to potentially there being sanctions or bureaucratic difficulties with potential target markets (for example Russia).

Current main markets

The range of export markets is huge with over 30 countries listed. Domestic markets and the European Union dominate almost all of the associations interviewed.

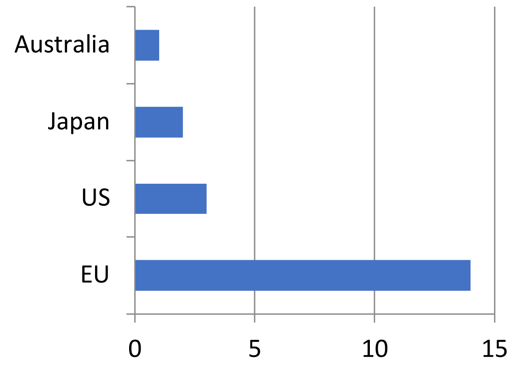
Part 5 – Analysis of international market and customer needs including legality and sustainability aspects

Legality – level of demand from international and domestic markets

For those associations who have members that export the demand for and questions around legality mainly originated from customers in the EU, US, Japan and Australia.

Of the EU countries, the most mentioned are Germany, Netherlands and UK.

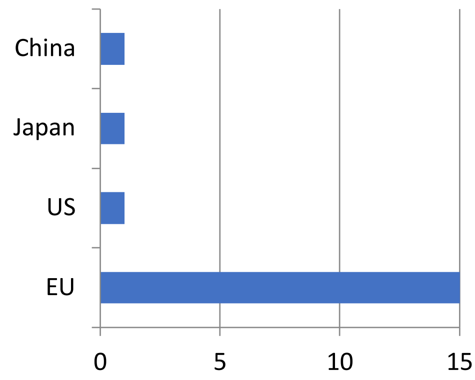
The levels of demand for legal products from domestic markets were perceived as being high.



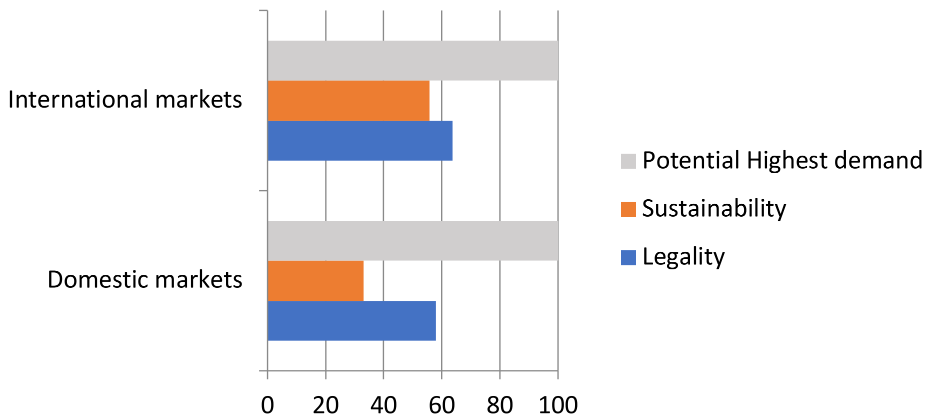
Sustainability – level of demand from international and domestic markets

For those associations who have members that export the demand for and questions around sustainability are relatively frequent. The level of demand from international markets for sustainable timber was estimated at a high level by respondents.

The EU was identified as the overwhelmingly dominant market frequently demanding sustainable products.

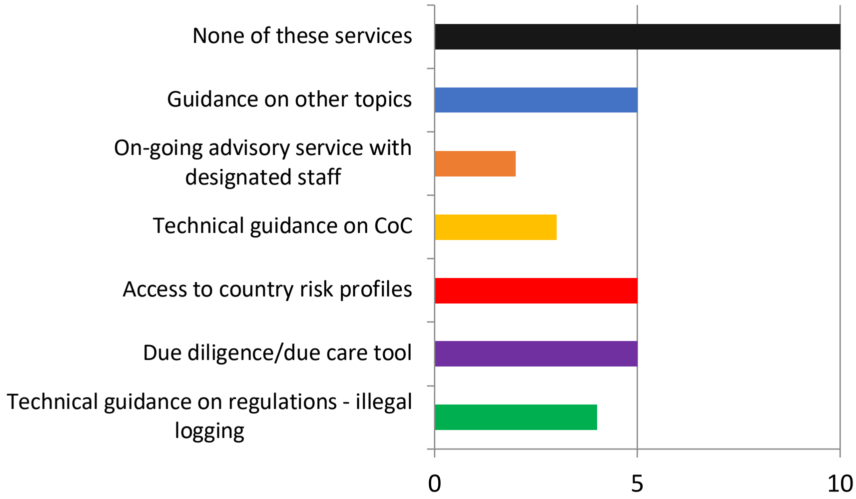


A comparison of the international demand for legality and sustainability shows both indicators at similarly high levels. Demand from domestic markets is lower in comparison and the demand for legal material is higher than demand for sustainable material.



