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# **“THE EU FURNITURE MARKET SITUATION AND A POSSIBLE FURNITURE PRODUCTS INITIATIVE”**

## **FINAL REPORT**

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# 1 INTRODUCTION

This document contains the final results of the study “The EU furniture market situation and a possible furniture products initiative”. Our research aimed at identifying whether a possible initiative on furniture products could respond to some of the main challenges currently affecting the sector, as described below. This Study was prepared by a team of researchers from the Centre for European Policy Studies (CEPS), headed by CEPS Senior Research Fellow Andrea Renda, in cooperation with the Centre for Industrial Studies (CSIL), Demetra and Economisti Associati.

One quarter of the world’s furniture is produced in the EU. In 2010, about 940,000 European workers were employed in approximately 130,000 firms. In the same year, the sector’s production amounted to more than €83 billion with a value added of nearly €29 billion.<sup>1</sup> Germany, Italy, Poland and France ranked among the top 10 furniture manufacturers worldwide, and held a combined share of 17% of world production and almost 60% of EU production.

The furniture sector stands to benefit from the EU Flagship Initiative on Industrial Policy in the Globalization Age launched within the Europe 2020 strategy.<sup>2</sup> This initiative places emphasis on the role played by the European manufacturing industry as a driver of economic growth and employment levels in Europe. Yet, the EU share of world furniture production has constantly contracted over the last decade and the value of furniture production in 2012 was back to the level of a decade ago. This trend is driven by several factors, each having a different impact on the various layers of the value chain, as will be explained in detail below.

Manufacturers of semi-finished wooden products represent the upstream segment of the value chain.<sup>3</sup> In 2010, this forest-based manufacturing industry included 184,000 enterprises and employed 1.05 million people, i.e. 0.8% of total non-financial employment. The wood manufacturing sector is characterized by a vast majority of SMEs, which in 2010 were responsible for 85% of the employment and 77% of value added.<sup>4</sup> As already outlined in the 2008 Commission Communication on innovative and sustainable forest-based

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<sup>1</sup> For further details, see Chapter 1 and Annex 2.

<sup>2</sup> Communications from the Commission, An Integrated Industrial Policy for the Globalisation Era. Putting Competitiveness and Sustainability at Centre Stage, COM(2010)614, 28.10.2010, A Stronger European Industry for Growth and Economic Recovery. Industrial Policy Communication Update, COM(2012)582, 10.10.2012 and Industrial Renaissance COM(2014) 15.

<sup>3</sup> NACE Rev. 2 Division 16 (“Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials”).

<sup>4</sup> For further details, see EUROSTAT, Statistics Explained, Manufacture of wood and wood products statistics – NACE Rev. 2, available at: [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Manufacture\\_of\\_wood\\_and\\_wood\\_products\\_statistics\\_-\\_NACE\\_Rev.\\_2#Further\\_Eurostat\\_information](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Manufacture_of_wood_and_wood_products_statistics_-_NACE_Rev._2#Further_Eurostat_information), last accessed in August 2014.

industries in the EU,<sup>5</sup> these industries are competitive at the global level, but are currently facing several challenges. These include – among others – growing global competition, the availability of energy and wood supplies, and the role of the sector in limiting climate change. The 2013 Communication “A New EU Forest Strategy” and the accompanying “Blueprint for the EU Forest-Based Industries” (F-BI)<sup>6</sup> confirm the persistence of these challenges and their impact on the overall competitiveness of EU F-BI in a global context. Access to sustainably-sourced raw materials, the cost and complications of harvesting wood in the EU, price increases driven by competing demand (e.g., from the bio-energy sector), comparatively higher energy costs in the EU and a more complex and demanding policy environment affect all segments of the value chain, including the furniture sector.

Some of these challenges have also an impact downstream, in particular on consumption patterns. Against this background, the degree of information available to the final customers becomes of relevance. Indeed, some countries apply stricter safety standards than some of their competitors, while other countries require furniture to be produced in compliance with sustainability criteria not applied elsewhere, ultimately leading to higher prices. When the underlying reasons for these requirements are not clearly motivated and communicated, consumers may not be in the position of making an informed choice. In fact, the mere evaluation of differences in price could, for some specific product lines, potentially drive consumers to a “distorted” choice.

The increasing competition that global furniture producers are facing has drawn the attention of policy-makers to the possible absence of a level-playing field at the global level, to the detriment of EU producers. While these considerations apply to several sectors, they are even more pertinent for those that are highly dependent on a global and fragmented value chain.

To tackle these questions in a comprehensive manner, an ad hoc Working Group was set up under the Advisory Committee on the Forest-Based Industries.<sup>7</sup> Among the initiatives put forward by the Working Group is a proposal aimed at increasing awareness among end-users regarding the quality and origin of forest-based products. This could be achieved by providing more and transparent information across to consumers.

A lack of information on the hidden characteristics of furniture, such as geographical origin, safety features and sustainability, can raise two problems:

1. Consumers may be only partially informed on the characteristics of the product, with an impact on their final choice;

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<sup>5</sup> Communication from the Commission on innovative and sustainable forest-based industries in the EU, COM(2008)113, February 2008.

<sup>6</sup> European Commission (2013), A Blueprint for the EU Forest-based Industries (woodworking, furniture, pulp & paper manufacturing and converting, printing), SWD(2013)343; and Communication from the Commission, A new EU Forest Strategy: for forests and the forest-based sector, COM(2013)659 final.

<sup>7</sup> The latter was set up by Commission Decision 97/837, amending Decision 83/247/EEC. This Committee was converted by Commission Decision C(2014) 4321 of 27 June 2014 into the Expert Group on Forest-based Industries and Sectorally Related Issues, with an updated and much broader structure. For further details, see: [http://ec.europa.eu/enterprise/sectors/wood-paper-printing/expert-group/index\\_en.htm](http://ec.europa.eu/enterprise/sectors/wood-paper-printing/expert-group/index_en.htm)

2. Diverging approaches may be followed by different Member States, possibly fragmenting the Single Market. Some EU Member States (Italy, France) have already introduced initiatives requiring the retail sector to provide a comprehensive set of information on furniture. This could create a further challenge to end-producers as they would need to adapt the information requirements for their products (if they are either different or inexistent) to the ones required by the destination market. This obstacle could be primarily faced within the EU and hamper intra-EU trade due to additional compliance costs.

Importantly, any potential EU initiative targeting furniture products may have a different impact on the various segments of the value chain, or for different clusters of furniture manufacturers. Thus, this research also aims at identifying in which specific clusters the initiative could be more effective, given the peculiarity of the entire sector and the complexity of the value chain. To this end, the research team has also undertaken an *ex ante* assessment of different policy options and of the feasibility, effectiveness and efficiency of the initiative.

The remainder of this Study is divided in three parts. Part I contains the analysis of the EU furniture market situation. It starts by illustrating the trends that have affected the global furniture sector in the last decade (Chapter 2) and then focuses on EU production and consumption patterns (Chapter 3). The key factors affecting the competitiveness of the EU furniture industry are described in Chapter 4. Where relevant, the analysis focuses on different product categories and on sub-national examples. The Chapter ends by describing the strengths, weaknesses, opportunities and threats (SWOT analysis) of the EU furniture market. Part II of the Study contains the background study for a possible furniture products initiative. Chapter 5 provides a comparative analysis of existing and ongoing measures aimed at providing information to consumers on the characteristics of furniture products; Chapter 6 presents the results of the Consumer Survey; and Chapter 7 contains the results of the public online consultation on information provided to consumers about the characteristics of furniture products. Finally, Part III of the Study concludes with an impact assessment of a selection of policy options to address the challenges identified by the background study. Specifically, Chapter 8 analyses identified problems and objectives, and Chapter 9 assesses different policy options to address the identified objectives. Additional information and country level data are included in the Annexes to this Study.

# **PART I**

## **THE EU FURNITURE MARKET SITUATION**

## **2 THE POSITION OF THE EU IN THE GLOBAL FURNITURE MARKET**

The furniture industry is traditionally labour-intensive and features a predominance of small and medium-sized enterprises (SMEs), as well as quite complex and fragmented supply chain, with many phases that are often outsourced. A common trend observed in the past decade is a growing degree of market openness, although important differences in the degree of openness of various national markets still remain. These stem from various factors including the history of the furniture industry, the structural conditions and the comparative advantage of the manufacturers located in each country.

This Chapter presents the current situation of the furniture market at the global level and highlights the EU's position in this context. In particular, Section 2.1 illustrates global production trends and the changes observed in the last decade; Section 2.2 introduces the leading manufacturing companies at the global level. In Section 2.3 the attention is shifted to global consumption patterns and the emergence of new markets for furniture. Section 2.4 and 2.5 focus more closely on two trends that characterize the timeframe covered by this Study, i.e. the continuous opening of markets and the growth of trade in furniture products. Finally, Section 2.6 concludes with an analysis of the EU case in the global context.

### **2.1 Global production trends: a changing geography**

In 2012, the global production of furniture was worth €361 billion (see Table 1). This estimate is based on CSIL processing of data from official sources, both national and international, that cover the 70 most important countries.<sup>8</sup> These countries, with 5 billion inhabitants - roughly 75% of the world population - account for 92% of world trade of goods and for almost of all world furniture production in terms of value.

Over the last decade world furniture production has increased year on year with the exception of 2008 and 2009. In 2012 world furniture production was 60% higher than ten years before. In 2012, high-income countries<sup>9</sup> provided 41% of total world furniture production (see Table 2). Within this group, the furniture production of the seven major industrial economies<sup>10</sup> is worth €120 billion, accounting for one third of world furniture production (compared to two thirds ten years ago).

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<sup>8</sup> Algeria, Argentina, Australia, Austria, Bahrain, Belgium, Bosnia Herzegovina, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Kuwait, Latvia, Lebanon, Lithuania, Malaysia, Malta, Mexico, Morocco, Netherlands, New Zealand, Norway, Oman, Philippines, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Venezuela and Vietnam.

<sup>9</sup> Classification of countries by income (high income/middle and low income) is based on the following World Bank definition: Economies are divided among income groups according to 2007 per capita income, calculated using the World Bank Atlas method.

<sup>10</sup> Seven major industrial economies: Canada, France, Germany, Italy, Japan, UK and USA.

**Table 1 World\* furniture production**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
€billion	223	230	248	268	279	278	264	299	321	361
Growth rates	-	3.0%	8.2%	7.9%	4.0%	-0.1%	-5.3%	13.6%	7.2%	12.4%

Note: \*Estimates covering 70 countries, see note 8.

Source: CSIL processing of data from official sources: National Statistical Offices, National Furniture manufacturers associations, Eurostat, UN (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry).

In 2010, for the first time, the share of the middle and low income countries was over half of total world furniture production, at 53%. This is the result of two factors:

- The increasing share of production in emerging economies carried out by domestic suppliers that are growing rapidly in order to satisfy the increasing demand from their domestic markets (e.g. Brazil, India);
- The productive investments made by companies from advanced economies. Indeed, within the middle and low income groups, there are three countries (China, Poland and Vietnam) where production is rapidly increasing because of investments in new plants purposefully designed to boost growth in exports. Thus, when looking at the figures below, it should be borne in mind that the result is based on statistics relating to production that takes place within one country, in both locally and foreign owned plants.

**Table 2 World\* furniture production, high v. middle/low income countries**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
High-income countries, %	75%	72%	69%	66%	62%	57%	51%	47%	45%	41%
Middle/low income countries, %	25%	28%	31%	34%	38%	43%	49%	53%	55%	59%

Note: \*Estimates covering 70 countries, see note 8.

Source: CSIL processing of data from official sources: National Statistical Offices, National Furniture manufacturers associations, Eurostat, UN (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry).

More specifically, in 2012, 80% of world production is concentrated in ten countries, with China alone accounting for 40% of global production (see **Table 3**). The United States rank second, while two EU Member States (Germany and Italy) follow at some distance.

In the last decade, the growth of the Chinese furniture market has been impressive, turning China into the world leader, as far as furniture production is concerned. India and Brazil more than doubled their production values over the last decade. Poland moved from 9<sup>th</sup> position in the ranking to 7<sup>th</sup>. Conversely and with the exception of Germany, among the major advanced economies included in the top ten, production levels are now lower than a decade ago (USA, Italy, Japan and Canada) or almost stable (France).

**Table 3 World furniture production, top 10 producing countries (€million and percentage share), 2003 and 2012**

	2003		2012	
	€million	% share	€million	% share
<b>China</b>	22,555	10%	145,318	40%
<b>USA</b>	60,677	27%	51,642	14%
<b>Germany</b>	15,492	7%	17,738	5%
<b>Italy</b>	19,338	9%	15,950	4%
<b>India</b>	5,386	2%	11,624	3%
<b>Japan</b>	11,925	5%	10,743	3%
<b>Poland</b>	4,393	2%	8,323	2%
<b>Canada</b>	8,385	4%	8,262	2%
<b>Brazil</b>	3,168	1%	7,970	2%
<b>France</b>	7,817	4%	7,929	2%
<b>Top 10</b>	159,137	71%	285,499	79%
<b>Others</b>	63,877	29%	75,363	21%
<b>World*</b>	<b>223,014</b>	<b>100%</b>	<b>360,862</b>	<b>100%</b>

*Note:* \*Estimates covering 70 countries, see note 8.

*Source:* CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations, (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry)

### **Box 1 The furniture sector in China**

With its focus on export-driven industrial production and thanks to foreign investments, China has witnessed an unprecedented period of growth in the last two decades and is now the largest producer (and also exporter and consumer) of furniture worldwide and a manufacturing centre with increasing outsourcing and production migration from overseas. The Chinese furniture industry has now become a huge integrated industry with more than 5 million employees, exporting nearly 30% of its production and satisfying 99% of the domestic demand.

A host of favourable factors contributed to this growth. Firstly, the combination of abundant skilled workforce and low costs enabled China to provide furniture to the international market at highly competitive prices. Secondly, China enjoyed a growing inflow of investments especially from Hong Kong, following the liberalisation process begun in the early 1980s. In parallel, the Taiwanese furniture industry began to shift its production core to China, especially to the Guangdong province. Many Singaporean companies also started investing in China. Sino-foreign joint ventures enabled local firms to directly incorporate the most advanced production techniques.

Well-known furniture producers from countries such as the United States, Japan and Italy have also entered China to set up their plants, attracted by a host of reasons: the lower cost of labour, cheaper plant construction, the presence of a large consumer market and sharply declining import tariff rates. It is also worth noting that, in the wake of the global recession, a downsizing of production facilities elsewhere (especially in North America) corresponded to the expansion of production plants in China. Equally important, recent years have witnessed a “strategic alliance” between Chinese manufacturers and large US retailers that could improve their profit margins by increasing the quota of US imports from China. Huge public investments in shipping and containerisation also helped the local industry to take off, especially as regards exports. Finally, the Chinese government adopted a

series of provisions aimed at supporting furniture exports, such as declining tariffs on raw material imports and VAT rebates for exports.

Nevertheless, China is now facing a more challenging global macroeconomic environment, increasing international competition and rising costs (according to experts over the period 2008-2012 the average salary almost doubled in China, with differences among Provinces), difficulties related to the domestic regulation of credit and other macroeconomic policies, such as the tightening of the real estate policy. In addition, due to the limited supply of domestic timber resources, China is dependent on imports of wood-based panels in terms of both volumes and types. This makes the Chinese furniture industry particularly vulnerable to variations in international trade prices.

In terms of **industrial structure**, the furniture industry in China is **fragmented**. The majority of firms are small to medium-sized and produce simple and low value furniture or OEM<sup>11</sup> orders, which currently account for a large share of China's furniture exports. This is still the case despite the fact that, after the crisis, many of the small and medium-sized companies with client portfolios exclusively made up of foreigners or with inadequate capital, were forced to close or have been subject to organizational restructuring and upgrading. Furniture enterprises are now expanding their business operations and forming industrial clusters to be more competitive and to pursue sustainable development. So far, there are 24 industrial clusters in the Chinese furniture industry.

In terms of **geographical concentration**, the top five manufacturing provinces are Zhejiang, Guangdong, Fujian, Shandong and Henan, with combined production accounting for about 80% of the national total. While the eastern and southern seacoasts have reached saturation levels, the inland areas, like Sichuan, continue to show sustained levels of growth. These inland areas, although still characterised by poor infrastructures and scarce energy resources, represent attractive productive bases due to lower labour costs.

### Box 2 The furniture sector in Brazil

Brazil is an emerging market with proven growth potential. The Brazilian productive system comprises a large majority of micro and small enterprises and some big local players, for a total of around 17,000 companies and some 275,000 workers. The sector accounts for 1.6% of the revenues of the whole manufacturing industry and employs 2.7% of the total workforce.

The majority of Brazilian companies are inward oriented, trying to benefit from the growing share of potential Brazilian consumers. Furniture manufacturers are spread all over the country, but about 30% of Brazilian furniture firms and more than 50% of total sector workers are located in the major furniture production districts ("*polo moveleiros*"). There is a concentration of furniture production in the South/South East of the country and in Sao Paulo State. Greater Sao Paulo (the Sao Paulo state includes the city of Sao Paulo and Mirassol and Votuporanga, which are important production poles) is home to the largest number of companies, whereas in the South/South East regions the most important production poles in terms of output volumes are located in Bento Gonçalves (RS), Araçuaia (PR), Ubã (MG) and Sao Bento do Sul (SC).

Due to the measures adopted to protect the market (typically in the form of high duties) the penetration of imported furniture is still very low (less than 5%) and Brazilian furniture manufacturers dominate the market.

However, with regard to imports, European companies supply the Brazilian luxury/upper-end furniture market, whereas fast increasing Chinese imports are directed to the lower market range.

<sup>11</sup> Original Equipment Manufacturer and referring to a company whose products are used in another company's products.

As far as Brazilian furniture exports are concerned, the country's presence in the international markets is limited. Historically Brazil concentrated its activity on export of solid wood furniture to the USA. Future prospects will be strongly influenced by the country's ability to differentiate both the target markets and the product mix.

### **Box 3 The furniture sector in the United States and Canada**

For decades, the United States has been the furniture sector's main growth driver at a world level. The constant development of this important and huge market, consisting of 300 million inhabitants with a per capita income of about US\$ 35,000, together with its continued openness to imports, have provided a strong stimulus to international furniture trade.

However, recent years have witnessed a gradual weakening of the USA-based furniture industry, due to the growing dependency on imports from low labour cost suppliers, especially East Asian ones. This led to the closure of many furniture manufacturing plants, with substantial lay-offs.<sup>12</sup> Also, the process of growing dependency on Asian imports has been partly due to the strategies adopted by the major US furniture-makers themselves in recent years.

