Key trends in European hardwood flooring

Until recently, the European flooring market was a key growth area for hardwood products. As in other sectors, the global economic crises is having a significant impact to reduce short term growth prospects. It is also encouraging manufacturers to take a good hard look at their investment, sourcing and marketing strategies. While the long term outlook for hardwood flooring in Europe remains positive, there will be great pressure on materials suppliers – particularly of tropical hardwoods - to adapt quickly to new emerging demands if they are to remain competitive.

Market reports indicate that European flooring manufacturers are currently finding it very hard to generate new orders for their products and many have now built up large unsold inventories of finished goods. Producers of three-ply and multi-ply parquet that have pushed ahead with capacity development in recent times have been particularly hard hit.

Nevertheless, the flooring sector appears to be weathering the downturn better than most other hardwood end-using sectors, such as furniture and joinery. As a “finishing trade” the European flooring sector was slower to respond than other timber industry sectors to the recent dramatic downturn in European residential markets. The sector has also been partially insulated from the downturn as people who can no longer afford to move home or who are unable to sell their existing home tend to spend proportionally more on renovation and restoration.

A UK-based flooring supplier noted in a recent TTJ article that “there are pockets of new build that have continued [in the recent downturn], but I would say the split is now 70:30 in favour of refurbishment, stimulated by the consumers decision to improve their homes rather than move”. The same TTJ article notes that while the residential market still represents the biggest chunk of business for major flooring players, the commercial sector has proved more immune to the downturn. It is now seen, in the UK at least, as the most promising, though not necessarily dramatic growth area.

Fall in flooring production and sales in 2008

Trade analysts suggest that European parquet floor production may have declined between 12% and 18% during 2008. Drawing on a member survey, FEP (European Parquet Federation), suggest that overall sales dropped by around 7% compared to 2007. Production in 2008 is estimated at between 82,000 million m2 and 88,000 million m2, while consumption at around 104 million m2. This is the first significant turnaround in an upward trend in the European flooring market on-going since at least the mid 1980s. The European flooring sector is now bracing itself for an even slower year in 2009.

In absolute production figures, Sweden and Poland are the largest producers of wooden parquet flooring in Europe (each accounting for around 16%), followed by Germany (accounting for around 13%). Germany is Europe’s largest parquet market followed by Spain, Italy and France.

In contrast to the North American market which prefers solid wood flooring, the European market for wood flooring is dominated by engineered product. The popularity of engineered wood flooring is underpinned by its versatility and stability. Unlike solid wood flooring, it is less affected by movement in response to changes in atmospheric moisture. It can be used with under-floor heating and is also popular in apartments because sound insulation can be fitted underneath the wood.

Focus on high value

European real wood flooring manufacturers have faced increasing competition in recent times from manufacturers of wood look-a-like products in vinyl and laminated products with a décor paper face over a softwood or panel substrate. The quality, look and feel of these products have improved to such an extent that it can be difficult for the non-specialist to tell them apart from real wood products. Pricing of these products is often extremely low - so low that some European flooring distributors are withdrawing from this end of the market altogether in response to extremely tight margins.

Increasingly the only realistic strategy for long term development of the real wood flooring market is to focus on the high end of the market, emphasising long term technical performance, customer service, strong aesthetic appeal, superior design, and the strongest green credentials. These elements form key components of the "Real Wood" campaign led by the European Parquet Flooring Federation (FEP) which is now supported by 53 leading European flooring manufacturers.

Changing relationship with Asian flooring manufacturers

This increased focus at the high end of the market also seems to be altering the relationship between European flooring manufacturers and suppliers in emerging markets, notably China. A key component of any high end marketing strategy must be to ensure proximity to the final customer. Manufacturers need to maintain a very detailed and up-to-date understanding of species, colours, finishes and trends and can benefit through linkage of products to broader interior design services for customers.

