Made in Italy, grown in the tropics?

The high-value Italian furniture industry uses only a modest amount of timber from the tropics. Producers have some work to do to increase their share

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ITALY'S WOODWORKING industry is well-known as a considerable importer of wood raw materials but even more so as a supplier of highly value-added wooden products—furniture—to the world market.

Today the Italian wood products' industry is facing a new era of competition from developing countries, particularly China. What implications might this have for tropical timber exports? In July 2004 the International Tropical Timber Council's Committee on Economic Information and Market Intelligence commissioned a review of the Italian timber market with the aim of shedding light on the current conditions and future prospects for trade in tropical timber products to Italy. The study was finalised in April 2005 and reported to the Committee at its session in Brazzaville in June; this article summarises its findings.

Main characteristics of the Italian economy

The Italian economy has performed below par in recent years in comparison with other European countries; for example, gross domestic product (GDP) grew only 0.3% in 2003 and 1.2% in 2004, significantly lower than growth in average Euro-area GDP in the same years (1% and 2.3% respectively). One contributing internal factor is Italy's ageing population; it has one of the highest old-age dependency ratios among OECD (Organization for Economic Cooperation and Development) countries. One of the consequences of an ageing population is decreasing government income; this in turn weakens pension values and the purchasing power of consumers, with a substantial risk of ongoing weak economic development.

Public spending—in particular in the construction sector—has boosted demand in recent years, but analysts expect the effect of this to level off in a few years. In general, GDP projections for coming years suggest that the Italian economy will grow at a modest 2% annual increase in GDP.

Wood trade

Table 1: Italian exports, imports and net trade of wood and wood products including wooden furniture in 2003 (€'000)

	EXPORTS	IMPORTS	NET TRADE
Industrial roundwood	4666	417 650	-412 984
Sawnwood	94 747	1 639 882	-1 545 135
Veneer	102 627	246 685	-144 058
Plywood	127 385	221 001	-93 616
Builders' joinery	195 361	237 814	-42 453
Flooring	46 835	166 781	-119 946
Mouldings	189 419	12 057	177 362
Millwork	270 505	340 417	-69 912
TOTAL – Wood & wood products	**1 031 545**	**3 282 287**	**-2 250 742**
Wooden furniture	5 675 258	528 952	5 146 306

Source: Istituto Nazionale di Statistica, Italy

Domestic wood supply

Italy's forests cover some 29% of the total land area, which amounts to 8.7 million hectares. Annual harvesting is about 8 million m^3, of which almost 70% is fuelwood.

The institutional setting and bodies responsible for the enforcement and support of forest policies are undergoing a reorganisation. This is necessary partly because of the creation and/or revision of a range of global, European Union (EU)-wide and national agreements and conventions applicable to Italian forestry, and partly because of changing public perceptions about natural resource management and the need to improve management practices. Due largely to increasing demand for multiple uses of forests, the output of timber for industrial processing from domestic forests is expected to decrease in Italy in the long run, and demand for imported timber is therefore likely to increase.

Italian timber market

If furniture is excluded, Italy is a net timber importer, with imports outweighing exports by €2.3 billion in 2003. But the ledger is strongly positive if furniture is included: indeed, Italy is the world's leading net exporter of value-added wood products, exporting wooden furniture worth €5.7 billion in 2003 *(Table 1)*.

The Italian timber market comprises five 'action arenas':

- intermediary provision of goods and services from importers, agents, wholesalers, retailers and other suppliers of products;
- provision of wood resources, in which forestry activities take place to provide outputs in the form of saw and veneer logs;
- primary processing, in which the raw material is processed into intermediate and/or end-use products such as sawnwood, veneer and plywood;
- secondary processing of the intermediate and/or semi-finished goods to produce finished items for end-uses such as builders' joinery, flooring, mouldings, millwork, furniture and wooden parts for furniture; and
- deployment of the above-named products, mainly for construction and furnishing.

The wood market and actors form a demand-supply chain for forest products. From a methodological viewpoint the identified chains, depicted in their widest form as a network, also serve as a convenient entry for the analysis of the Italian wood market. As part of this study the following were analysed: (i) structural aspects of the supply-demand chain with respect to forestry, the woodworking industry, etc; and (ii) the institutional setting, particularly related to legislative and regulatory provisions, acts and laws that have an impact on the functioning of the chain.

Conditions

Wood products' markets are highly dependent on international trade issues and agreements. The World Trade

Organization platform for trade liberalisation is particularly important, and environmental considerations articulated in multilateral agreements for environmental protection are playing an increasing role.