According to the US Census 2007, there were around 20,000 furniture manufacturing companies, with an average of 23 employees per company. The US furniture industry is mainly concentrated in two areas: Great Lakes (Michigan, Indiana, Ohio, Wisconsin and Illinois) and the Southeast (where the most important states are North Carolina, Mississippi and Virginia).

The largest establishments with more than 100 employees account for 5% of manufacturers. Cases of vertical and/or horizontal integration are not rare among US firms. Leading companies are also active in the primary processing of raw materials and for this reason they use their own facilities for the production of the sawn wood or wood-based panels necessary for furniture manufacturing. Yet, this aspect could be viewed as a weakness; indeed, large structures are more vulnerable to offshore competition and are slower in reacting to market changes; more importantly, they often rely on scale economies, which cannot compete with low cost suppliers.

US furniture exports account for only a marginal share of local production. Canada and Mexico are the top export markets for US furniture, benefiting from the NAFTA free trade agreement.

Canada is also an important player in the international furniture sector. It is a large and open market and a large producer, although characterized by slow growth rates. Nevertheless, recent years have witnessed a gradual weakening of the Canadian furniture industry, with production contracting, partly due to the same reasons affecting the USA and also because Canada's mostly small and medium-sized companies are competing with other countries, both low-wage Asian suppliers and US firms that have a much larger production capacity and can thus achieve economies of scale. Canadian manufacturers lack the brand image of their US counterparts and also have high transportation costs. Unlike US companies, most Canadian firms have not yet started to relocate production to Asia. Despite deep restructuring processes, the Canadian furniture industry has kept its industrial base at home.

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<sup>12</sup> For instance Quesada and Rado (2006), by triangulating data from the US Bureau of Labour statistics and from other sources found that between 2000 and 2003, there were 168 plant closures in the furniture sector, with North Carolina being the most negatively affected state. The main reasons behind such closures, in decreasing order of importance are: consolidation; reorganisation; and import competition (in particular from china, since its accession to the WTO in 2000). For further details, see Quesada and Rado (2006), "Mass layoffs and plant closures in the U.S. wood products and furniture manufacturing industries", *Forest Products Journal*, Vol. 56 Issue 10.

As far as the locations of the manufacturing plants are concerned, Quebec, Ontario and British Columbia are the provinces with the highest concentration of sector production. Clustering activities are stronger in Quebec and particularly in Ontario.

The integration with the USA is high with around 90% of Canadian exports destined for the USA, which is also one of Canada's most significant sources of furniture and furnishing products.

#### **Box 4 The furniture sector in Japan**

The Japanese furniture industry started to decline earlier than the other developed countries, after reaching its peak in production in 1990. Following a change in lifestyle in the 1990s and the increasing demand for western furniture, firms that were able to modify their production managed to survive while many traditional furniture manufacturers closed.

On the other hand, Japanese furniture imports have increased very rapidly. At present, national production satisfies 70% of the market (over 80% a decade ago), while the rest is mainly goods imported from China (over 50% of total imports).

Wood furniture production in Japan is concentrated in several clusters, namely, Okawa city, Fuchu city, Asahikawa city and Nagoya city, and some other areas. The production of the manufacturers in the three non-cluster metropolitan areas (Tokyo, Osaka and Nagoya) is smaller than that of the firms in the main clusters. Conversely, metal furniture is manufactured nearer to the consumers of big cities such as Tokyo, Oosaka and Nagoya. These three areas account for about 80% of total metal furniture production, with the presence of several large companies benefitting from scale economies.

On the demand side, the Japanese furniture market shows great diversity. The high quality and high price market is made up of imported furniture from Europe and North America plus the products of several large domestic companies, and accounts for less than 15%-20% of the market. The middle price range accounts for about 40%-50% of the domestic market; it is made up of domestic products and oriented to consumers that are wary of low cost imports. The low price market accounts for about 30% of the domestic market and comprises mainly Asian imports; its share has increased along with the increase in imports. In the future, the low price market is expected to grow further, when large furniture companies from other Asian countries open their own wholesale or retail outlets on the Japanese furniture market.

#### **Box 5 The furniture sector in India**

India is another emerging market with proven growth potential driven by an expansion of the real estate and hospitality sectors and growth in disposable income, particularly in urban areas. Available estimates indicate that the furniture sector makes a limited (0.5%) contribution to India's GDP. The industry employs about 300,000 workers. In terms of structure, the sector remains mostly inward oriented and extremely fragmented, with "unstructured" companies corresponding to about 85% of manufacturers. Recent developments indicate that this is bound change in the coming years due to the consolidation of some national players and an increase in partnerships between national and foreign manufacturers to improve the quality and design of Indian furniture products. International companies are also expected to increasingly enter the market. Major furniture manufacturers in India include Godrej Interio, Nilkamal, Durian and Wipro. The predominant segment is wooden furniture, both in the home and office markets. Uttar Pradesh, Kerala, Punjab, West Bengal and Andhra Pradesh are the major suppliers of wood; while the Western and Southern regions are leading revenue generators, thanks to expanding distribution networks.<sup>13</sup>

<sup>13</sup> For further details, see e.g. TechSci Research, "India Furniture Market Forecast & Opportunities, 2019".

## 2.2 The leading manufacturing companies in the global context

The furniture sector has traditionally been a resource and labour-intensive industry characterized by the co-existence of both local craft-based firms and large volume producers. Approximately 20% of total world furniture production is provided by “200 major furniture manufacturing companies”,<sup>14</sup> showing quite a substantial share (see Figure 1).

These leading manufacturers are spread all over the world, thus confirming the globalization of the sector. A total of 57 companies are headquartered in emerging countries and 143 are based in advanced economies (for definitions see Annex 1). Out of these, 84 companies are headquartered in the EU (see Figure 2). According to CSIL data, these companies directly produce in around 1,100 plants all over the world.

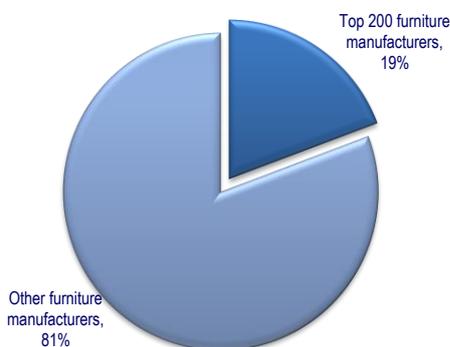
They manage an average of six plants per company, with significant differences within the group of companies considered. It is worth noting that the number of plants increases as the size of the company increases. However, the way in which production and productive process are organized depends on many other factors, such as the geographical location (e.g. US-headquartered companies are traditionally large-scale manufacturers and have double the average number of plants of the other companies in the sample), company specialization (the number of plants increases in the case of companies that produce other goods in addition to furniture), and the structure (listed companies have a more complex productive structure).

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<sup>14</sup> The selection of the Top 200 furniture manufacturers worldwide is the result of an extensive effort by CSIL to identify the leading players. CSIL’s definition of “top company” relates to the value of furniture turnover. Companies for which this information was available were ranked in descending order and CSIL selected the top 200. Companies included in the ranking belong to one or more of the following categories:

- Companies with shares quoted on the world stock exchanges;
- Companies that supply business information to the press and/or through their websites;
- Companies that have an ongoing dialogue with CSIL because of current research work.

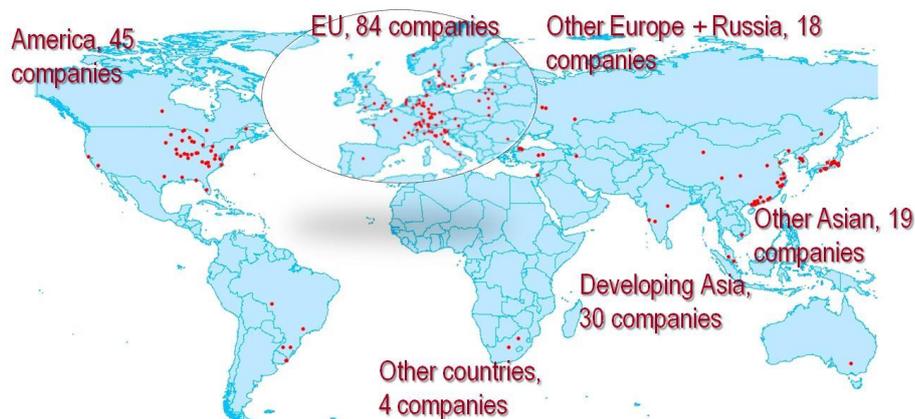
**Figure 1 World\* furniture production breakdown between “top 200 leading companies” and others, 2011 (percentage shares)**



*Note:* \*Estimates covering 70 countries, see note 8.

*Source:* CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations, (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry), and companies data (balance sheets, trade press, interviews).

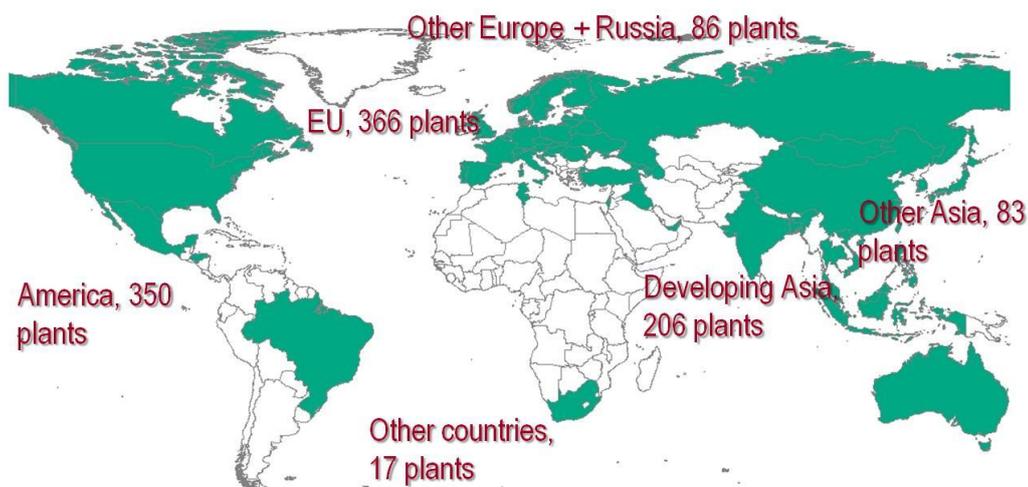
**Figure 2 Top 200 furniture manufacturers worldwide: location of headquarters**



*Source:* CSIL processing of companies data.

Overall, around 40% of the top 200 furniture companies operate plants outside the country where their headquarters are located. In Figure 3 showing plant location, other countries are included and the relative role of the geographical areas differs from the previous map. In particular, the importance of Developing Asia increases. In addition, due to the larger scale of US furniture manufacturers compared to European ones, the relative importance of the two areas changes (in Europe the number of top companies is double than in America, but they manage almost the same number of plants as their US competitors).

**Figure 3 Top 200 furniture manufacturers worldwide: location of plants**



Source: CSIL processing of companies data.

### 2.3 Two speed growth in *per capita* furniture spending and the new markets for furniture

Following the crisis, the global furniture market is now back to a growth path. Market opportunities are developing in different areas of the world, with emerging markets, where disposable income is increasing fast, playing an important role alongside the large traditional markets.

Total world<sup>15</sup> furniture consumption grew from €226 billion in 2003 to a peak of €281 billion in 2007, before decreasing as a consequence of the recession. Growth resumed in 2010. Consumption reached €347 billion in 2012, well above pre-recession levels (see Table 4).

**Table 4 World\* furniture consumption<sup>16</sup>**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
€billion	226	233	253	272	281	278	261	295	314	347
Growth rates		3.1%	8.5%	7.6%	3.4%	-1.0%	-6.2%	13.2%	6.3%	10.4%

Note: \*Estimates covering 70 countries, see note 8.

Source: CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry).

<sup>15</sup> I.e. the CSIL aggregate of 70 countries (see note 8).

<sup>16</sup> From here onwards consumption is intended as apparent consumption, which is calculated as production less exports plus imports. The value of consumption is expressed at production prices, thus excluding retailing mark-up (see Annex 1).

Again, the breakdown of world furniture consumption between high income countries and middle and low income countries shows the increasing role of the latter, with a share of 47% in 2012 (18% in 2003, see Table 5). Rising disposable incomes in emerging markets and market opening are among the factors accounting for this figure.

**Table 5 World\* furniture consumption, high v. low/middle income countries**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
High income countries	82%	80%	78%	75%	72%	68%	61%	59%	56%	53%
Middle/low income countries	18%	20%	22%	25%	28%	32%	39%	41%	44%	47%

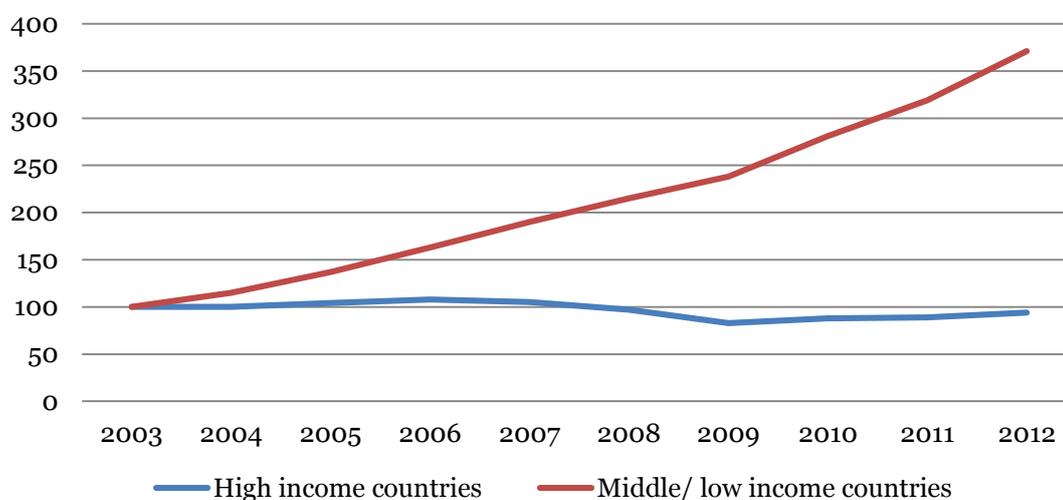
Note: \*Estimates covering 70 countries, see note 8.

Source: CSIL processing of data from official sources: Eurostat, UN National Statistical Offices, National Furniture manufacturers associations (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry).

Per capita furniture consumption<sup>17</sup> ranges from an average of €40 per year in middle and low income countries to €175 per year in high income countries. The worldwide average is €67 per year. The gap between the two groups is still wide, but shrinking year after year.

Figure 4 below illustrates the trend of per capita furniture consumption over the last decade and highlights the two-speed growth registered by high income countries and middle/low income countries.

**Figure 4 – Per capita furniture consumption in high income countries and middle and low income countries (index number, 2003=100)**



Source: CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations, (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry). Population data is from World Bank.

<sup>17</sup> At factory prices, excluding retailing mark-up.

## 2.4 Markets have opened up

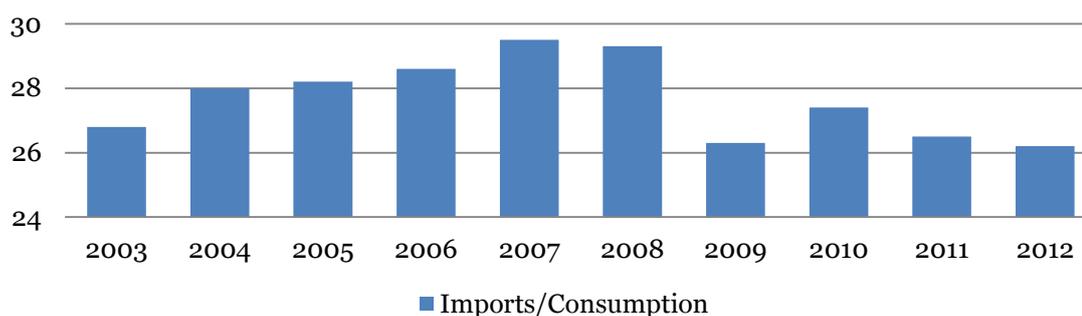
Another important structural change affecting the sector in the last decade is the visible opening up of the market. This is due to many factors such as: declining tariffs, expansion of leading retail chains at the international level, and penetration of emerging markets, partnerships between large-scale distributors and foreign suppliers (e.g. US retailers and Asian OEM), improvements in infrastructure and logistics (particularly in emerging countries), declining per capita furniture spending in advanced economies (particularly during and after the crisis) and the subsequent increasing demand for low price items (which are generally produced in Asia).

Due to the influence of the factors listed above, the import penetration of furniture (measured as the ratio between imports and consumption) for the entire world rose from 26.8% in 2003 to 29.5% in 2007 (see Figure 5). In 2008 and 2009 it decreased as a result of the recession and remained below the pre-recession maximum thereafter.

The ratio is the result of greater and increasing import penetration in advanced economies (around 40%) and lower but increasing market openness in emerging markets (the imports/consumption ratio is 10%).

Among high income economies, the USA, Germany, the UK and France have opened up rapidly; Spain is opening from a closed market status, while in Italy the opening of the market is still at the initial stage. Among the middle and low income countries, the largest markets are still closed (with some exceptions, like Russia), but the potential is very high (e.g. in China, India and Brazil imports currently account for less than 5% of the market). Differences in the openness of the market, as illustrated in Table 6, where data are aggregated per geographical area, affect the EU's export potential in the global market.

**Figure 5 World\* furniture imports/consumption ratio (%)**



*Note:* \*Estimates covering 70 countries, see note 8.

*Source:* CSIL processing of United Nations, Eurostat and national data. Specifically other national sources include: US Census Bureau, Statistics Canada, Ministry of Finance (Japan), Board of Foreign Trade (Taiwan), Thai Customs Department (Thailand).

**Table 6 Furniture imports/consumption ratio per geographical area, 2012**

	<b>Imports / consumption ratio (%)</b>
Asia and Pacific	8%
North America	40%
EU28	47%
Norway, Switzerland, Iceland	76%
Other Europe outside the EU (incl. Russia)	33%
South America	10%
Middle East and Africa	49%

*Note:* Imports include also intra-regional trade and a sizeable percentage of international furniture trade is carried out within each economic region. For example for the European Union (28) the imports/consumption ratio is 47%, but when considering only extra-EU imports this ratio goes down to 15%.

*Source:* CSIL processing of United Nations, Eurostat and national data. Specifically other national sources include: US Census Bureau, Statistics Canada, Ministry of Finance (Japan), Board of Foreign Trade (Taiwan), Thai Customs Department (Thailand).

## 2.5 International trade of furniture is growing

The changing geography of production on a global scale, global sourcing strategies pursued at both the retail and the manufacturing level (e.g. the IKEA strategy), and the international fragmentation of production are shifting the operating boundaries of companies far from their headquarters, to countries where the cost of labour, resources and other inputs is more convenient.