Increasing availability of relatively cheap real wood flooring products imported from China has played an important role in recent years to help generate demand for these products in the European market. During the growth years, European manufacturers sought to benefit from cheaper labour and production costs in East Asia either through direct investment in manufacturing capacity or through sales agreements with East Asian companies. While such tie-ups may continue into the future, signs of a change in direction are becoming more apparent as sales have slowed and competition intensified.

Some European manufacturers now seem to be actively reducing their links with Far Eastern manufacturers. The reasons are complicated and multi-faceted reflecting changing circumstances both in Europe and Asian manufacturing countries. The economic downturn has made the trend more obvious as leading European producers have been encouraged to concentrate on their own production first. But even before this, rising costs in China were making it a less attractive proposition for European manufacturers. At the same time, some Chinese manufacturers having built up the necessary technical knowledge and marketing expertise in partnership with European and other western companies, are now choosing to go it alone and to market their own brands. The economic crises in western countries has reinforced this strategy for Chinese companies that now see that long term opportunities for market development are just as likely to emerge in their domestic market as they are in Europe and North America.

European companies increasingly see that their best opportunities to counter the threat both from emerging Chinese brands and from non-wood products lie in a move up-market and exploiting the advantages to be gained from proximity to the European customer. Focusing on their domestic production has the advantage of ensuring tighter control of product quality and standards and allows more rapid and sensitive adjustment to customer preferences and changing fashions.

The green issue

Although less significant than other factors of cost and quality control, the ability of European flooring companies to respond to the green concerns of customers and other interests is another factor driving increased emphasis on high value domestic production in the European flooring sector. There is broad recognition in this industry that there is very limited end-user demand for specific product labels. Environmental issues are generally low in the list of factors influencing consumers purchasing decisions – compared to price, quality, performance and follow-up service.

On the other hand many consumers want to feel good about the flooring products they buy and want reassurance that they are not contributing to excessive environmental destruction. Manufacturers and distributors have a strong interest in protecting their brands against negative publicity of any sort. There is a perception that East Asian manufacturers drawing on complex wood raw material from fragmented and complex supply chains may have more difficulty responding to emerging European requirements to demonstrate that wood does not derive from illegal or unsustainable sources. This inability to provide adequate assurances of legal and sustainable sourcing might undermine broader efforts to market wood flooring as the most environmentally benign flooring material.

Species and fashions

In terms of species, the European flooring sector is dominated by oak which accounts for around 56% of European real wood floor manufacturing. Other temperate hardwood species (notably walnut, ash, and cherry) also play a leading role. One recent report suggests that jarrah is becoming more popular for commercial projects due to its colour and environmental credentials. The share of tropical hardwood in the sector has been hovering in the range 13% to 16% in recent years showing no clear trend either up or down. More recent anecdotal reports however suggest that the trend is likely to be downwards. Late last year, concerns over commercial availability and sustainability issues led two major European producers - Weitzer in Austria and Meister in Germany – to announce that they would no longer source any tropical hardwood.

However there are some trends that should favour tropical wood species in the sector if other marketing and supply issues could be resolved. There have been widely reported fashions towards a preference for darker and more interesting exotic species in the furniture and flooring sectors. Design trends have also focused on sharply contrasting light and dark colours, on mixing textures, and therefore on widening the pallet of materials used.

But while these trends exist, it's also clear that rather than increase their use of tropical timbers, many manufacturers prefer to adapt temperate species by staining and other treatments. With modern stains and finishes, manufacturers can now achieve the desired look almost no matter what the species. They are also promoting heavily the natural "rustic" characteristics of temperate hardwoods, making a virtue of the colour variations and knots which are often a feature of temperate hardwoods.

Technical developments

There is also growing interest in heat treatment of temperate hardwoods and softwoods to achieve the hardness necessary for flooring applications. At present lack of heat-treating capacity, relatively high costs and remaining technical issues (for example heat treatment can be associated with increased brittleness) have meant that use of heat treated products is not widespread in the flooring sector. But European commentators generally expect these products to become increasingly important in the future, taking market share specifically from tropical hardwoods.