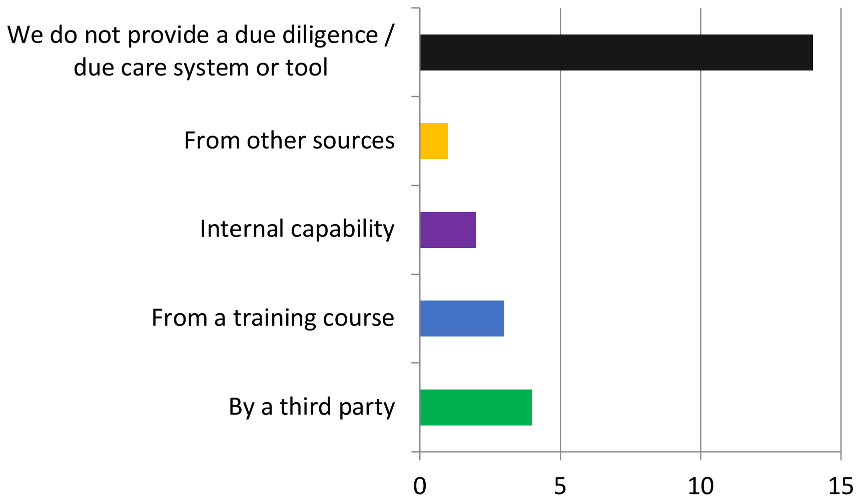
Supply chain management support – availability

Half of the associations offer guidance or tools on supply chain management. Five associations have developed due diligence compliance tools and provide risk assessment profiles.



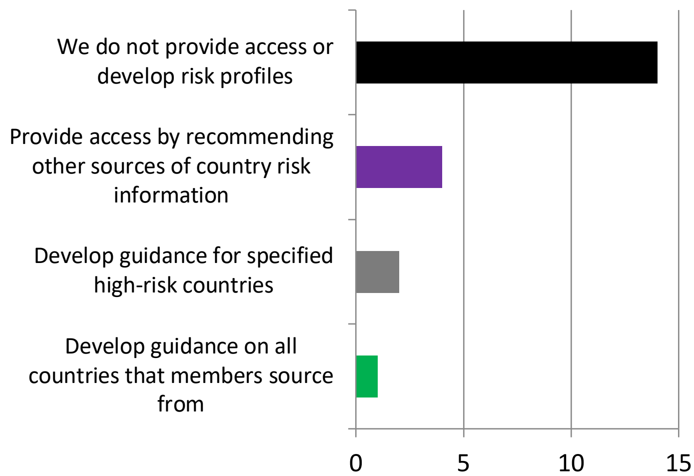
Supply chain management support – sources of information

Those associations that offer support for supply chain management primarily used a third party organisation to develop their guidance.



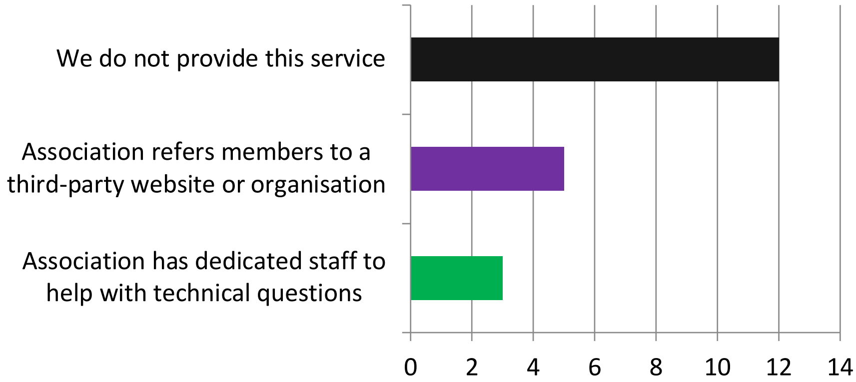
Supply chain management support – risk assessment provision

Only four of the twenty associations interviewed have developed materials to assist their members with risk assessment of sources.



Provision of on-going technical supply chain management support

Three of the associations have dedicated staff to support members on supply chain issues. Five associations indicated they used a third party organisation to perform this function. None of the associations were able to provide data as to the average cost of providing such support.



Supply chain management support – risk mitigation advice

The main sources of external information to provide guidance on risk mitigation were sources provided by government agencies, followed by NEPCon and WRI.

The most positively received sources of information were those created by NEPCon, WRI and collectively by government agencies.