On the other hand, greater market openness and the increasing importance of fast growing markets along with traditional ones, further reinforces the process.

As a result, in the last ten years, world trade of furniture,<sup>18</sup> which accounts for about 1% of world trade of manufactured goods, has grown faster than furniture production. It amounted to €59 billion in 2003 and grew to €82 billion in 2008. After a sharp contraction in 2009 (the largest since the beginning of the CSIL time series of global data), pre-crisis levels were reached in 2010 and growth patterns were on the rise again (see Table 7).

**Table 7 World\* furniture trade**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
€billion	59.0	63.7	69.2	75.9	81.8	81.6	70.0	82.8	86.8	98.1
Growth rates	-	8%	9%	10%	8%	0%	-14%	18%	5%	13%

*Note:* \*Estimates covering 70 countries, see note 8.

*Source:* CSIL processing of United Nations, Eurostat and national data. Specifically other national sources include: US Census Bureau, Statistics Canada, Ministry of Finance (Japan), Board of Foreign Trade (Taiwan), Thai Customs Department (Thailand).

<sup>18</sup> World trade of furniture is defined as the average between total furniture exports from the 70 major countries and total furniture imports into the 70 major countries. See Annex 1 for further details.

When analysing international furniture trade data, three points should be taken into consideration.

- First, around 25% of the value of trade is furniture parts<sup>19</sup> (slightly increasing over the ten years) thus confirming the above-mentioned trend of global sourcing strategies and the international fragmentation of global value chains.
- Secondly, only half of world furniture trade takes place between countries in geographically distant regions. The most important of these flows are from the middle and low income countries of Asia to the United States and Europe.
- Finally, a sizeable percentage of international furniture trade is carried out within broad economic regions.

As a matter of fact, trade within regions amounts to about 54% of total world furniture trade (see Figure 6). More specifically:

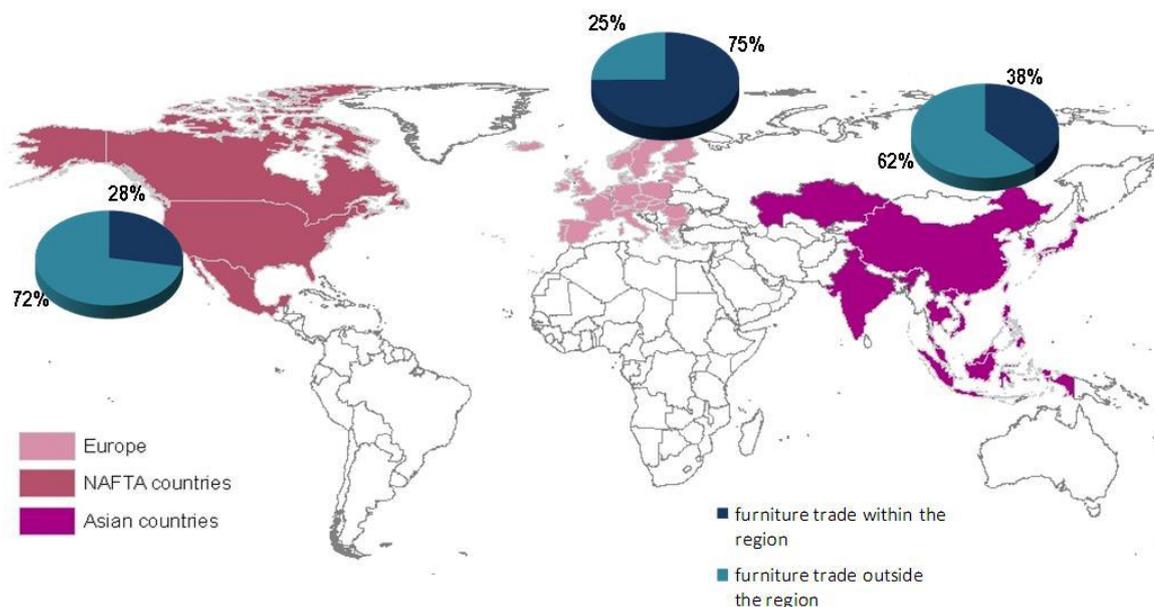
- In the European Union plus Norway, Switzerland and Iceland about 75% of foreign furniture trade takes place among the same countries (specific data on intra EU trade are provided in the next Chapter);
- In the NAFTA area (USA, Canada and Mexico), about 28% of foreign furniture trade is among the three countries;
- In the Asia and Pacific region about 38% of total foreign furniture trade is within the region.

The analysis of the relative positions of the 10 main exporting countries in Table 8 shows that they changed considerably between 2003 and 2012. China moved to first position becoming the leading exporter, while Italy fell from first to third (after China and Germany) and Vietnam rose from 24th to 6th. Poland overtook Canada.

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<sup>19</sup> For HS and CN codes relating to furniture parts see Annex 1.

**Figure 6 Percentage of international furniture trade carried out within each economic region**



*Note:* Europe = European Union (27) + Norway, Switzerland and Iceland

*Source:* CSIL processing of United Nations, Eurostat and national data. Specifically other national sources include: US Census Bureau, Statistics Canada, Ministry of Finance (Japan), Board of Foreign Trade (Taiwan), Thai Customs Department (Thailand).

**Table 8 World furniture trade, top 10 exporting countries (€million)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
China	6,503	8,270	10,967	13,800	16,357	18,481	18,337	25,165	27,524	38,387
Germany	5,279	5,776	6,109	6,897	7,855	8,131	7,015	7,605	8,505	8,483
Italy	8,553	8,698	8,442	8,944	9,591	9,320	7,285	7,761	8,064	8,131
Poland	3,313	3,867	4,394	4,898	5,485	5,767	4,921	5,701	6,404	6,513
United States	2,131	2,198	2,400	2,620	2,689	2,869	2,380	2,919	3,064	3,816
Vietnam	761	1,070	1,447	1,776	2,158	2,320	2,239	2,820	2,791	3,494
Canada	3,639	3,469	3,591	3,586	3,073	2,530	1,734	2,064	2,057	2,255
Malaysia	1,416	1,512	1,613	1,783	1,839	1,809	1,586	1,904	1,840	2,060
Sweden	1,239	1,324	1,411	1,589	1,704	1,705	1,433	1,590	1,751	1,783
France	2,014	2,041	2,030	2,176	2,369	2,384	1,948	1,746	1,733	1,704

*Source:* CSIL processing of United Nations, Eurostat and national data. Specifically other national sources include: US Census Bureau, Ministry of International Trade and Industry (Malaysia).

All major furniture importing countries witnessed a decrease in imports during the recession. By 2012 the USA, Germany, Canada and Japan had returned to, or exceeded, their pre-recession levels. In summary, over the past decade ten countries have been the protagonists of international furniture trade: the seven major industrial countries plus China, Poland and Vietnam (see Table 9).

**Table 9 World furniture trade, top 10 importing countries (€million)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
United States	16,598	17,280	19,205	20,406	19,084	16,687	13,965	17,631	16,948	19,983
Germany	7,130	7,251	7,425	7,798	8,257	8,321	7,901	8,968	9,736	9,539
France	4,147	4,587	5,017	5,220	5,790	5,908	5,233	5,850	5,791	5,854
United Kingdom	4,796	5,502	5,490	5,849	6,361	5,630	4,378	5,047	4,770	5,109
Canada	2,272	2,478	2,835	3,298	3,404	3,356	2,854	3,701	3,794	4,614
Japan	2,857	3,140	3,232	3,324	3,213	3,136	2,880	3,410	3,583	4,371
Russia	842	1,032	1,197	1,520	1,893	2,311	1,492	1,813	2,249	2,770
Switzerland	1,582	1,622	1,742	1,840	2,025	2,061	1,903	2,110	2,369	2,465
Belgium	2,023	2,163	2,374	2,416	2,617	2,595	2,242	2,244	2,357	2,326
Australia	785	980	1,111	1,253	1,374	1,496	1,382	1,638	1,879	2,115

Source: CSIL processing of United Nations, Eurostat and national data. Specifically other national sources include: US Census Bureau, Industry Canada, Ministry of Finance (Japan).

## 2.6 The EU in the global context

The purpose of the present Section is to give a general overview of EU performance in the timeframe covered by the study. Hence, all the results are presented at an aggregate level. However as will be discussed in the next Chapter, differences and peculiarities (in terms of productive system, export orientation and market conditions) can be extremely marked across countries.

### 2.6.1 European furniture manufacturing is performing better than other traditional manufacturing areas

A quarter of the world's furniture is produced in the EU.<sup>20</sup> One should bear in mind that the role of Germany, Italy, Poland and France (which rank among the Top 10 furniture manufacturers worldwide) is particularly important as they have a combined share of 13% of world production and almost 60% of total EU production.

The EU's share of world furniture production has constantly contracted over the last decade and the value of furniture production in 2012 was almost at the same level as ten years before (see Table 10). However, it is worth noting that the statistics do not include European production originating in plants outside the EU (e.g. China) and, as we will see later, this phenomenon has been increasing in the last decade.

As shown in Table 11, when benchmarking the EU's performance with Developing Asia's, the trend is rather clear, showing a two speed growth in furniture production. However, it is also worth noting that the EU has performed better than other historically large manufacturing areas like North America and Japan, where the contraction in national production in the last decade was in the region of 22% for North America and 10% in Japan.

<sup>20</sup> From here, if not otherwise specified, EU and Europe refers to EU28 countries (EU27 + Croatia, see Annex 1).

**Table 10 EU28 furniture production and share of world furniture production (€million and percentage share)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU28, €million	84,911	88,136	89,985	95,232	99,828	97,594	82,478	83,470	85,419	84,147
World*, €million	223,014	229,598	248,386	268,020	278,709	278,495	263,596	299,342	321,026	360,862
EU28 share	38%	38%	36%	36%	36%	35%	31%	28%	27%	23%

Note: \*Estimates covering 70 countries, see note 8.

Source: CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

**Table 11 Furniture production in EU28, North America, Japan and Developing Asia<sup>21</sup> (index number, 2003=100)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU28	100.0	103.8	106.0	112.2	117.6	114.9	97.1	98.3	100.6	99.1
North America	100.0	94.5	100.9	103.6	93.6	81.2	65.2	69.9	69.4	77.8
Japan	100.0	93.7	89.4	83.7	74.2	70.4	70.8	78.3	83.8	90.1
Developing Asia	100.0	115.8	146.2	172.8	210.9	234.1	280.7	352.3	395.9	485.4

Source: CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry).

### 2.6.2 *The European furniture market is slowly recovering and constantly opening up*

The EU market accounts for 23% of the world furniture market, with a decreasing share over the period considered (see Table 12). Consumption in the EU28 in 2012 was still below the pre-crisis level. At present the value of the EU furniture market (which boasts around 500 million consumers) is larger than that of North America (with 460 million inhabitants), another traditional market, where consumption is still far below the value of ten years ago (see Table 13).

The great majority of demand in the EU is currently satisfied by EU production, which accounts for 85% of total EU consumption; the remainder is imported from other countries (see Table 14).<sup>22</sup> But the trend is for greater dependence on imported items, which are increasingly penetrating the EU market and eroding EU manufacturers' shares. This aspect is crucial in the competitiveness analysis and will be further detailed at country and sub-segment level in the following Chapter.

<sup>21</sup> Developing Asia: China, India, Indonesia, Kazakhstan, Malaysia, Philippines, Thailand and Vietnam.

<sup>22</sup> Calculations are made on consumption values: the share of imports from other countries, namely China, would be higher if volumes were considered.

**Table 12 EU28 furniture consumption and share of world furniture consumption (€million and percentage share)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU28, €million	80,566	84,508	87,422	92,418	97,695	95,402	81,171	83,082	82,789	80,337
World*, €million	225,847	232,855	252,532	271,649	280,987	278,039	260,909	295,362	314,027	346,629
EU28 share	36%	36%	35%	34%	35%	34%	31%	28%	26%	23%

Note: \*Estimates covering 70 countries, see note 8.

Source: CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry).

**Table 13 Furniture consumption in EU28 and North America (€million and growth rates)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU28, €million	80,566	84,508	87,422	92,418	97,695	95,402	81,171	83,082	82,789	80,337
Growth rates		4.9%	3.4%	5.7%	5.7%	-2.3%	-14.9%	2.4%	-0.4%	-3.0%
North America, €million	77,329	74,854	81,234	84,640	77,653	67,236	54,374	60,750	59,499	67,608
Growth rates		-3.2%	8.5%	4.2%	-8.3%	-13.4%	-19.1%	11.7%	-2.1%	13.6%

Source: CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations (e.g. Statistics Canada, US Census Bureau).

**Table 14 EU28 furniture consumption, breakdown between imports from extra-EU countries and European production (percentage shares)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU import from extra EU countries	8%	9%	11%	11%	13%	13%	13%	15%	14%	15%
EU production	92%	91%	89%	89%	87%	87%	87%	85%	86%	85%
Total EU consumption	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

European per capita furniture spending is 10% higher than the average for North America, and four times higher than the average value recorded by middle and low income countries. Looking at the trend of the last ten years, Europe performed better than North America (see Table 15); yet this is the result of mixed performances across Europe, with still difficult situations in some countries.

**Table 15 Per capita furniture consumption in EU28 and North America (index number, 2003=100)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU28	100.0	104.4	107.5	113.2	119.2	115.8	98.2	100.2	99.6	96.4
North America	100.0	95.8	103.0	106.2	96.4	82.6	66.1	73.2	71.1	80.0

Source: CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations (e.g. Statistics Canada, US Census Bureau).

### 2.6.3 European trade balance worsened in the last ten years

The EU operates in the global context and purchases furniture items for the domestic market and sells its production to other countries. Ten years ago, furniture exports to extra-EU countries exceeded furniture imports, whereas the balance became negative in subsequent years and was nearly zero in 2012 (see Table 16).

**Table 16 EU28, furniture trade balance,\* (€million)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU Trade balance	1,801	613	-347	-757	-1,645	-1,123	-1,462	-2,578	-804	96

Note: \* Trade balance is calculated as extra-EU exports – extra-EU imports

Source: CSIL processing of Eurostat/Comext data.

The negative balance worsens if we look only at trade flows of finished items excluding furniture parts (see Table 17).<sup>23</sup> This partially excludes the effects of the international fragmentation of production and sourcing strategies operated by European companies in the global context which consists (also) of exporting components to be further processed and re-importing back components produced in other countries to be finished in European plants.

**Table 17 Furniture excluding furniture parts, EU28 trade balance,\* (€million)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU Trade balance	1,713	609	-335	-776	-1,588	-1,132	-1,470	-2,641	-947	-306

Note: \* Trade balance calculated as extra EU exports – extra EU imports

Source: CSIL processing of Eurostat/Comext data.

### 2.6.4 European trading partners have substantially changed in the last ten years

When focusing on the trade of finished furniture items, we see that exports from the EU have been increasing over the last decade (at an average annual rate of 3.7%), reaching a value of almost €10 billion. EU furniture exports to extra-European markets account for around 12% of European production. Around one third of exports are aimed at satisfying the demand from high-income neighbouring markets such as Norway and Switzerland (see Table 18). Exports to Russia have increased at an annual rate of 10% over the last decade, and the Russian market is currently the second destination for EU exports. However, in terms of growth rates, exports to China have outperformed all the others (+19%). The growth of EU exports to the Gulf countries was also strong, whereas the two mature and traditional markets of United States and Japan are losing ground. In particular, exports to the US have almost halved over the last decade.

On the other hand, EU imports exceeded €10 billion last year and two-thirds consisted of Chinese products (see Table 19). Second and third positions were held by two other Asian suppliers: Vietnam (growing fast) and Indonesia (losing ground). Turkish furniture is also

<sup>23</sup> Furniture parts account for 20% of total EU exports to extra-EU countries and 17% of total EU imports from extra-EU countries.

increasingly present on the EU market with the annual growth rate of imports in the region of 7.7%

**Table 18 EU28, furniture\* exports to extra-EU countries (€million, growth rates and percentage shares)**

	€million		% share		Average yearly growth rate
	2003	2012	2003	2012	03-12
Switzerland	1,277.7	1,966.6	18.1	20.1	4.9
Russia	546.2	1,313.7	7.7	13.4	10.2
United States	2,158.4	1,206.8	30.6	12.3	-6.3
Norway	606.6	1,149.6	8.6	11.7	7.4
China	66.6	332.9	0.9	3.4	19.6
United Arab Emirates	122.7	271.0	1.7	2.8	9.2
Saudi Arabia	104.2	232.7	1.5	2.4	9.3
Japan	311.5	219.4	4.4	2.2	-3.8
Ukraine	142.2	205.9	2.0	2.1	4.2
Australia	101.9	168.5	1.4	1.7	5.7
<b>Top 10</b>	<b>5,437.9</b>	<b>7,066.9</b>	<b>77.1</b>	<b>72.1</b>	<b>3.0</b>
<b>Others</b>	<b>1,614.2</b>	<b>2,732.4</b>	<b>22.9</b>	<b>27.9</b>	<b>6.0</b>
<b>Americas</b>	<b>2,507.4</b>	<b>1,694.1</b>	<b>35.6</b>	<b>17.3</b>	<b>-4.3</b>
- North America	2,347.8	1,366.2	33.3	13.9	-5.8
- Central-South America	159.6	327.9	2.3	3.3	8.3
<b>Asia and Pacific</b>	<b>910.6</b>	<b>1,499.4</b>	<b>12.9</b>	<b>15.3</b>	<b>5.7</b>
Europe	2,881.7	5,028.7	40.9	51.3	6.4
- Norway & Switzerland	1,884.2	3,116.2	26.7	31.8	5.7
- Other Europe (incl. Russia)	997.5	1,912.5	14.1	19.5	7.5
<b>Middle East</b>	<b>451.9</b>	<b>937.9</b>	<b>6.4</b>	<b>9.6</b>	<b>8.5</b>
<b>Africa</b>	<b>288.5</b>	<b>632.6</b>	<b>4.1</b>	<b>6.5</b>	<b>9.1</b>
Other countries	12.1	6.5	0.2	0.1	-6.6
<b>World Total**</b>	<b>7,052.1</b>	<b>9,799.3</b>	<b>100.0</b>	<b>100.0</b>	<b>3.7</b>

Notes: \*Data refer to furniture excluding furniture parts. \*\*Estimates covering 70 countries, see note 8.