CE Marking

Another issue likely to impact on market access in the future will be the ability of manufacture products with appropriate CE Marking. At present CE Marking to the standard EN 14342 standard “Wood flooring - Characteristics, evaluation of conformity and marking” is not obligatory. The EC had intended to introduce mandatory CE Marking from the 1 March this year. However a recent press release issued by FEP suggests that this deadline has been postponed for another year. Mandatory CE Marking is now expected to be required from 1 March 2010 onwards. According to EN 14342, in order to CE-mark wood flooring, a manufacture must have documented conformity to an internal production control system and must perform an initial type testing.

EU Illegal Logging Legislation

The European Commission (EC) proposals for new legislation designed to remove illegal wood from the supply chains of products destined for the European market are now being considered for adoption by the European Parliament and European Council.

The proposal has been influenced by the US Lacey Act Amendment passed in the United States in May 2008, but differs in some significant respects. The US Lacey Act makes it an offence in the US to trade in any wood product sourced in contravention of the laws of any other country. It therefore strongly implies, but does not require, that timber trading companies in the US implement management systems to minimise the risk of any illegal wood entering their supply chains.

In contrast, the EU’s proposed legislation would not make it illegal in the EU to trade in wood products in contravention of the laws of another country. The EC believes it would be inappropriate for European courts to rule on legal compliance in other countries and impractical for European prosecutors to gather sufficient evidence to make a conviction. The EC has therefore proposed that the new legislation places a direct obligation on European operators to implement a “due diligence system”, essentially a management system to minimise the risk of any illegal wood entering their supply chains (sometimes referred to as a “due diligence system”).

The due diligence obligation would extend only to those operators that “first place” a forest product on the European market. This is currently interpreted as including forest product importers and primary producers. The proposed legislation would extend to European importers and primary producers of all wood and wood based products (including furniture) as well as pulp and paper products.

Under the terms of the proposed legislative framework, while the European Commission would have responsibility for developing more detailed guidelines, for example on appropriate procedures for risk assessment of suppliers, the individual EU Member States would be responsible for enforcement and imposition of sanctions.

These proposals were the main focus of discussions involving a wide range of European policy makers at the Royal Institute of International Affairs in London during January. These discussions indicated that there is strong support in the EU for some form of legislation designed to prevent imports of illegal wood into the EU. But there is still lack of agreement over whether the EC's proposal is the right approach.

Some EU politicians and environmental groups clearly do not feel the proposals go far enough and pushed for a Lacey-style offence for trade in illegally sourced wood to be introduced alongside the requirements for a due diligence system. There was concern that the concept of due diligence was too vague and not sufficiently well defined in the draft legislation. There was also concern that EU regulatory authorities would have insufficient expertise and knowledge to ensure effective implementation. The effectiveness of due diligence systems might vary widely between EU Member States. This might encourage less scrupulous suppliers to feed products into the EU market by way of Member States with softer regimes.

Nor was there confidence in the ability of timber trading companies throughout the EU to develop and adopt appropriate procedures. To date only four EU timber trade federations are promoting environmental timber procurement policies for their members that might meet the requirements for due diligence as set out in the EC proposal and these have taken years to develop and implement effectively.

On the other hand, EC representatives emphasised that due diligence procedures need not be complicated and that sufficient capacity could be built up with appropriate support. The existing trade association environmental policy frameworks provide a model on which to build. EC officials also noted more comprehensive details of appropriate due diligence systems would be drawn up following passage of the framework legislation.

The legislative proposal is unlikely to become law until after the European Parliamentary elections in July 2009. If passed, there would be a two year phase-in period during which more detailed regulations would be developed and Member States would prepare their enforcement regimes. Therefore the earliest the due diligence requirements might be imposed on EU operators is the second half of 2011.