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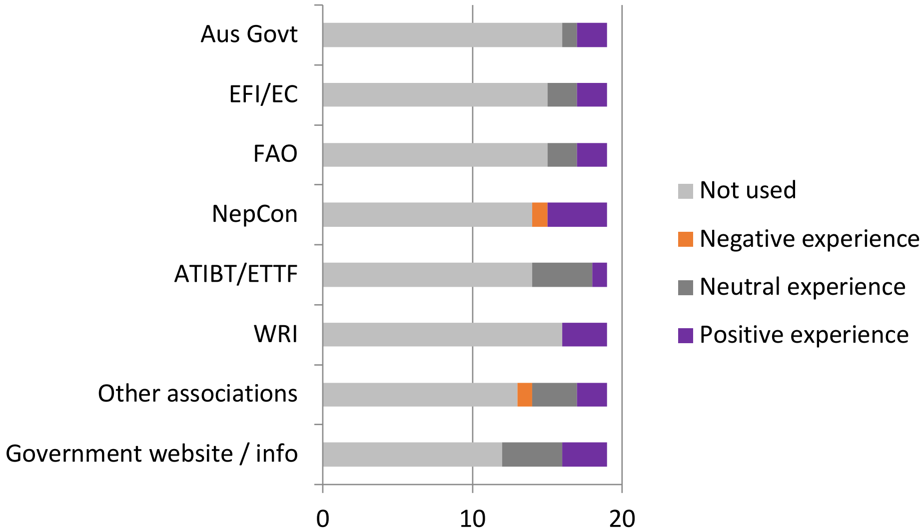
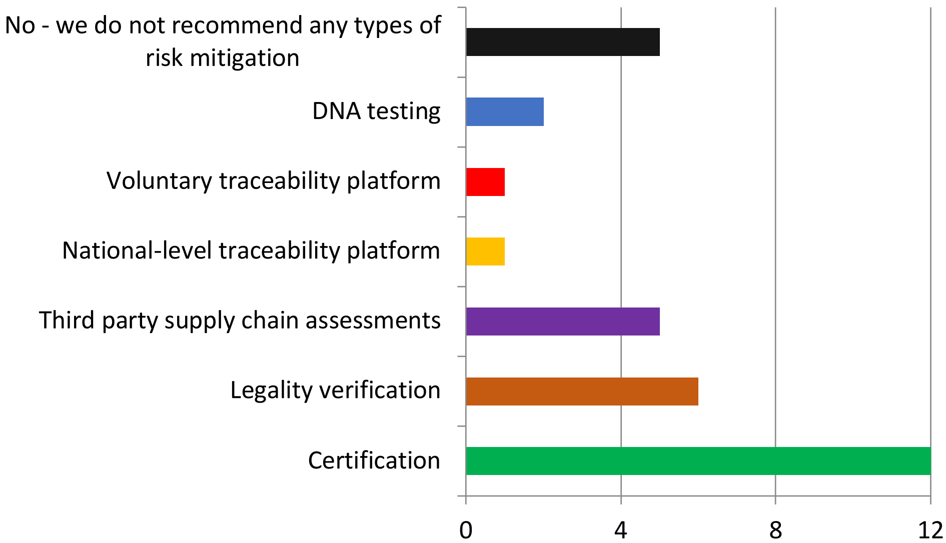


Types of risk mitigation recommended to members

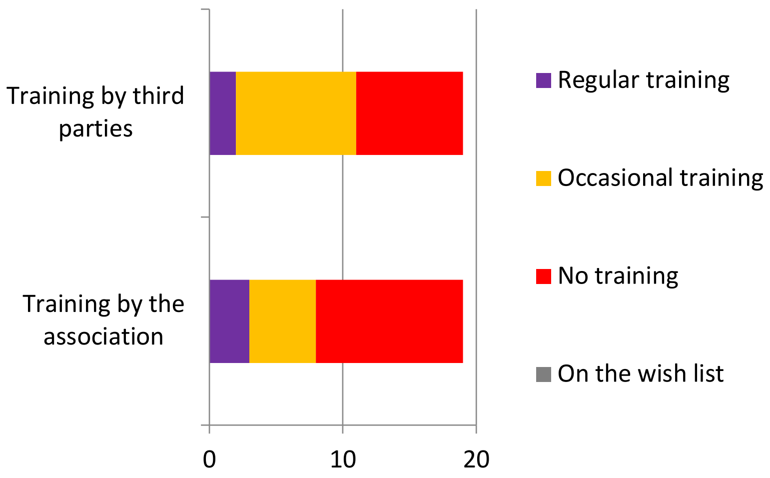
The most common forms of risk mitigation advised to members include certification and legality verification.



Supply chain management support – training offered

The use of third party organisations on an occasional basis predominates across the region.

Some associations have developed internal capacity for training and deliver regular programmes.



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