Source: CSIL processing of Eurostat/Comext data

**Table 19 EU28, furniture\*, imports from extra EU countries, 2003-2012 (€million, growth rates and percentage share)**

	€million		% share		Average yearly growth rate
	2003	2012	2003	2012	03-12
China	1,745.2	6,496.5	32.7	64.3	15.7
Vietnam	322.8	677.1	6.0	6.7	8.6
Indonesia	761.9	464.7	14.3	4.6	-5.3
Turkey	182.0	355.7	3.4	3.5	7.7
Switzerland	308.9	270.5	5.8	2.7	-1.5
Malaysia	296.1	266.8	5.5	2.6	-1.1
Norway	233.5	230.3	4.4	2.3	-0.2
India	119.8	172.7	2.2	1.7	4.1
Taiwan	190.9	155.2	3.6	1.5	-2.3
United States	174.7	151.1	3.3	1.5	-1.6
<b>Top 10</b>	<b>4,335.7</b>	<b>9,240.7</b>	<b>81.2</b>	<b>91.4</b>	<b>8.8</b>
<b>Others</b>	<b>1,003.8</b>	<b>864.2</b>	<b>18.8</b>	<b>8.6</b>	<b>-1.7</b>
<b>Americas</b>	<b>485.5</b>	<b>298.6</b>	<b>9.1</b>	<b>3.0</b>	<b>-5.3</b>
- North America	205.2	167.3	3.8	1.7	-2.2
- Central-South America	280.4	131.3	5.3	1.3	-8.1
<b>Asia and Pacific</b>	<b>3,732.8</b>	<b>8,490.0</b>	<b>69.9</b>	<b>84.0</b>	<b>9.6</b>
<b>Europe</b>	<b>904.2</b>	<b>1,208.4</b>	<b>16.9</b>	<b>12.0</b>	<b>3.3</b>
- Norway & Switzerland	542.4	500.7	10.2	5.0	-0.9
- Other Europe (incl. Russia)	361.8	707.7	6.8	7.0	7.7
<b>Middle East</b>	<b>72.1</b>	<b>69.9</b>	<b>1.4</b>	<b>0.7</b>	<b>-0.4</b>
<b>Africa</b>	<b>136.8</b>	<b>34.8</b>	<b>2.6</b>	<b>0.3</b>	<b>-14.1</b>
Other countries	8.0	3.2	0.2	0.0	-9.7
<b>World Total**</b>	<b>5,339.5</b>	<b>10,104.9</b>	<b>100.0</b>	<b>100.0</b>	<b>7.3</b>

Notes: \*Data referring to furniture excluding furniture parts; \*\*estimates covering 70 countries, see note 8.

Source: CSIL processing of Eurostat/Comext data

### Box 6 Furniture consumption in Russia

Russia has a very large, fast growing and quite open furniture market, consisting of about 142 million inhabitants. Despite having the largest forest endowment in the world, Russia is just the 15th largest furniture producer at world level. Although the industry has made gigantic steps towards improvement in the past decade, mainly thanks to the increased use of imported materials, fixtures and fittings and investments in technical training, the main problem of the domestic furniture industry remains the lack of international competitiveness. Russian production is mainly oriented to the domestic market, and just a small share of it goes to foreign markets (less than 5%). Nevertheless,

the Russian furniture industries can only partially satisfy domestic demand, which has increased significantly in recent years.

Per capita furniture consumption in Russia is low when compared to the average recorded by the high income countries (in Russia, per capita furniture spending is one third), but the living standards of Russian citizens are improving year after year, furniture consumption is growing fast, supported also by a high proportion of young consumers. At present, the medium price segment accounts for around 30% of total Russian furniture consumption and the upper-middle segment and premium price segments (which is mainly satisfied by imported items) account for 12% and 8%, respectively. Imported furniture comes mainly from Italy, which is the first supplier to Russia (23% of total Russian furniture imports), operating in the middle-upper market segment. At the upper-end of the market, especially in the kitchen segment, the German presence is also worthy of note. Furniture items coming from Germany account for 9% of total Russian furniture imports.

The high level of competition that characterizes the Russian market as a whole is likely to increase in conjunction with the recent accession of the Russian Federation to the World Trade Organization. This event will reduce trade barriers and will be a challenge both for Russian furniture manufacturers that will have to adapt to new market conditions, and for foreign players entering this rapidly-developing, high potential area.

As a result, products from Asia-Pacific as a whole account for 84% of extra-EU imports (with China alone representing 64%) and around 10% of the total EU furniture market (note that the shares are calculated in values; in volume terms, the figure would definitely be higher; see Table 20).

**Table 20 EU28, furniture imports from Asia and Pacific (€million and percentage share of consumption)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>EU imports from Asia Pacific</b>	3,733	4,764	5,822	6,784	8,313	8,234	7,099	8,870	8,162	8,490
<b>Total EU consumption</b>	80,566	84,508	87,422	92,418	97,695	95,402	81,171	83,082	82,789	80,337
<b>Market Share (%)</b>	4.6%	5.6%	6.7%	7.3%	8.5%	8.6%	8.7%	10.7%	9.9%	10.6%

Source: CSIL processing of Eurostat/Comext data

### **3 PRODUCTION AND MARKET CONDITIONS IN EU COUNTRIES**

As explained in the previous Chapter, furniture consumption in the EU is almost at the same level as ten years ago. However, the situation varies greatly across Member States. The origins of the furniture purchased on the market have also changed. This Chapter analyses the current market situation and the response of European manufacturers, in particular their response to the crisis and highlights differences between countries, where relevant. In particular, Section 3.1 introduces the key features of the furniture market in the EU28; Section 3.2 focuses on national production, the degree of market integration in the EU and import flows; Section 3.3 takes a closer look at the evolution of national markets and recent developments in a selection of Member States. An analysis of the different sub-segments of the furniture market is provided in Section 3.4, while Section 3.5 completes this overview of the EU furniture market with a description of the traditional profile (including size) of EU companies in this sector.

#### **3.1 The furniture markets in the EU countries**

Germany, France, the UK and Italy together account for two thirds of all EU furniture consumption (64%). As a whole, Western European countries (EU15 in the table below) account for 90% of the total EU market. Poland is the largest market in Central Eastern Europe (EU13 in the table below), where consumption grew faster than in the rest of Europe over last decade (see Table 21). All the national markets in the EU witnessed contractions in consumption in 2009 (as a result of the global crisis). Moreover, the UK, Italy and Spain had already witnessed difficult market conditions in 2008.

As a whole, the EU lost 2% of the furniture market (in value) in 2008 and 15% in 2009. The path towards recovery is hard and even if positive signals emerged in 2010, these were partially counterbalanced by new falls in the subsequent years. Of the largest EU furniture markets, only Germany, Sweden, France and Austria returned to pre-crisis consumption levels in 2012, whereas contractions were strong in Italy, Spain, Portugal, Greece, Ireland, Romania and some of the other Central Eastern European countries.

Thus, when approaching the EU furniture markets, it is worth to keep in mind that some of them are at a level that is at times 30%-40% below the historical value and that any consideration concerning furniture consumption trends in the short/medium term depends crucially on the recovery process, which is currently concerning only some of these countries.

A common feature within EU countries (with few exceptions), is that imports, even if not matching pre-crisis levels, recovered faster than consumption (see Table 22). Understanding the origin of these imports is key to the analysis of the underlying process of market restructuring.

**Table 21 Furniture consumption in EU28 countries, 2012 (€million, percentage shares and average growth rates)**

	€million	Share of EU total	Average yearly growth rate 2003-2012
Germany	18,794	23.4%	0.9%
France	12,079	15.0%	2.2%
United Kingdom	11,144	13.9%	-1.4%
Italy	9,414	11.7%	-2.5%
Spain	5,074	6.3%	-3.7%
Netherlands	3,030	3.8%	-0.7%
Belgium-Lux <sup>24</sup>	3,007	3.7%	2.0%
Austria	2,856	3.6%	3.0%
Poland	2,749	3.4%	6.1%
Sweden	2,715	3.4%	1.7%
Denmark	1,587	2.0%	1.1%
Czech Republic	1,382	1.7%	2.1%
Finland	1,291	1.6%	0.4%
Portugal	803	1.0%	-3.6%
Greece	715	0.9%	-7.3%
Slovakia	646	0.8%	7.4%
Ireland	560	0.7%	-3.3%
Romania	550	0.7%	5.0%
Hungary	432	0.5%	-2.4%
Croatia	350	0.4%	-0.8%
Slovenia	284	0.4%	1.5%
Lithuania	175	0.2%	0.5%
Estonia	165	0.2%	-0.1%
Cyprus	156	0.2%	-1.9%
Bulgaria	154	0.2%	0.5%
Latvia	148	0.2%	1.0%
Malta	78	0.1%	-0.4%
<b>EU15</b>	<b>73,070</b>	<b>91%</b>	<b>-0.3%</b>
<b>EU13</b>	<b>7,267</b>	<b>9%</b>	<b>3.2%</b>
<b>EU28</b>	<b>80,337</b>	<b>100%</b>	<b>0.0%</b>

Notes: Consumption per each country is calculated as follows: country production less country export plus country import.  
Consumption is calculated at producer prices

Source: CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

<sup>24</sup> CSIL data referring to Belgium and Luxembourg are presented together (see Annex 1).

**Table 22 Furniture consumption and furniture imports in EU28 countries (index number, 2008=100)**

	<b>Consumption 2012 (2008=100)</b>	<b>Imports 2012 (2008=100)</b>
Germany	101	115
France	100	99
United Kingdom	87	91
Italy	71	87
Spain	59	67
Netherlands	76	84
Belgium-Lux	96	90
Austria	101	109
Poland	82	86
Sweden	101	93
Denmark	83	91
Czech Republic	86	88
Finland	81	95
Portugal	59	76
Greece	33	32
Slovakia	120	89
Ireland	61	54
Romania	60	66
Hungary	55	74
Croatia	67	66
Slovenia	73	100
Lithuania	50	73
Estonia	73	77
Cyprus	60	55
Bulgaria	54	59
Latvia	75	98
Malta	89	90
<b>EU15</b>	<b>85</b>	<b>94</b>
<b>EU13</b>	<b>76</b>	<b>81</b>
<b>EU28</b>	<b>84</b>	<b>93</b>

Source: CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

### 3.2 Market sources: national production, EU market integration and import flows

Among the leading markets, Germany, France and the UK depend on imports for around 50% of total consumption (in value) with the UK relying more than the others on extra-EU suppliers (namely China, but also Vietnam and Malaysia, see Table 23).

**Table 23 Furniture consumption in EU28 countries, breakdown by national production, intra-EU imports and extra-EU imports, 2012 (percentage shares)**

	Total consumption €million	Share of national production out of total consumption	Share of imports out of total consumption	Imports from intra-EU countries' share of consumption	Imports from extra-EU countries' share of consumption
Germany	18,794	49%	51%	36%	15%
France	12,079	52%	48%	35%	13%
United Kingdom	11,144	54%	46%	21%	25%
Italy	9,414	83%	17%	11%	6%
Spain	5,074	65%	35%	24%	11%
Netherlands	3,030	29%	71%	40%	31%
Belgium-Lux	3,007	23%	77%	60%	18%
Austria	2,856	29%	71%	61%	10%
Poland	2,749	66%	34%	25%	9%
Sweden	2,715	46%	54%	37%	18%
Denmark	1,587	32%	68%	43%	25%
Czech Republic	1,382	59%	41%	35%	6%
Finland	1,291	64%	36%	31%	5%
Portugal	803	38%	62%	58%	4%
Greece	715	69%	31%	19%	12%
Slovakia	646	60%	40%	38%	2%
Ireland	560	54%	46%	32%	14%
Romania	550	42%	58%	43%	14%
Hungary	432	24%	76%	63%	14%
Croatia	350	38%	62%	39%	23%
Slovenia	284	n.a.	n.a.	n.a.	n.a.
Lithuania	175	37%	63%	51%	13%
Estonia	165	57%	43%	35%	8%
Cyprus	156	47%	53%	35%	18%
Bulgaria	154	25%	75%	54%	21%
Latvia	148	20%	80%	64%	16%
Malta	78	50%	50%	36%	14%
<b>EU 15</b>	<b>73,069</b>	<b>53%</b>	<b>47%</b>	<b>32%</b>	<b>15%</b>
<b>EU13</b>	<b>7,268</b>	<b>55%</b>	<b>45%</b>	<b>35%</b>	<b>10%</b>
<b>EU28</b>	<b>80,337</b>	<b>53%</b>	<b>47%</b>	<b>32%</b>	<b>15%</b>

Source: CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

The Netherlands, Belgium and Austria are highly dependent on imports (accounting for over 70% of the total market in value). The Netherlands is a structurally open country (due to the presence of a well developed system of ports and infrastructure, among other things) that imports from Germany and Belgium. The Dutch market also sources a lot of furniture from extra-EU suppliers (the import penetration from extra-EU countries is the highest among the 28 countries considered). Belgium and Austria are strongly dependent on other European suppliers. In Denmark, one quarter of the market is satisfied by extra-EU suppliers (neighbouring Norway, but also China) whereas in Sweden the situation is more favourable to domestic producers (over 50% of the market).

National production accounts for significant shares in Italy, where imports still account for just 17% of the total market (the share is less than half of that recorded in the other large markets) and imports from extra-EU countries are even more limited. National producers control a large market share in Spain, too, although to a lower extent than in Italy. In both countries, furniture manufacturers dominate the market thanks to their long established experience in furniture making and to the important role of the industry within the manufacturing sector. The share of national production is also larger in the markets of Eastern Europe and in particular in Poland, the Czech Republic and Slovakia. This is probably due to the more recent market opening of this specific area.

Taking a longer-term perspective, the analysis of EU market sources in the last decade shows the following:

- The share of domestic production in each country's consumption has decreased everywhere (with the exception of Austria and Belgium).
- In the largest markets of Germany, Italy, the UK and France this trend is also valid, with a contraction in the share of national production in the region of 10%.
- The share of domestic production, which a decade ago was generally higher in Eastern Europe than in Western Europe, has been contracting fast, with the sole exception of Poland, where the strong domestic manufacturing sector is still competitive. This situation in Eastern Europe is the results of two factors: the EU market integration process, which made Western European products more easily available (the role of retailing chains expanding there being fundamental) and on the other hand, the imports of low cost items, mainly from Asia (as happens in Western Europe).
- The ratio of imports from extra-EU countries is increasing very fast in Eastern Europe, but we have to remember that at present we are speaking of very low values.
- Within Western Europe the two countries where the national share contracted most are Portugal and Spain, two markets that are facing both structural difficulties and strong contractions on the demand side.
- Import penetration from extra-EU countries has increased over the last decade for all the markets considered, the highest increases in percentage terms occurred in the UK and the Netherlands. Italy's performance was below average.

### **3.3 Traditional and growing manufacturing countries within the EU and the integration of productive systems**

Furniture manufacturing is a dynamic industry, with its success factors lying in the creative capacity of combining raw materials and technology in order to meet the demand emerging from the markets and to satisfy consumers' needs. European manufacturers set the trend at the global level, in terms of design and innovation, but significant differences within the EU remain.

Each country's comparative advantage relates to the low cost of labour (e.g. Romania, Bulgaria), the presence of abundant raw materials (e.g. Czech Republic), the technological endowment and unique know-how (e.g. Germany, Italy) and the investment in the sector, made by national or foreign companies or fuelled by institutional bodies (e.g. Poland). A long tradition in furniture making is another factor, but even if craftsmanship still plays a role in the productive system, furniture production has become an assembly industry and adequate and performing production systems are more important. A country's comparative advantage can lead to a strong, fast growing furniture industry. Also, it can make it a preferred destination for other countries outsourcing strategies.

As a matter of fact, the role of the furniture manufacturing sector within the economy varies across the EU countries and in the time span considered. In order to capture these effects we calculate here a basic indicator, the concentration index (see Figure 7).<sup>25</sup> Despite being a very simplified index, it provides a first overview of the relative contribution of a specific sector to the national economy of each country compared to the EU average, thus measuring a sort of comparative advantage of the sector within the country.

The furniture sector is relatively more important in the Italian, Danish and Portuguese economies and in many of the Central Eastern European countries. On the one hand, the role of the sector is generally diminishing in Western Europe, even in countries with long established manufacturing traditions (such as Italy and Spain). The exceptions are Germany and Sweden, where the sector is growing in importance. On the other hand, the relative importance of the furniture sector within the economy increased in some of the Central Eastern economies, such as Poland, Hungary and Lithuania, and decreased in others (Romania, Slovenia and Slovakia) even though levels were still well above the European average. It is worth mentioning that these remarks are based on 2012 data, when production levels were still negatively affected by the economic downturn.

The furniture sector as a whole has lost importance within the EU economy<sup>26</sup> in the last decade. The number of active companies fell from 135,000 in 2003 to 126,000 in 2011 and the number of employees from around 1,200,000 in 2003 to 920,000<sup>27</sup> in 2011. The share

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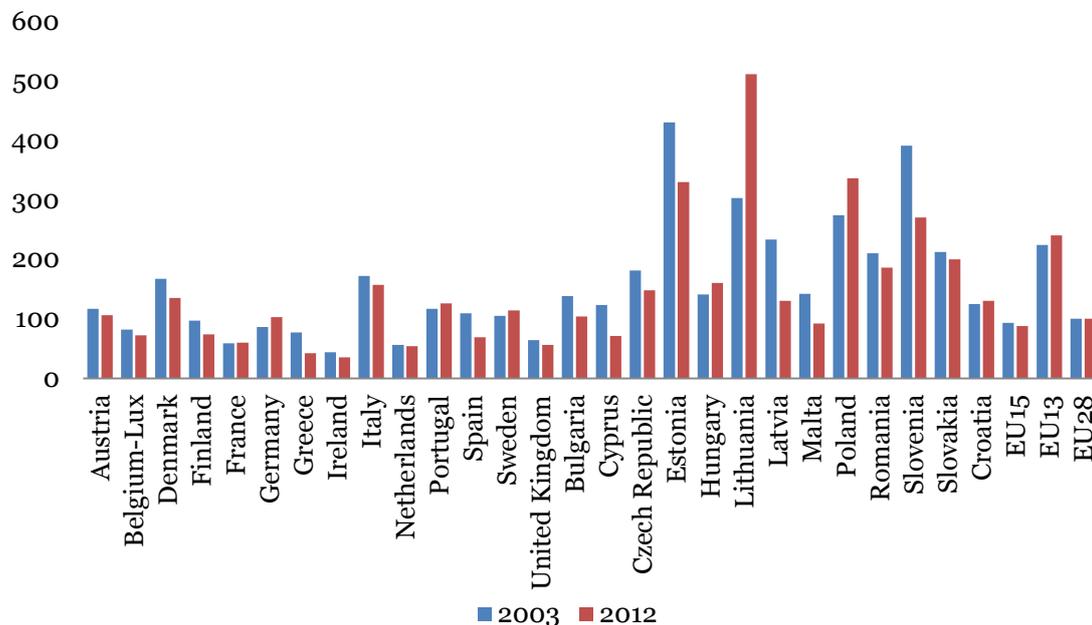
<sup>25</sup> If furniture production accounts for a 5% share of country X's GDP and a 5% share of the EU GDP, the concentration index of the furniture sector for country X equals to 100. If furniture production represents 5% of country X's GDP, but 10% of the EU GDP, the concentration index of the furniture sector for country X is 50. If furniture production represents 10% of country X's GDP and 5% of the EU GDP, the concentration index is 200.