In addition to duties, imports are subject to various non-tariff measures (NTMs). Ongoing work initiated by the EU on forest law enforcement governance and trade (FLEGT) is a new approach—in line with the NTM-measures—to combat the problem of illegal logging in supply countries (and, thereby, the trade of illegally harvested timber to the EU). The FLEGT process has some similarities with the certification systems of the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification schemes (PEFC). However, certification of the forestry part of the supply chain through the FSC and PEFC is a complicated procedure because it canvasses the environmental and social impacts of forest operations. In contrast, the FLEGT approach is focused almost entirely on wood procurement and trade.

In line with the NTMs, the certification of industrial processes and products using, for example, the International Standards Organization (ISO) system, is an established and increasingly common procedure in the EU today. The rising demand for ISO certificates is starting to affect imports from tropical countries.

Italian traders

Italian manufacturers of wood products typically purchase the major share of their raw materials from abroad through exporters/importers/agents and/or directly from producers. Depending on the strategic focus of the firm, materials include tropical and temperate hardwoods and softwoods in varying amounts through a network of different channels. The Italian wood-supply network is very fragmented at the moment because large European retail chains have not (yet) entered the Italian wood market, and few general patterns can be discerned.

Primary and further processing

The enterprises undertaking the primary and secondary processing of wood raw material constitute approximately 15% of the 543 000 manufacturing firms in Italy, but they employed only about 8% of the 4.9 million employees in manufacturing in 2001. This suggests that the average number of employees per firm is unusually small—around five persons per firm.

The wood-processing sector developed dramatically after World War II, stimulated first by demand in Western Europe for reconstruction and later by the liberalisation of trade within the emerging EU. It is typically organised in clusters, such as in the Brianza area, the Chair Triangle, and the Friuli-Venezia area. This clustering has developed as 'mother units' tended towards vertical specialisation (meaning that they set up subsidiaries to produce some of the inputs used in the production of their products), or as similar companies became established to take advantage of the development of skills, infrastructure and supporting services in the area.

Tropical wood products' trade

The share of tropical species in the Italian timber trade is relatively low—approximately 10–15% by value for exports and imports of industrial roundwood and sawnwood, and for veneer exports, and around 25% for veneer imports and for exports and imports of plywood *(Table 2)*. Tropical species comprise only a few percent of exports and imports of secondary processed products.

Tropical share

Table 2: Tropical share of primary and secondary wood products' exports and imports, 2003

	EXPORTS		IMPORTS	
	Non-tropical (%)	Tropical (%)	Non-tropical (%)	Tropical (%)
Industrial roundwood	89.3	10.7	84.4	15.6
Sawnwood	86.9	13.1	88.7	11.3
Veneer	85.4	14.6	73.6	26.4
Plywood	76.0	24.0	74.4	25.6
Builders' joinery	95.6	4.4	99.4	0.6
Mouldings	94.1	5.9	95.8	4.2
Millwork	98.3	1.7	99.4	0.6
TOTAL	**92.0**	**8.0**	**88.5**	**11.5**

Source: Istituto Nazionale di Statistica, Italy

Africa is the main origin of Italy's tropical timber imports, although recently its share has declined slightly, to 65% in 2003. Asia and Central and South America have been gaining market share and, combined, provided about 25% of tropical timber imports in 2003. Non-tropical wood imports originate largely (82%) in Europe. Imports are tending to decline from EU countries and to increase from central and eastern Europe.

Almost three-quarters of Italian exports of all wood products are directed at EU and other European countries. The EU's share was slightly more than 50% in 2003, with a decreasing tendency for non-tropical. Almost 60% of Italy's tropical wood exports were to the EU.

Trade regulations such as import duties and other trade barriers are relatively limited in Italy; those that do exist are directed mainly at wood-based panels such as veneers and especially plywood products. However, the development of a legislative framework for the procurement of wood and wood products—particularly in respect to the legality of such products and their tracking—is in progress in light of the FLEGT process and will have an increasing impact on trade.

Future prospects

Despite its relatively weak economic prospects, Italy will continue to play a substantial part in the international trade of tropical wood products. Italy's timber-trade-related policies are changing (as they are elsewhere in the EU), and trading partners will need to adapt.

The tropical timber industry faces some challenges if it is to retain and expand its share of the Italian timber trade. For example, it must establish delivery systems that secure the sustainability of wood supply and meet increasing requirements for the verification of legality, sustainable forest management and other standards. It should also look to supply semi-processed products. The actors involved should, therefore, among other things:

- move progressively towards the production and trade of value-added products,
- maintain and increase involvement in FLEGT and related legislative processes so as to influence them and also to track them and adapt accordingly; and
- create stronger networks of producers, traders and customers in order to enhance competitiveness.