<sup>26</sup> At EU level, furniture production/GDP ratio was 0.8% in 2003 and 0.6% in 2012.

<sup>27</sup> Data from Eurostat SBS Eurostat,(sbs\_na\_ind\_r2), CSIL processing of NACE REV1 for the year 2003-2007, NACE Rev2 for the years 2008-2011.

of furniture production over the total manufacturing sector is in the range of 1.4%, decreasing over the last decade (see Table 24).

**Figure 7 EU28 furniture production in each country (concentration index)**



Source: CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

**Table 24 EU28, the furniture sector: number of companies, number of employees, production share over the total manufacturing sector (unit and percentage shares)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Enterprises</b>	134,557	134,879	134,577	135,266	135,902	130,750	126,061	131,077	126,000
<b>Employees</b>	1,178,781	1,191,393	1,162,084	1,144,611	1,151,988	1,096,161	993,919	937,247	919,311
<b>Share of production on total manufacturing (%)</b>	1.8	1.9	1.8	1.8	1.8	1.7	1.7	1.6	1.4

Notes: Eurostat's data for EU28; estimates for countries with missing data.

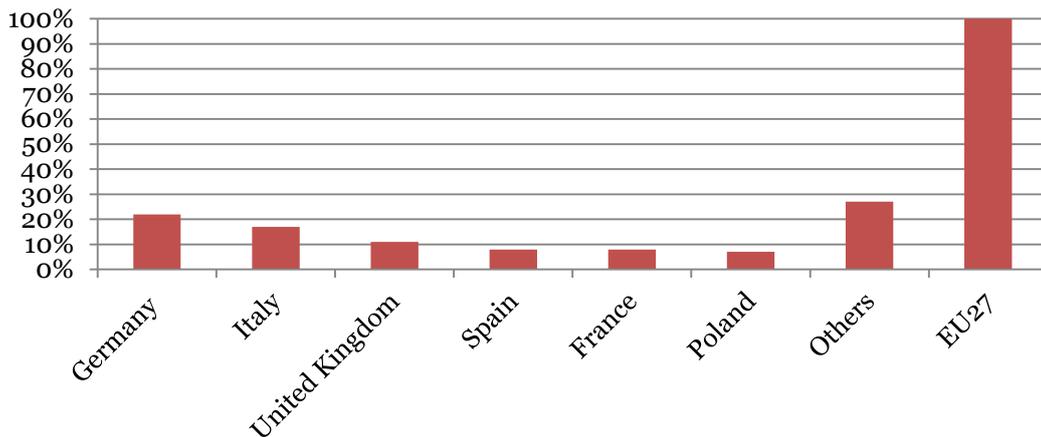
Source: processing of Eurostat data [sbs\_na\_ind\_r2].

In addition, EU furniture production saw a sharp contraction during the crisis, with some recovery in 2010 and 2011 and a slight reversal of trend again in 2012 (see Table 10). As a result, the value of furniture production is almost the same as it was ten years ago. However, within the EU, some countries are growing rapidly in terms of production value and others are lagging behind because of structural factors or as the result of the recent economic slump.

Among the structural changes, the integration process at industrial level within the EU (e.g. between Germany and Poland) is one of the factors that strongly affected the productive systems and the comparative advantages between countries.

The value added in the furniture sector is €30 billion<sup>28</sup> at the European level, with six countries, namely Germany, Italy, the United Kingdom, Spain, France and Poland, accounting for over 70% of the total (see Figure 8)

**Figure 8 EU28, value added to factory cost in the furniture sector, 2010 (percentages)**



Source: CSIL processing of Eurostat data [sbs\_na\_ind\_r2].

In the last few years there has been a strong contraction in value added in Spain and the UK, and to a lesser extent also in Italy. Among the causes, we can mention the negative performance of production. Germany, Italy, Poland, France and the UK account for over two thirds of all EU furniture production (ten years ago Spain ranked fifth, but it has been replaced by Poland) (see Table 25). Half of all the European furniture manufacturing companies are located in these countries, and together they employ around 60% of the European sector workforce.

<sup>28</sup> Data from Eurostat SBS Eurostat, (sbs\_na\_ind\_r2).

**Table 25 Furniture production in EU28 countries, 2012 (€million, percentages and average growth rates)**

	€million	Share of EU total	Average yearly growth rate 2003-2012
Germany	17,738	21%	1.5%
Italy	15,950	19%	-2.1%
Poland	8,323	10%	7.4%
France	7,929	9%	0.2%
United Kingdom	7,022	8%	-2.5%
Spain	4,611	5%	-4.8%
Sweden	3,021	4%	2.4%
Denmark	2,147	3%	-2.2%
Netherlands	2,119	3%	-0.7%
Austria	2,115	3%	-0.4%
Belgium-Lux	1,953	2%	-0.6%
Romania	1,594	2%	6.3%
Czech Republic	1,459	2%	1.5%
Portugal	1,354	2%	-0.4%
Lithuania	1,090	1%	11.2%
Hungary	1,017	1%	1.8%
Finland	929	1%	-2.6%
Slovakia	928	1%	6.6%
Slovenia	619	1%	-3.4%
Greece	532	1%	-7.9%
Ireland	376	0%	-3.5%
Estonia	373	0%	2.0%
Croatia	369	0%	1.8%
Bulgaria	268	0%	2.6%
Latvia	188	0%	-0.3%
Cyprus	82	0%	-4.1%
Malta	41	0%	-3.4%
<b>EU15</b>	<b>67,796</b>	<b>81%</b>	<b>-1.0%</b>
<b>EU13</b>	<b>16,351</b>	<b>19%</b>	<b>5.1%</b>
<b>EU28</b>	<b>84,147</b>	<b>100%</b>	<b>-0.1%</b>

Source: CSIL processing of 2012 preliminary estimates based on data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

Western Europe (EU15 in the table above) provides around 80% of total EU furniture production (the share was 10% higher a decade ago), losing relative importance compared to Central Eastern Europe (EU13 in Table 25), whose production is at present 50% higher than a decade ago, with fast growth in production in Poland, Romania, Lithuania and Slovakia.

Data on employment and number of companies also confirm this result, with a more favourable trend in the last decade in Central Eastern Europe with respect to Western Europe (even if some sector employment was lost during the last decade, see Table 26).

Due to the abundance of raw materials and the presence of a wood processing industry, the importance of Central Eastern Europe has in fact grown fast, in terms of furniture production, trade and consumption, driven also by the changes following the collapse of the centralized system and the EU integration process. In addition, the globalisation and liberalisation of international trade, which has had a dramatic impact on the international furniture and wood processing industry in Western Europe, caused outsourcing processes (both at the manufacturing and retailing level) to Eastern European economies with lower labour costs.<sup>29</sup> Furniture production in the area has been driven mainly by exports (both of furniture items and furniture components) to Western Europe. However, it is worth remembering that indicators of performance, size and structure of the productive system in Central Eastern Europe vary substantially across countries.

**Table 26 EU15 and EU13 furniture sectors: number of companies and employees, 2003-2011 (Index number, 2003=100).**

		2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Enterprises</b>	EU15	100	99	100	100	100	93	85	88	83
<b>Employees</b>	EU15	100	98	95	93	93	88	80	75	73
<b>Enterprises</b>	EU13	100	104	100	102	105	114	128	133	134
<b>Employees</b>	EU13	100	108	107	106	108	104	94	89	88

*Source: processing of Eurostat data [sbs\_na\_ind\_r2].*

The trend of intra-EU trade in furniture parts can, to some extent, be used as a proxy of the interdependence of furniture manufacturing across the EU. Furniture parts account for over 30% of total intra-EU furniture trade, growing every year and amounting to €9 billion in 2012 (see Table 27). A substantial share of this trade is claimed by German imports from Poland (over one third of the total) but the presence of the outsourcing phenomenon and Western European direct investments in plants in Central Eastern Europe are widespread and also concern Romania, the Czech Republic, Croatia, Hungary and Slovenia.

<sup>29</sup> The Swedish company IKEA is perhaps the best example of the success of the outsourcing model, with its over 1,000 suppliers located in 53 different countries. While some of its producers are located in Western European countries such as Italy, and also more recently in the United States, most of its producers and suppliers are based in Asia (China) and Central Eastern Europe. In particular Poland is its second supplier, and Lithuania its 5th, providing respectively 18% and 4% of its final products.

**Table 27 Intra-EU trade\* in furniture parts, 2003-2012. €million and growth rates**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Growth rate 03-12
Intra EU	7,053	7,460	7,770	8,514	9,506	9,315	7,568	8,406	9,310	8,883	2.6 %

Note: \*Intra EU trade is calculated as the average by intra EU import and intra EU export.

Source: CSIL processing of Eurostat/Comext data.

The trends in furniture production of the main European furniture manufacturing countries are illustrated below (see Table 28).<sup>30</sup> Additional tables for all MS are provided in Annex 2.

**Table 28 EU28 furniture production, top five producers, selected other countries and main geographical areas (index number, 2003=100)**

Top 5 producers	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Germany	100	101	103	110	117	101	105	107	114	115
Italy	100	103	102	106	108	102	92	93	90	82
Poland	100	116	134	153	175	103	147	167	183	189
France	100	100	103	106	110	104	106	102	106	101
United Kingdom	100	105	102	104	106	105	73	70	74	79
<b>Others</b>										
Spain	100	102	105	113	119	103	80	75	70	64
Sweden	100	104	108	114	117	115	98	109	117	124
Denmark	100	104	104	105	106	97	77	77	77	82
Netherlands	100	105	108	118	125	119	97	99	95	94
Austria	100	104	104	117	120	120	104	105	104	96
Belgium-Lux	100	99	100	102	106	106	95	96	97	95
Romania	100	123	137	149	166	165	133	141	164	173
<b>EU15</b>	<b>100</b>	<b>103</b>	<b>103</b>	<b>109</b>	<b>113</b>	<b>109</b>	<b>93</b>	<b>93</b>	<b>94</b>	<b>91</b>
<b>EU13</b>	<b>100</b>	<b>113</b>	<b>124</b>	<b>137</b>	<b>152</b>	<b>157</b>	<b>128</b>	<b>139</b>	<b>150</b>	<b>156</b>

Source: CSIL processing of 2012 preliminary estimates based on data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

Within Western Europe, Germany is the best performer with furniture output 15% higher in value than in 2012. The **German** furniture industry (which according to CSIL preliminary estimates, in 2012 overtook Italy as the leading furniture manufacturer in Europe) was thoroughly restructured during the last decade, changing its organisational forms and spatial linkages, and taking advantage of the proximity to Poland and its low raw material costs and wages. In addition, relatively favourable conditions in the construction sector and on the labour market favoured a stable development of the furniture domestic market. The sector is making efforts to promote German furniture focussing on the efficiency and performance of its products, and reliability in the delivery. At present, there are over 9,100

<sup>30</sup> The trend relates to production carried out within the country and thus excludes output produced by foreign plants (both within and outside the EU).

furniture manufacturing companies operating in the German furniture sector with a workforce of 133,000.<sup>31</sup>

The **Italian** furniture industry is made of over 19,000 companies (the largest number among EU countries) and around 122,000 employees. The average company size is smaller in Italy than in Germany (6.5 employees<sup>32</sup> per company in Italy, versus 14.7<sup>33</sup> in Germany). The sector lost 20% of furniture production in the last decade, and is still having difficulties recovering from the crisis. Difficulties were generated by severe domestic market conditions and the negative effects of international competition (both on the domestic and export markets). One of the peculiarities of the Italian furniture manufacturing system is the strong presence of clusters, which are a driving sector force (see Box 7).

However, national results notwithstanding, performance among Italian furniture clusters has been extremely heterogeneous over recent years. The differences are mainly grounded in the differentiation of products and export markets, as well as the design contents of the products manufactured.

In terms of integration of the production process within the EU, traditionally Italy's preferred partners are Romania, Croatia and Slovenia where years ago some of the leading Italian manufacturers built plants or established partnerships with domestic companies (mostly, but not only, in the upholstered and seating segments). Moreover, some Italian clusters sourced components there.

#### **Box 7 Performance of Italian furniture clusters**

According to CSIL estimates, around 70% of Italian furniture production takes place in furniture clusters. The main furniture clusters are Brianza, Manzano, Alto Livenza and Quartiere del Piave (Treviso and Pordenone), Bassa Veronese (Verona, Padua and Rovigo), Bassano (Vicenza), Forlì (Emilia Romagna), Pesaro (Marche), Tuscany and Murge (Basilicata).

Clusters are responsible for around 80% of Italian furniture exports. The share of exporting companies out of total companies is higher in clusters than in the sector as a whole.

The crisis negatively impacted Italian clusters. The gap between 2008 and 2011 turnover levels was on average higher for companies within clusters than for the entire sector.<sup>34</sup>

The negative impact of the crisis varies within and across the furniture clusters.

Indeed, there is a strong polarization within the clusters, with some companies growing fast and marginal companies lagging behind and even becoming at risk of bankruptcy. The polarization process seems determined by the strategies implemented: companies with positive financial results are those that are investing more in branding, quality and, above all, in the direct control of the retailing chain (mainly abroad).

There are also differences across the clusters, even if geographically close or with similar product specializations. The best performing clusters seem those characterized by efficient governance, a high level of autonomy of subcontractors, the presence of leaders that coordinate a network of companies and a high propensity to invest in innovation.

<sup>31</sup> Data from Eurostat SBS, (sbs\_na\_ind\_r2), year 2011.

<sup>32</sup> *Ibid.*

<sup>33</sup> *Ibid.*

<sup>34</sup> Banca Intesa (2012), "Economia e Finanza dei distretti Industriali".

**Poland** is at present the third largest furniture country at the European level. The sector workforce is made of around 140,000<sup>35</sup> employees (it ranks first at the EU level in terms of employment) employed in 14,421 companies. In 2012 the value of production was 90% higher than ten years before.

The achievement of this target was possible thanks to the long-standing tradition of furniture manufacturing and the collective efforts of many companies, both large firms and a host of small and medium-sized companies, mostly family businesses created after the change in the political system in 1989. Thanks to these changes, the Polish furniture industry was almost entirely privatized. Investments from foreign corporations (mainly, but not only, German ones) were the driver that led to sharp increases in furniture production and in the level of expertise. The past and on-going mergers with foreign companies has promoted the transfer of technology,<sup>36</sup> and has also helped to promote the expertise of Polish firms abroad, allowing them to benefit from improved access to international distribution networks. The presence of the semi-finished wood panels industry was another key driver. In Poland, most furniture made from particleboards is RTA (Ready to Assemble) furniture.

Furniture industry clusters are located in different parts of the country, mainly related to natural and historical predispositions. The *Wielkopolskie*, *Mazowieckie* and *Małopolskie Voivodships* are leaders in Poland in terms of furniture manufacturing. The Wielkopolski furniture cluster includes both enterprises employing more than 300 workers and micro-companies. These companies are beneficiaries of European funds and foreign direct investments and take advantage of the results of research run by scientific centres specialized in the furniture industry (see Box 8).

Exports, which are mostly destined for Western Europe, are extremely important for the Polish industry and act as a driver of growth. Competitive prices are an additional strength.

#### **Box 8 Wielkopolski cluster**

The Polish Chamber of Commerce is responsible for the “KIGNET Innovation – Chamber System of support for enterprise innovation” project, co-financed by the European Union from the European Regional Development Fund under the “Innovative Economy” Operational Programme, Measure 5.2: Support for business environment institutions providing pro-innovative services and their networks of supra-regional importance.

The purpose of the project is to develop the integrated KIGNET Innovations Network by promoting and improving the availability of high-quality advisory services of a pro-innovative nature through the development of a friendly system of information and cooperation between businesses and institutions supporting innovations.

The specific goals are:

<sup>35</sup> Data from Eurostat SBS, (sbs\_na\_ind\_r2), year 2011.

<sup>36</sup> According to the Polish Information and Foreign Investment Agency one of the largest investment projects finalised in 2010 was the IKEA furniture plant in Podlasie. The company is going to produce up to 250,000 cubic metres of light, low-emission products for the furniture industry. Production of ultra-light HDF Green-Light panels based on a new technological process guarantees better product characteristics, lower weights and cost reduction. It is the most modern plant of its kind in Europe, worth €140 million, 23% of which came from the EU “Innovative economy” Operational Programme.

- The development and implementation of tools and methods of cooperation between clusters in Poland, including the development of an Internet platform for cluster initiatives;
- The development of a guide of good clustering models and practices in Poland;
- The inclusion of the developed supra-regional network for cluster support, cooperation and promotion into the network of clusters and cluster initiatives in Europe;
- The engagement in initiatives to create - in cooperation with other clusters - business opportunities for companies operating within clusters (business partner matching, working business-to-business meetings);
- The provision of consulting services for companies regarding cluster initiatives: identification of problems and needs, mapping, structure, organization and participants, management and financing.

Until the end of 2010, the activities within the Project successfully inspired and supported the creation and development of a few clusters, including the Wielkopolski Cluster of Design Furniture. The main objective of the cluster is to create innovative and competitive products, thus promoting furniture from light and ecological materials offering considerable weight reduction, high stability, and the possibility of choosing any shape or form. Another goal is to expand the sales markets and to increase the competitiveness of member companies thanks to a uniform branding of the cluster (promoting ecological design furniture from Wielkopolski). Indirect goals of the initiative are to strengthen SMEs in the furniture sector of the Wielkopolski region and to promote network cooperation within the business community.

The **French** productive system is composed of many relatively small companies predominantly oriented to the domestic market. The French market has proved stable during the last few years and offered opportunities to domestic manufacturers which, generally speaking, have strong partnerships with retailing chains, and have only recently started sourcing outside the EU.

The furniture industry in the **United Kingdom** is recovering by showing an increase in production levels, although these are still below those of a decade ago. The restructuring process of national companies led many of them to become leaner and more efficient and to improve the services offered. An increasing degree of specialization (serving niches and working on a custom base) was also observed as a consequence of competitive pressure.<sup>37</sup> In the UK, furniture manufacturing is spread across the country, with no traditional regional hub. Exports have traditionally been marginal.

The analysis of the production performance in relation to furniture exports provides further insights into the countries' competitiveness (see Table 29).

**Table 29 EU28, furniture, exports/production ratio**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Germany	34%	37%	38%	40%	43%	44%	43%	46%	48%	48%
Italy	44%	44%	43%	44%	46%	45%	41%	43%	46%	51%
Poland	75%	76%	75%	73%	72%	72%	76%	78%	80%	78%
France	26%	26%	25%	26%	27%	28%	24%	22%	21%	21%
United Kingdom	12%	12%	12%	13%	13%	13%	12%	14%	15%	14%

Source: CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

<sup>37</sup> 2010, FIRA, "The competitiveness of the UK furniture manufacturing industry".

Poland exports the largest share of production among the five leading producers (with exports mainly destined to EU countries). This is the result of the above mentioned foreign investment in plants especially built to produce goods for export, followed by an increasing presence of Polish companies with their own brand in international retailing channels. However, Polish furniture is often sold under the names of well-established, western brands as their own brand identity is still not strong.<sup>38</sup>

Exports have also been a driving force in Germany over the last decade, accounting for almost half of the value of production (compared to one third ten years ago). Exports contributed to the positive trend in sector production by increasing the country's competitiveness on foreign markets.

In Italy, traditionally an export-oriented country with a heterogeneous group of exporting companies (see Box 9), the exports/production ratio also increased, but less rapidly than in Germany. In 2011 Germany replaced Italy as the leading European exporter of furniture.

#### **Box 9 Export propensity of Italian furniture companies**

In 2010, Italy had some 50,000 furniture exporting companies, thus representing around a quarter of the sector in terms of the number of companies, but over 60% in terms of employment (with an average company size of 22 employees, well above the national average). Within this group, there is a limited sub-group of companies (around 200) that, in addition to export activities, carry out more complex international strategies such as joint ventures, commercial partnerships and productive investments. These companies have, on average, proven to be more resilient to the negative effects of the crisis.

CSIL carried out a specific study of Italian exporters and identified the following sub-groups of companies: Opportunity Driven (mainly oriented towards the domestic market with spot presence on foreign markets); Entrants & Established Exporters (generally medium-sized companies with a longstanding tradition of exporting, and a substantial share of turnover generated by exports, but with no or few other forms of internationalization activities); International Players (exporting is their main goal and their organizational structure is oriented to internationalization which takes the form of equity agreements, commercial partnerships and foreign branches, sub-contracting, direct ownership of stores and Greenfield investments); and Front Runners (medium-large companies with a structured internationalization activity that includes plants in foreign countries in order to have access to their domestic market and producing high quality and innovative products that often have a design content). Within the group of exporters taken into consideration in the CSIL sample, the first group accounts for the majority (over one third of the total), followed at the same distance by the International Players and the Entrants & Established groups. Front Runners are very few.

CSIL's analysis revealed that Italian furniture companies still have a traditional approach to foreign markets and exports are very often the main route to internationalization, as there are very few companies that implement "light" internationalization strategies (sub-contracting, commercial agreements, etc.) together with exports and the number of those that implement "complex" strategies (direct ownership of retailing channels, direct investments) is even lower.

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<sup>38</sup> As a matter of fact, furniture manufacturers are making efforts to promote Polish furniture at an international level. The furniture industry has been incorporated in the promotion campaign entitled "Created in Poland," which constitutes a part of "The promotion of the Polish economy on international markets" programme. At the same time the campaign 'Proud of Polish Furniture' has targeted the domestic market.

It is worth noting that a substantial share of EU furniture exports are destined to other EU countries. The trend in intra-EU trade of finished furniture items measures, to some extent, the market integration of the furniture sector at the EU level. These flows have been growing in the last decade, but less rapidly than intra-EU trade of furniture parts (see Table 30).

**Table 30 EU 28, intra-EU furniture trade\* (€million and growth rates)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	AVG 03-12
Intra-EU trade	17,127	18,249	18,736	19,742	21,416	21,145	17,949	18,570	19,217	18,913	1.1%

Note: \*Intra EU trade is calculated as the average by intra EU import and intra EU export.

Source: CSIL processing of Eurostat/Comext data.

Germany, Poland and Italy are again the leading players accounting for over 50% of intra-EU exports. Germany and Italy have a strong presence in many European countries, as they can rely on a wide retailing network, mainly of specialists (e.g. kitchen retailers, upholstery retailers). However, Italy seems to be losing ground compared to Germany, whereas Poland seems particularly effective in benefitting from the integration of the EU market (see Table 31).

**Table 31 Germany, Poland and Italy, furniture\* exports to EU countries, 2003-2012. €million and growth rates**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	AVG 03-12
<b>Germany</b>	3973	4404	4654	5230	5966	6095	5246	5491	6054	5820	4.0%
<b>Poland</b>	2908	3414	3848	4306	4767	5002	4339	4977	5559	5609	7.0%
<b>Italy</b>	5405	5577	5403	5763	6109	5707	4530	4775	4819	4576	-3.3%

Note: \*Furniture exports excluding furniture parts.

Source: CSIL processing of Eurostat/Comext data.

In terms of extra-EU exports, 50% of the total EU flows come from Germany and Italy. Huge values and shares of extra-EU exports are also recorded in Denmark (with a stable trend) and Sweden (with a fast growing trend).

Extra-EU destinations are definitely important for Italy (49% of total exports, for a total of around €3 billion), and to a lesser extent for Germany (33%, for a total of around €1.9 billion). Although, in absolute values, Italy is still the largest exporter to extra-EU destinations, the analysis of the growth rates in trade flows shows that German manufacturers are becoming increasingly competitive on those markets when compared to Italy.

### 3.4 Trends in furniture sub-segments and EU specialization

Furniture sub-segments recorded different performances in terms of the competitiveness of EU manufacturers on the domestic and foreign markets. Some furniture items are less sensitive to international competition than others for different reasons: product and purchasing process peculiarities, price dynamics, design and innovation content of products, and other factors related to the production process.

Specifically, the Eurostat NACE Rev.2 Division 31 is broken down into the following groups:

- 31.01 Manufacture of office and shop furniture;
- 31.02 Manufacture of kitchen furniture;
- 31.03 Manufacture of mattresses;
- 31.09 Manufacture of other furniture.

The distribution of European furniture companies is illustrated below (see Table 32). For around 70% of them, the main activity is the “manufacture of other furniture”.

In order to obtain a more detailed description of product trends over a ten year time span, the data presented in this paragraph follows the classification provided by CSIL, which is based on a further processing of Eurostat data. The segments<sup>39</sup> taken into consideration are the following:

- Kitchen furniture
- Upholstered furniture
- Office furniture
- Mattresses
- Other furniture (mainly bedroom furniture, dining and living room furniture, seats, outdoor furniture and bathroom furniture).

**Table 32 EU28, companies, employees and average size, by main sub-segments, 2010\***

	Manufacture of office and shop furniture	Manufacture of kitchen furniture	Manufacture of mattresses	Manufacture of other furniture	Total Furniture
<b>No. of enterprises</b>	16,885	14,014	1,803	80,994	113,696
<b>No. of employees</b>	168,125	97,367	37,301	579,528	882,321
<b>No. of employees per company</b>	10.0	6.9	20.7	7.2	7.8

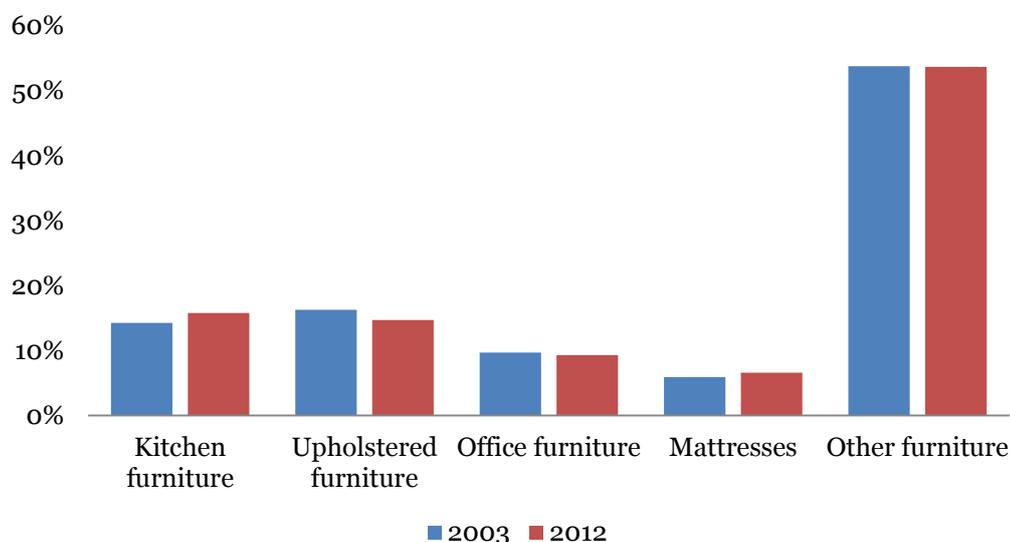
*Note:* \*excluding the Czech Republic, Denmark, Estonia, Ireland, Greece, Luxembourg and Malta  
*Source:* CSIL processing of Eurostat data (sbs\_na\_ind\_r2).

Additional information on RTA (Ready to Assemble) furniture is also provided below. EU furniture production, according to this classification, is broken down as illustrated in Figure 9. The “other furniture” aggregate is huge and accounts for over 50% of production. A rough estimate<sup>40</sup> of the products included in this segment is as follows: 20% bedroom furniture, 15% dining and living room furniture, 10% seats (excluding upholstered seats), 30% occasional furniture, bathroom furniture, outdoor furniture and others items, and 25% furniture parts.

<sup>39</sup> Descriptions of the products included in CSIL aggregates are listed in Annex 1.

<sup>40</sup> CSIL processing from: Eurostat, National Statistical Offices, National Furniture manufacturers associations.

**Figure 9 EU28, Furniture production by main sub-segments (percentage shares over total furniture production)**



Source: CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

There are some peculiarities for each sub-segment that should be duly taken into consideration before continuing the analysis (see Table 33):

- Kitchen furniture is a segment that is less subject to import penetration than the others. This is due to the installation work often required and complementary to the kitchen purchase, but also to different standards in size and other technical issues that can vary from one country to another;
- Office furniture is also a market where import penetration is lower. This is partly due to the fact that large office furniture purchases are quite often made by contractors, developing or co-developing the project with the manufacturer, thus providing a comparative advantage to national companies. However, this phenomenon is partly offset by the fact that international leading manufacturers have commercial branches, with a specific unit in charge of carrying out projects, in many countries all over the EU;
- Mattresses also represent a segment where import penetration is low. This is partly linked to the fact that sizes and standards can vary considerably across countries, even within the EU (hence production needs to be adapted to specific markets). Another reason is that until recently mattresses were manufactured and sold within the local or neighbouring markets, being too bulky to be transported economically for long distances. However, with the progress in vacuum packing and in transport logistics, trade has increased. In addition, manufacturing companies are large and have several production plants spread across Europe, thus supplying each market directly (or providing licences to local manufacturers);
- The consideration made about transport costs is also true for the upholstered furniture segment, but due to the high incidence of labour on total costs, price

differentials for products sourced in countries with low labour costs can be significantly lower. It is worth mentioning that the constant increase in imports in the upholstery segment, as well as in the “other furniture” segment, is also due to the delocalization and re-importation activities of European companies;

- Import penetration is very high in the “other furniture” segment. This group includes a varied mix of items, some of them made in materials not available in the EU, such as rattan, cane and bamboo, and thus sourced abroad<sup>41</sup> and others for which the competitive advantage of emerging producers is very high (occasional furniture, seating). Furniture parts are also included in this aggregate and they claim a substantial share of international trade;
- Finally, both the average size of companies and the level of concentration of the productive system vary considerably across segments (see Box 10).

**Table 33 World imports/consumption ratio by sub-segment**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Kitchen	8%	8%	8%	8%	9%	10%	9%	9%	9%	9%
Office	15%	16%	16%	17%	18%	18%	16%	16%	16%	16%
Upholstered	26%	28%	29%	30%	30%	30%	28%	30%	29%	29%
Other furniture	37%	38%	39%	39%	39%	38%	33%	34%	33%	32%
Mattress	9%	10%	10%	11%	12%	13%	13%	13%	13%	13%
Furniture	27%	28%	28%	29%	30%	29%	26%	27%	27%	26%

*Source:* CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry).

In terms of segment performance at the **global** level, it is worth noting the following features:

- Over the last decade world production and consumption of furniture have increased in all the segments. The share of world production provided by high income countries is higher in the kitchen segment (80% of world production) and lower in the upholstered segment (35%). The office segment is midway between the two;
- The fastest growth in world production was recorded in the other furniture and mattress segments, followed by upholstered furniture and, at a distance, by office furniture and finally by kitchen furniture. The mattress segment witnessed strong growth because of the increasing role of emerging markets, not only in terms of productive location for mattress plants, but also in terms of mattress consumption. Similar considerations are valid for upholstered products too;
- The office segment has been harder hit than the other segments because of the sharp contraction in investments in non-residential construction, which is the demand driver for this segment;

<sup>41</sup> Many European outdoor furniture manufacturers own foreign plants or sub-contract in Asia those products

- In the kitchen segment the negative impact of reduced investments in residential construction, which is one of the most important demand drivers, caused a collapse in demand and a subsequent reduced stimulus for furniture production. In the kitchen furniture segment, another factor explaining the relatively smaller growth of production at the global level is due to the fact that we are analysing trends in production values and not in volumes and per capita spending in emerging countries is still low, particularly in the kitchen segment;<sup>42</sup>
- International trade has grown in all segments. The fastest growth was recorded in the mattress segment (more than double the value of ten years ago) and in the upholstered segment (almost double). The reasons were explained above;
- Finally, the imports/consumption ratio (that is, the openness of the market) is higher in the upholstered furniture and in the other furniture segment and lower in the others.

Bearing in mind all of the above factors, it is worth mentioning that the EU's position in terms of production varies significantly across the segments, as illustrated in Table 34.

Germany and Italy together account for 40% of total furniture production in the EU. The share increases to 50% in the case of kitchen furniture and to 45% for office furniture. On the other hand, their share is reduced to 32% in the upholstered segment (where the leading producer is Poland, with Germany second and Italy third) and to 27% for mattresses.

**Table 34 EU28 Furniture production by sub-segment (€million and percentage share of the world total)**

		<b>2003</b>	<b>2012</b>
Kitchen	€million	12,113	13,270
Office	€million	8,262	7,798
Upholstered	€million	13,854	12,363
Mattresses	€million	4,970	5,532
Other furniture	€million	45,712	45,185
<b>Furniture</b>	<b>€million</b>	<b>84,911</b>	<b>84,147</b>
Kitchen	EU share of world production	36%	35%
Office	EU share of world production	29%	20%
Upholstered	EU share of world production	42%	23%
Other furniture	EU share of world production	40%	22%
Mattresses	EU share of world production	38%	25%
<b>Furniture</b>	<b>EU share of world production</b>	<b>38%</b>	<b>23%</b>

*Source:* CSIL processing of data from official sources: Eurostat, UN, National Statistical Offices, National Furniture manufacturers associations (e.g. Statistics Canada, US Census Bureau, China National Furniture Association, Amedoro, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry).

<sup>42</sup> Also, the number of kitchens sold annually per 1,000 households varies a lot among different countries. For high income countries the average is 36 kitchens, while for middle and low income countries it is six kitchens.

If we analyse the product mix (the breakdown of total furniture production among segments) at country level we find:

- A higher specialization of production in the upholstered segment in Poland, Romania and Estonia (and more generally in the Central Eastern European area). The area has almost doubled its share of total EU upholstered production, rising from 18% to 32%;
- A higher specialization in the kitchen segment in Germany;
- A higher specialization in the office furniture segment in Finland and Sweden.

On the market front, trends in consumption are illustrated below (see Table 35), highlighting a difficult situation in the office segment. After the contraction recorded in 2009, figures for the following years witnessed a continuation of the crisis. Now, the sector is facing a “new” market condition characterized by a smaller market, which is in constant turmoil with increased competitiveness and concentration.

<b>Box 10 The competitive system in Western Europe*</b>	
According to CSIL findings:	
The Top 20 kitchen companies provide 60% of total supply.	
The Top 20 office furniture manufacturers provide 53% of total supply.	
The Top 20 upholstery companies accounted for up to 31% of total supply.	
The Top 20 RTA furniture manufacturers have a share of 32% of total supply.	
*EU15+Norway and Switzerland	

There are important differences in the market structures in terms of sourcing of products (see Table 36). The penetration of extra-EU products in the EU kitchen furniture market is negligible (less than 1% of total EU consumption), whereas it is high in the upholstered segment (18%). It is worth remembering that import figures also include items produced by EU28 at their plants outside Europe (notably China) and this is a quite common feature due to the integration of upholstered production on a global scale.

**Table 35 EU28 furniture consumption by sub-segment (index number, 2003=100)**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Upholstered	100,0	107,8	111,5	117,3	123,8	118,2	99,6	101,1	97,7	96,8
Kitchen	100,0	105,4	109,0	114,5	121,7	117,5	104,2	106,1	105,9	105,0
Office	100,0	102,5	105,6	113,1	124,5	126,4	95,0	94,4	96,6	92,5
Mattress	100,0	103,8	108,0	114,9	120,1	116,6	107,6	109,2	110,6	107,3
Other furniture	100,0	104,5	108,1	114,3	120,0	117,5	100,5	103,8	103,6	99,7

Source: CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

**Table 36 EU28 furniture market by sub-segment, breakdown of consumption by national production, EU and extra-EU imports, 2012 (percentages)**

	<b>Kitchen furniture</b>	<b>Upholstered furniture</b>	<b>Office furniture</b>	<b>Mattresses</b>	<b>Other furniture</b>	<b>Total furniture</b>
Extra-EU imports	0%	18%	9%	5%	20%	15%
EU imports	14%	35%	22%	26%	43%	35%
National production	86%	47%	69%	69%	36%	50%

*Source:* CSIL processing of data from Eurostat, National Statistical Offices, National Furniture manufacturers associations.

The import penetration in the “other furniture segment” is also high. Some of the explanatory factors are:

- Delocalization and outsourcing strategies are very common in the seating segment<sup>43</sup> in order to enable companies to remain competitive. The average low unit price for the seats and the ease of transportation is putting further pressure on domestic manufacturers;
- In the outdoor segment, the availability of raw material in Asia (rattan, bamboo, cane, etc.) increased sourcing activities. The outdoor sector is also characterised by a blurred distinction between manufacturing companies and traders/importers because most companies distribute products or accessories imported from abroad, in addition to their own production, thus contributing to increasing inflows of products;
- The dining room furniture segment is also satisfied by imported items. As a general trend, the size of apartments is shrinking and the dining and living room are increasingly furnished by single items (TV sets, shelves, occasional furniture), that can be more easily imported at competitive prices. In the bedroom furniture segment, different standards in each market in terms of size are probably a barrier and import penetration is a little lower.

Penetration of the EU market by extra-EU countries is still relatively low in the office segment, but their share doubled over the last decade (note that the level of import penetration is higher for office seating than for office furniture). Penetration in the mattresses segment is lower, although again it is increasing. China is the leading extra-EU supplier in each segment, but its relative weight compared to the competitors varies. It is higher in the upholstered segment (accounting for over 70% of EU imports from extra-EU countries) and in the office segment (66%). Vietnam, the second supplier in terms of finished furniture items, comes second at some distance, but its relative importance increased in the other furniture segment (it is worth mentioning that the US anti-dumping of Chinese bedroom furniture caused a shift in production from China to Vietnam).

<sup>43</sup> In a sample of companies interviewed by CSIL, around 60% of Western European companies declared that some phases of their manufacturing processes are outsourced or that they buy components from third parties.

Turkey is relatively well positioned in the office furniture and in the mattress segments. It is worth mentioning that there are some very large Turkish groups that are extremely active on the EU market, operating through owned retailing chains.

However, the level of market integration within the EU also varies across segments. While all market segments in each country are satisfied by both domestic production and other EU products, the share of the latter is higher in the upholstered segment and in the “other furniture” segment.

More generally, an analysis of the EU furniture trade balance shows the following (see Table 37):

- The EU has so far maintained a competitive advantage in kitchen furniture manufacturing, being a net exporter with the surplus growing over the last decade. Western Europe is the main market for kitchen exports, with the Top 10 kitchen furniture exporting companies accounting for around 50% of total kitchen exports;
- The EU is maintaining its position in the office furniture segment, and while imports are growing fast, they are compensated by increasing exports;
- The steady growth in imports in the upholstery segment, as well as in the other furniture segment, is to a certain extent due to the delocalization and re-importation activities of many European companies. Similar considerations can be made for the other furniture segment, for which, however, the balance of trade has improved in the last few years, thanks to very good performances in exports to Russia, China and the Gulf area;
- The trade balance is increasingly positive for mattresses, even if values are still low.

Another furniture segment that is transversal to all the above mentioned, is the so-called **RTA<sup>44</sup> furniture**, which in the last decade outperformed the furniture sector average in terms of both consumption and production.

RTA furniture is a group of furnishing products which, according to the country of reference, are defined as flat-pack, ready to assemble (RTA), knock-down (KD), DIY (do it yourself), self-assembly or kit furniture. Furniture is sold in flat-packs that include all the hardware and instructions necessary for assembly, with flat-packing reducing not only volume and cost, but also the risk of damage in storage and transportation.

**Table 37 EU28 furniture trade balance by sub-segments (€million)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Kitchen	529	558	643	740	836	854	688	782	857	996
Office	378	333	308	342	390	426	232	197	278	362
Upholstered	555	192	-250	-614	-948	-884	-807	-1.109	-762	-802
Mattress	61	31	51	41	39	46	45	52	86	144
Other furniture	281	-500	-1.099	-1.266	-1.961	-1.566	-1.620	-2.501	-1.263	-604

*Notes:* Trade balance= Extra EU exports – intra EU imports  
*Source:* CSIL processing of Eurostat/Comext data.

<sup>44</sup> Ready to assemble.

Products that can be produced and sold in flat packs include living/dining room furniture (including sets for living/dining rooms, bookshelves, tables and chairs, occasional furniture); bedroom furniture; children's furniture; furniture for office/home office; bathroom and kitchen furniture.

Once viewed as an inferior alternative to solid wood furniture, much of the RTA furniture sold on the market today is made of quality products while still being offered at lower prices. Currently, the segment is estimated to account for between 10% and 15% of European<sup>45</sup> furniture production and consumption.

Compared to the traditional furniture industry, the RTA segment is very specific, due to large volumes and to the peculiarity of its distribution channels. It generally requires a strong concentration in investments in machinery, equipment and automation. The industrial structure is based on large and medium-sized firms. The leading operators employ workforces of over 500 in their production facilities. However, the sector also includes smaller firms that are particularly active in the market, positioned in product niches (such as children's furniture or entertainment furniture) and work with distributors that require smaller volumes (e.g. some DIY stores or mail order/e-commerce).

From a geographical point of view, Germany is the leading producer with a quota of 35% of total European production,<sup>46</sup> followed by France, Sweden, Denmark and the United Kingdom. The Scandinavian countries show a greater degree of specialization in the RTA furniture segment. This phenomenon is influenced not only by the long tradition of producing RTA furniture (mainly in pine), but also by the presence of some large specialist industrial groups. In addition, in Poland most furniture made from particle boards is RTA furniture, both as part of an outsourcing process by other leading EU retailers and also as part of the national producers' supply.

The main factors underlying the relatively good sector performance are highly competitive pricing, innovative production technology, maturing distribution channels and improved quality. On the other hand, at the same time, RTA furniture is mainly oriented to the middle-economic market range and for this reason manufacturers are particularly susceptible to production costs and to fluctuations in the prices of raw materials and energy.

In terms of materials used, all the above described sub-segments use wood or wood-based components (with the exception of mattresses). Data highlights the substantial importance of wooden furniture within total furniture production (see Table 38).

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<sup>45</sup> Denmark, Finland, Belgium, France, United Kingdom, Austria, Germany, Switzerland, Netherlands, Italy, and Spain, plus Norway and Sweden.

<sup>46</sup> See note 31.

**Table 38 EU28 furniture production value, breakdown of products by main material used, 2010 (Percentage shares)**

	<b>Production value</b>
Wood furniture	57%
Metal furniture	12%
Soft furniture (upholstered, mattresses) (textiles, rubber, leather, etc.)	20%
Furniture in other materials (plastic, bamboo, rattan, cane, glass, etc.)	11%
Total	100%

*Source: CSIL processing of Eurostat/PRODCOM data.*

At this point it is worth mentioning that the wooden furniture aggregate includes both solid wood furniture (a marginal share) and wood-based panel furniture (a substantial share). Soft furniture production, with a share of 20%, follows. Some wood is used in the production of upholstered frames. Metal furniture claims a share of 12%. This refers to furnishing items that have metal as a prevalent material. Furniture made from other materials (such as natural fibres, plastic or glass) represents around 10% of total production and comprises an extremely varied mix of products.

The main limit to the above classification is the fact that it cannot be used to calculate the incidence of wood on furniture production (in terms of value), because in several cases products are made of a combination of materials with, for example, items classified as metal furniture using also wood or wood components, and others classified as wood furniture but including metal parts, such as hardware and fitting.

### **3.5 Company size**

As a general trend, mass-producing furniture became a viable manufacturing strategy for firms designing, manufacturing and shipping products in large quantities (particularly, but not only, in the low and middle-price ranges). Leading players took advantage of their large scale and the availability of huge capital resources to invest in organizing their production and logistics in order to penetrate foreign markets.

On the other hand, larger firms find it convenient and profitable to outsource and fragment their activities into many functions carried out by different actors in different locations, and small and medium-sized enterprises are increasingly relying on them for their access to markets.

The importance of SMEs is relatively high in niche market segments, primarily for high-end, custom made and design-led products. Overcoming difficulties related to small company size was one of the factors underlying the development of cluster experiences in the furniture sector.

The EU furniture sector is predominantly made of SMEs, with around 85% being micro enterprises (fewer than 10 employees) and another 12% of companies being small (10 to 49). Medium-sized companies account for 2% (see Table 39).

These companies altogether account for over 70% of total sector production, and are thus the protagonists of the trends in production highlighted in previous paragraphs.

However, while large companies may account for less than 1% of the total enterprises, they generate 26% of the total value of furniture produced in the EU.

Figures vary substantially across countries with the highest share of micro enterprises found in France and Poland and the highest share of large companies in Germany.

**Table 39 EU28 furniture, SMEs and large companies, number of companies, employment and production, breakdown by classes, 2003 and 2010**

		<b>From 0 to 9 persons employed</b>	<b>From 10 to 19 persons employed</b>	<b>From 20 to 49 persons employed</b>	<b>From 50 to 249 persons employed</b>	<b>250 persons employed or more</b>	<b>Total</b>
<b>No. of companies</b>	2003	85%	7%	4%	2%	0.4%	100%
	2010	85%	8%	4%	2%	0.4%	100%
<b>No. of persons employed</b>	2003	21%	11%	14%	26%	28%	100%
	2010	24%	12%	15%	26%	22%	100%
<b>Prod. value</b>	2003	13%	9%	15%	30%	33%	100%
	2010	15%	11%	15%	32%	27%	100%

*Notes:* Excluding Greece, Ireland, Latvia, Luxembourg, and the Netherlands  
*Source:* CSIL processing of Eurostat data (sbs\_sc\_ind\_r2 and sbs\_sc\_2d\_dfdno2).

Even if there are difficulties in comparing data over a ten year time span,<sup>47</sup> the structure at the EU level seems unchanged in terms of distribution of companies among the classes.

What seems to have changed, even if slightly, is the role of large companies. Although they hold the same share of the total number of enterprises, they saw a reduction in their quota of sector employment.

Among the explanatory factors are the outsourcing and fragmentation of production carried out by leading players and also the rationalization strategies put in place (lay-offs, plant closures), particularly among the larger players during the recession.

The analysis of the performance of these companies for some of the main variables over the last few years is illustrated below in Table 40. A three year time span is very short in order to assess trends, but is useful for a first analysis of the performance of companies during a significant period, brought about by external and internal factors that strongly affected the EU furniture sector and its companies. In fact, as a consequence of the crisis, the performance is negative for all the companies in this group. But the recovery was faster for micro and small companies as regards production and value added (see Table 41).

<sup>47</sup> Due to changes in the NACE from Rev. 1 to Rev. 2.

**Table 40 EU28 furniture, production in value (index number, 2008=100)**

	2008	2009	2010
From 0 to 9 persons employed	100.0	82.7	90.5
From 10 to 19 persons employed	100.0	82.6	91.8
From 20 to 49 persons employed	100.0	84.5	81.2
From 50 to 249 persons employed	100.0	83.6	87.6
250 persons employed or more	100.0	72.3	73.2

*Notes:* Excluding Greece, Ireland, Latvia, Luxembourg, and the Netherlands  
*Source:* CSIL processing of Eurostat data (sbs\_sc\_ind\_r2).

**Table 41 EU28 furniture, value added at factory prices (index number, 2008=100)**

	2008	2009	2010
From 0 to 9 persons employed	100.0	85.0	94.8
From 10 to 19 persons employed	100.0	83.3	91.2
From 20 to 49 persons employed	100.0	83.3	83.2
From 50 to 249 persons employed	100.0	85.6	80.0
250 persons employed or more	100.0	76.4	81.2

*Notes:* Excluding Greece, Ireland, Latvia, Luxembourg, and the Netherlands  
*Source:* CSIL processing of Eurostat data (sbs\_sc\_ind\_r2).

The result changes when we consider the trend in the gross operating surplus, which is the surplus generated by operating activities after the labour factor input has been remunerated (see Table 42). It is the balance available to the company that allows it to compensate the providers of own funds and debt, to pay taxes and eventually to finance all or a part of its investment and thus a measure of profitability of companies.

The best performance for this variable (whose 2010 levels were lower than those of 2008) was recorded by the large companies, which seem to be regaining profitability more rapidly than the others. Among these companies, there are key leaders at the global level; both in terms of turnover generated and the level of internationalization (see Box 11).

The role of large companies in setting trends, creating networks with SMEs and (in some cases) also granting them access to the international markets, together with specific institutional support for SME development, are thus two of the main drivers of furniture production development.

**Table 42 EU28 furniture, gross operating surplus (index number, 2008=100)**

	2008	2009	2010
From 0 to 9 persons employed	100.0	78.9	88.6
From 10 to 19 persons employed	100.0	55.8	86.5
From 20 to 49 persons employed	100.0	67.3	69.6
From 50 to 249 persons employed	100.0	78.0	54.8
250 persons employed or more	100.0	73.3	94.2

*Notes:* Excluding Greece, Ireland, Latvia, Luxembourg, and the Netherlands  
*Source:* CSIL processing of Eurostat data (sbs\_sc\_ind\_r2).

These companies altogether recorded growth in terms of turnover in both 2010 and 2011 (+4.8% and +3.3%, respectively), obviously with substantial differences in single company performances. Positive balance sheet indicators were also recorded.

Strategies implemented included downsizing (with plant closures and lay-offs), optimization of the production process, increasing sourcing from Asia, strong investment in existing and new retailing formats (store openings in emerging countries) and branding strategies.

**Box 11 The top European furniture manufacturers**

According to CSIL research, Europe is the headquarters for 84 out of the world's Top 200 furniture manufacturers (Figure 2). The companies included are from both Western Europe and Central Eastern Europe. These top manufacturers are in fact (in order of importance) German, Italian, Swedish, French, British, Polish, Finnish, Dutch, Austrian, Danish, Lithuanian, Spanish and Romanian.

These companies are very large in terms of the size of employment (see

Table 43) and together they boast a €20 billion turnover (median value €150 million). The value is significant, but it also includes revenues generated by production from outside the EU area (Russia, Ukraine, China, Vietnam, Indonesia are among the location of these companies' plants).

**Table 43 Top EU furniture manufacturers, distribution by size of workforce**

No. of employees	No. of companies	%
<= 500	14	16.7
>500 and <=1000	32	38.1
>1000 and <=3000	23	27.4
> 3000	15	17.9
Total	84	100

*Source: CSIL processing of companies data (balance sheets, trade press, interviews)*

## 4 FACTORS AFFECTING COMPETITIVENESS

This Chapter focuses on the key factors affecting competitiveness in the furniture industry. Specifically, Section 4.1 concentrates on the upstream section of the value chain and examines the role of raw materials and components, labour costs and the availability of skilled labour, of investment in technology, R&D, innovation and design. The role of relevant EU policies affecting the industry is also discussed. The second half of the Chapter (Section 4.2) analyses the downstream portion of the value chain and explores in greater detail the main drivers behind the trends and developments introduced in the previous Chapters. Finally, Section 4.3 concludes with an analysis of the strengths, weaknesses, opportunities and threats (SWOT analysis) that characterize the EU's furniture market today.

### 4.1 Factors of competitiveness: upstream section of the value chain

The main factors affecting competitiveness in the upstream portion of the value chain include the availability of raw materials and skilled labour and investment in tangible goods such as machinery and equipment. Intangible investments in innovation and design also play a decisive role. The combination of these factors for the production of items at competitive prices is another key element. Before going into the detail, a breakdown of the cost structure of furniture production in the EU as well as a focus on the weight of the two main factors affecting competitiveness (purchases of goods and services and cost of labour) on the total value of turnover is provided.

First of all, the weight of raw materials and other production inputs on the total production value can be approximated by the share of the production value taken up by total purchases of goods and services. According to Eurostat Structural Business Statistics, the total purchases of goods and services include the value of all goods and services purchased during the accounting period for resale or consumption in the production process (excluding capital goods).<sup>48</sup> In 2011, purchases of goods and services accounted for 73% of the total production value in the EU28 furniture industry (see Table 44). In particular, the share was higher in EU13 (81%) than in EU15 (72%). Nonetheless, over the period 2008-2011, in absolute value, the average purchases of goods and services per enterprise were steadily higher in EU15. For instance, in 2011 for each €100 spent by an average EU furniture manufacturer, a company based in EU15 spent more than €120 against €52 spent by companies based in EU13 (see Table 45).

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<sup>48</sup> The purchase of goods includes materials that are transformed directly into the goods produced (raw materials, intermediary products, components), non-capitalised small tools and equipment and the value of ancillary materials (lubricants, water, packaging, maintenance and repair materials, office materials) as well as energy products. As far as the purchase of services is concerned, it includes payments for all work carried out by third parties on behalf of the unit including current repairs and maintenance, installation work and technical studies. Also included are payments made for non-industrial services such as legal and accountancy fees, patents and licence fees (where they are not capitalised), insurance premiums, telephone costs, advertising costs.

**Table 44 Cost structure of furniture production by country, 2011. Percentage values over total production value**

	<b>Purchases of goods and services including energy products</b>	<b>Purchases of energy products</b>	<b>Personnel costs (1+2)</b>	<b>Wages (1)</b>	<b>Social security costs (2)</b>
Belgium	73.0%	1.7%	19.4%	13.0%	6.4%
Bulgaria	82.1%	2.5%	13.4%	11.3%	2.2%
Czech Republic	76.4%	2.5%	18.3%	13.4%	4.8%
Denmark	68.2%	1.2%	23.3%	21.5%	1.8%
Germany	67.7%	1.6%	24.3%	20.0%	4.3%
Estonia	74.2%	3.3%	19.9%	14.8%	5.1%
Ireland	n.a.	n.a.	n.a.	n.a.	n.a.
Greece	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	68.2%	2.6%	30.7%	24.0%	6.8%
France	69.2%	1.5%	26.4%	18.7%	7.6%
Croatia	74.2%	4.1%	21.5%	18.5%	3.0%
Italy	74.5%	0.4%	19.5%	13.9%	5.6%
Cyprus	58.8%	3.5%	35.8%	29.9%	5.9%
Latvia	75.0%	5.6%	18.7%	15.0%	3.6%
Lithuania	76.3%	2.2%	14.1%	11.7%	2.3%
Luxembourg	67.0%	1.8%	31.2%	27.5%	3.7%
Hungary	74.2%	2.7%	18.2%	14.3%	3.8%
Malta	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	71.6%	1.2%	23.7%	19.4%	4.3%
Austria	62.3%	1.4%	29.7%	23.5%	6.2%
Poland	75.8%	n.a.	15.7%	13.0%	2.7%
Portugal	70.1%	3.1%	26.4%	20.5%	5.9%
Romania	80.6%	2.4%	17.3%	13.7%	3.6%
Slovenia	68.2%	n.a.	28.7%	25.1%	3.6%
Slovakia	73.1%	2.6%	19.5%	14.7%	4.8%
Finland	71.3%	1.2%	24.6%	19.7%	4.9%
Sweden	70.2%	1.3%	24.1%	17.2%	6.9%
United Kingdom	60.6%	2.1%	25.7%	23.0%	2.7%
<b>EU15*</b>	<b>72.0%</b>	<b>1.4%</b>	<b>24.8%</b>	<b>19.4%</b>	<b>5.5%</b>
<b>EU13**</b>	<b>80.5%</b>	<b>1.3%</b>	<b>18.2%</b>	<b>14.7%</b>	<b>3.5%</b>
<b>EU 28***</b>	<b>73.3%</b>	<b>1.4%</b>	<b>23.8%</b>	<b>18.7%</b>	<b>5.2%</b>

Notes: \* Excluding Greece and Ireland. \*\* Excluding Malta. \*\*\* Excluding Greece, Ireland and Malta.

Source: CSIL processing of Eurostat data (sbs\_na\_ind\_r2).

**Table 45 EU28, purchases of goods and services in the manufacture of furniture, average per enterprise (index number, EU28=100, and percentage of production value)**

	2008	2009	2010	2011	Share of production value claimed by total purchases of goods and services (2011)
EU13*	60.6	59.2	50.5	52.4	80.5%
EU15**	113.7	117.5	121.3	121.3	72.0%
EU28***	100.0	100.0	100.0	100.0	73.3%

Notes: \* Excluding Greece and Ireland. \*\* Excluding Malta. \*\*\* Excluding Greece, Ireland and Malta.

Source: CSIL processing of Eurostat data (sbs\_na\_ind\_r2).

Purchase of energy products is included in total purchases of goods and services. According to Eurostat Structural Business Statistics, in 2011 the purchase of energy products per enterprise accounted for 1.8% of the total purchases of goods and services per enterprise in EU 28 (see Table 46). In particular, the share is higher in EU13 than in EU15. This reflects the higher price of energy in EU13 than in EU15.

**Table 46 EU28, percentage of purchases of energy products over total purchase of goods and services in the manufacture of furniture, average per enterprise**

	2008	2009	2010	2011
EU13**	3.4%	3.7%	3.7%	3.5%
EU15*	2.4%	2.5%	1.9%	1.9%
EU28***	2.5%	2.6%	2.0%	2.1%

Notes: \*Excluding Ireland, Greece. \*\*Excluding Malta, Poland, Slovenia. \*\*\*Excluding Ireland, Greece, Malta, Poland, Slovenia.

Source: CSIL processing of Eurostat data (sbs\_na\_ind\_r2).

As far as labour is concerned, personnel costs in the furniture manufacturing sector accounted for around 24% of the production value in 2010 (see Table 47). This was quite large compared to the average share for the whole manufacturing sector which was around 15%, and confirmed the labour intensity of furniture production. The share in EU15 was higher than that of EU13; this reflects the lower cost of labour in EU13 than in EU15. For instance, for each €100 spent by an average EU furniture company to cover personnel costs, a EU15-based company spent €128 against €38 spent by a producer located in the EU-13 area.

**Table 47 EU28, personnel costs in the manufacture of furniture, average per enterprise, (index number, EU28=100, and percentage of production value)**

	2008	2009	2010	2011	Share of production value claimed by personnel costs (2011)
EU13*	46.5	39.0	37.6	38.1	18.2%
EU15**	118.6	133.0	126.9	128.1	24.8%
EU28***	100.0	100.0	100.0	100.0	23.8%

Notes: \*Excl. Malta. \*\*Excl. Ireland, Greece. \*\*\*Excl. Ireland, Greece and Malta.

Source: CSIL processing of Eurostat data (sbs\_na\_ind\_r2).

Finally, investments in tangible goods (including investments in land, buildings, machinery and equipment) were 3.4% in EU28. Interestingly, in 2011 the share of EU13 is higher than the share of EU15. However, on average, companies in EU13 invest less than companies in EU15. The only exception was in 2008 when for each €100 invested by an average EU furniture producer in tangible goods, a company based within the EU13 area invested €106 while a EU15-based company invested €98 (see Table 48).

**Table 48 EU28, investments in tangible goods in manufacture of furniture, average per enterprise (index number, EU28=100, and percentage of production value)**

	2008	2009	2010	2011	Share of production value claimed by total investments in tangible goods (2011)
EU13*	105.5	68.6	69.0	71.6	4.6%
EU15**	97.7	115.8	115.7	115.1	3.1%
EU28***	100.0	100.0	100.0	100.0	3.4%

Notes: \*Excl. Ireland, Greece, France. \*\*Excl. Malta. \*\*\* Excl. Ireland, Greece, France, Malta.  
Source: CSIL processing of Eurostat data (sbs\_na\_ind\_r2).

#### 4.1.1 Profitability

The gross operating rate presented in Table 49 relates the gross operating surplus (value added less personnel costs) to the level of turnover, thus showing the surplus generated by operating activities after labour costs are paid. The EU13 countries displayed higher gross operating rates compared to the EU15 Members States, partially reflecting lower labour costs in EU13. Furthermore in 2011, the EU13 gross operating rate grew by 11% with respect to 2008, whereas in EU15 the indicator declined by about 12%. Obviously, it is worth stressing that performance indicators for the entire EU productive system vary substantially across countries and average figures are thus the result of mixed performances across the Union. As regards the gross operating rate, in 2011 the highest levels were recorded in the United Kingdom (13.3%), Poland (11.3%), Slovakia (10.4%) and Austria (10%). By analysing the trend over the 2008-2011, period the best performers in terms of growth rate in the EU13 were Estonia, Slovakia, Latvia and Hungary. Conversely, almost all EU15 countries recorded declining gross operating rates over the 2008-2011 period, with the exception of Austria, Denmark and Germany.

**Table 49 EU28, Gross operating surplus/turnover (gross operating rate) (%), 2008-2011**

	2008	2009	2010	2011	11/08 % change
Belgium	8.7	9.2	8.4	7.5	-14%
Bulgaria	13.8	13.8	12.3	10.5	-24%
Czech Republic	8.6	8.6	9.0	8.5	0%
Denmark	7.9	7.2	9.1	8.9	12%
Germany	7.4	6.9	8.6	7.9	6%
Estonia	3.7	4.7	6.2	6.0	62%
Ireland	n.a.	n.a.	n.a.	n.a.	n.a.
Greece	n.a.	16.2	n.a.	n.a.	n.a.

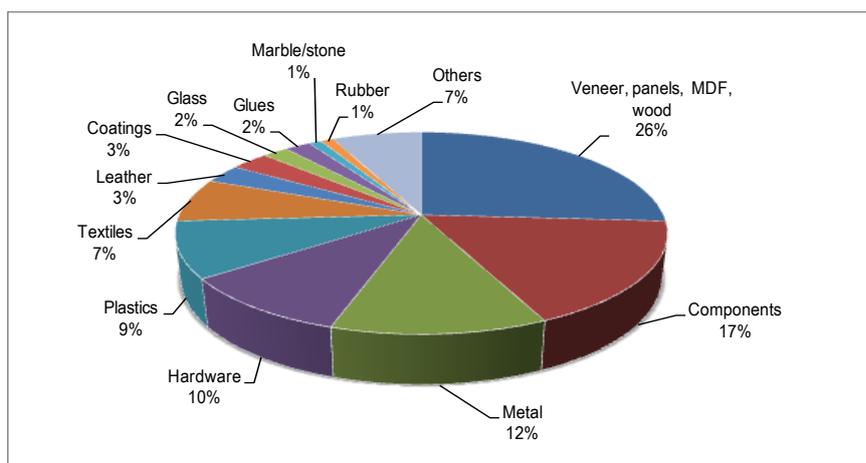
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>11/08 % change</b>
Spain	7.1	4.9	5.0	2.7	-62%
France	5.5	4.8	4.2	3.5	-37%
Croatia	11.8	9.3	10.3	9.0	-23%
Italy	7.7	6.8	4.2	6.8	-12%
Cyprus	14.3	10.0	11.6	5.8	-60%
Latvia	6.4	7.7	9.2	8.3	30%
Lithuania	-2.5	7.5	9.1	9.2	n.s.
Luxembourg	7.9	13.5	7.1	3.2	-59%
Hungary	6.7	7.9	8.3	8.1	20%
Malta	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	n.a.	7.7	8.4	8.0	n.a.
Austria	8.9	8.3	9.7	10.1	14%
Poland	10.8	13.2	12.8	11.3	4%
Portugal	7.1	6.6	7.9	5.5	-23%
Romania	9.3	11.5	9.8	9.0	-4%
Slovenia	5.8	1.9	2.7	2.4	-58%
Slovakia	5.3	5.3	9.4	10.4	96%
Finland	9.3	5.3	5.9	5.8	-38%
Sweden	8.3	4.7	6.5	6.4	-22%
United Kingdom	13.9	12.2	16.3	13.3	-4%
<b>EU15*</b>	<b>8.2</b>	<b>7.1</b>	<b>7.4</b>	<b>7.2</b>	<b>-12%</b>
<b>EU13**</b>	<b>8.9</b>	<b>10.8</b>	<b>10.8</b>	<b>9.9</b>	<b>11%</b>
<b>EU 28***</b>	<b>8.3</b>	<b>7.6</b>	<b>7.9</b>	<b>7.7</b>	<b>-8%</b>

Notes: \*Excl. Malta. \*\*Excl. Ireland, Greece. \*\*\*Excl. Ireland, Greece and Malta  
Source: CSIL processing of Eurostat data (sbs\_na\_ind\_r2).

#### *4.1.2 Availability of raw materials and components*

The furniture industry is known to be essentially an assembly industry employing various raw materials such as wood-based panels, metal, aluminium, plastics, fabrics, leather and glass, as well as mechanical and ICT components. All the furniture sub-segments, with the exception of mattresses use wood or wood panels as an input, which represents a substantial share of raw materials used in production (see Figure 10 based on data from the European Furniture Manufacturers' Federation). For this reason, in the current Section of the Study, emphasis was put on wood.

**Figure 10 EU28, Share of materials used in furniture production (by value)<sup>49</sup>**



Source: European Commission.

In the last three decades, reportedly the share of European furniture manufacturers employing wood-based panels has sharply increased compared to those who use solid wood. Two main reasons have been identified: the declining prices of wood-based panels compared to sawnwood and the relative ease with which panels can be assembled. This trend has been further reinforced by the advent of RTA (Ready to Assemble) furniture. The result is that nowadays wood-based panels are a major input for the furniture industry.<sup>50</sup>

Wood-based panels are produced from primary processing of raw timber. The three main categories of wood-based panels are particleboard, fibreboard<sup>51</sup> (mainly MDF) and plywood. They are essentially produced under heat and pressure with the addition of an adhesive to glue fibres, particles or sheets. Production requires very large plants and huge investments in machinery, thus the scale of manufacturers is generally large (compared to the furniture industry) and entry barriers are high.

<sup>49</sup> For further details see

[http://ec.europa.eu/environment/gpp/pdf/toolkit/furniture\\_GPP\\_background\\_report.pdf](http://ec.europa.eu/environment/gpp/pdf/toolkit/furniture_GPP_background_report.pdf)

<sup>50</sup> There are possible future trends in favour of using other materials for furniture production: various metals, plastics and glass, but it seems more reasonable to imagine them used in combination with wood.

<sup>51</sup> Particleboard are wood-based panel manufactured under pressure and heat from particles of wood (flakes, chips, shavings, sawdust and similar) and/or other lignocellulosic material in particle form (flax shives, hemp shives, bagasse fragments and similar) with the addition of an adhesive. MDF (Medium-density fibreboard) are wood-based panel manufactured from lignocellulosic fibres by the “dry process”, i.e. having a fibre moisture content less than 20% at the forming stage and being essentially produced under heat and pressure with the addition of an adhesive. Plywood consists of sheets (plies) of wood veneer, which are glued together. It is constructed with an odd number of plies, which are cross-bonded. The grain of each layer is perpendicular to the plies above and below it. The outer plies usually have the grain direction going parallel to the long dimension of the panel. For further reference, see: <http://www.europanel.org/> and <http://www.europlywood.org>.

The wood-based panels sector has recorded remarkable growth, being positively influenced by the trends in furniture production. However, it experienced a slowdown between 2008 and 2010, as a consequence of the crisis.

Particleboard and MDF account for the largest share, increasing their relative importance compared to other wood-based panels (see Table 50). In 2011 Germany, France, Italy and Poland were the largest particleboard producers in Europe (52% of total EU production in 2011, according to EPF), however, in the last decade faster growth in wood-based panels production was recorded in Eastern European countries, especially Romania, where production capacity increased from 930,000 cubic metres in 2007 to 2,040,000 in 2011 (source EPF). Germany is the largest producer of MDF and Poland is in second position, constantly increasing its production capacity.

**Table 50 Production of selected wood-based panels in Europe\* (1,000 m<sup>3</sup>)**

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Particleboard</b>	33,200	34,910	35,400	37,790	37,790	34,516	29,791	30,730	30,220
<b>MDF</b>	10,500	11,900	12,250	12,950	13,350	12,200	11,400	11,470	11.7
<b>Plywood**</b>	3,200	3,350	3,450	3,480	3,580	3,280	2,360	2,480	n.a.
<b>Hard-/Soft Board***</b>	2,300	2,300	2,350	2,470	2,700	2,700	2,520	2,770	n.a.
<b>Total</b>	49,200	52,460	53,450	56,690	57,420	52,696	46,071	47,450	-

Notes: \* All Western and Eastern European countries, excluding Commonwealth of Independent States. \*\* FEIC countries – European Federation of Plywood Industry (excluding Russia). \*\*\* FEROPA countries - European Federation of Fibreboard Manufacturers.

Source: EPF Annual Reports 2007-2008, 2008-2009 and 2011-2012.

Central and Eastern Europe recorded growth of the production in wood-based panels. This was due to the fact that many Western European firms had moved their panel producing plants to areas where production costs were lower. Several European wood-based panel manufacturers have moved production to Russia, Belarus and Ukraine. Indeed, the major European wood-based panel producers have industrial plants all over Europe and their plants and productive capacity is very huge. For instance, the Austrian Kronospan, which is the world's largest wood-based panel manufacturers, has more than 30 sites located in different European countries and a production capacity of wood based panel in Europe of over 15 million m<sup>3</sup>. The other leading wood base panels producers also have a capacity of over (or well over) 1 million m<sup>3</sup>. On the face of it, imports from extra-EU countries are negligible.

Turning to the consumption of wood-based panels, Germany, Poland, Italy and France were the largest markets for particleboard in 2011. Unsurprisingly, these are also the main European furniture producers. Germany, the UK and Poland are instead the top three consumers of MDF.

Wood-based panels are used in many types of furniture and also in furniture components such as cabinet doors, drawers, baseboards and caps.<sup>52</sup>

The furniture industry is the main destination market for the particleboard and MDF manufactured in Europe. In 2011 the furniture industry absorbed 68% of total European particleboard consumption, compared to 50% in 2007. Other main uses are in the construction industry, and for windows and doors. As far as MDF is concerned, in 2011 the furniture industry claimed about 46% of total consumption (compared to 25% in 2007).<sup>53</sup>

Plywood is a relatively less important material for the furniture sector, its production is smaller and there are a larger number of producers than in the case of particleboard and MDF producers. Plywood consumption is much more fragmented among different segments: furniture, but more important are the construction industry, flooring, joinery, transport, boats and many other smaller segments.

As a result of the increasing role played by wood-based panels in furniture production and the increasing outsourcing and delocalization processes affecting the furniture sector, the value chain of the furniture market in the production process has become more and more fragmented over time (see Figure 11). Nowadays, European furniture manufacturers have three main suppliers: the sawmills, the wood-based panel producers and the producers of components and furniture parts (e.g. cabinet doors, drawers, baseboards and caps, worktops, chair legs and curved parts). Other suppliers are the metal industry, which produces machinery and fittings, the chemical industry, which provides paint, glue, and varnishes for furniture as well as foam for upholstering furniture, and the producers of textiles and leather.

It is important to underline that the wood-based panel producers can be of different types. Some of them produce finished panels. Others provide the furniture manufacturers with semi-finished panels, i.e. panels without the overlay, which is usually made from veneer sheets, laminates, melamine paper or PVC.<sup>54</sup> For this reason, there are a number of enterprises around Europe specializing in finishing raw panels, but their importance varies across countries (e.g. very important in Italy). Wood-based panel producers supply both the furniture manufacturers and the firms that produce wood components. Again, the most common wood products used in the component industry are particleboard and MDF (with shares of 32% and 23%, respectively). Solid wood accounts for 25% (decreasing recently) and other materials account for the remaining share (plastic, aluminium...)<sup>55</sup> Finally, it is also worth noting that there are cases of wood-based panel manufactures also producing RTA furniture or other furniture items.

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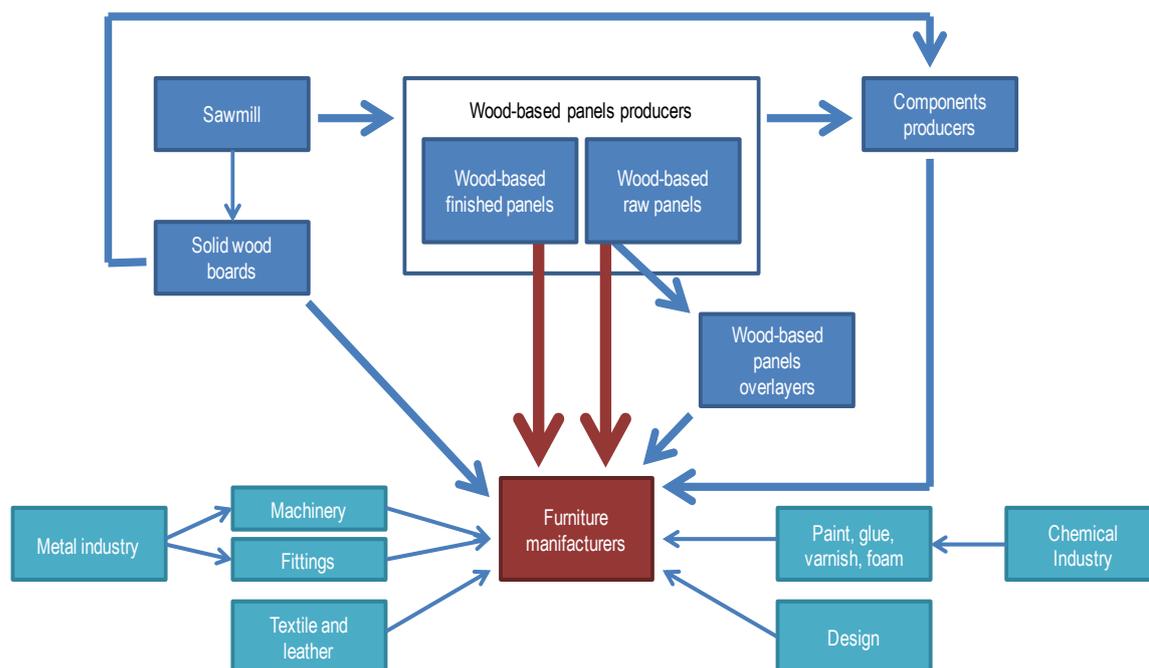
<sup>52</sup> Other wood-based components are bars and mouldings, seats and table components, tabletops and worktops, curved parts other than seats and backs, turned parts other than legs, and upholstered furniture frames.

<sup>53</sup> EPF annual reports 2007-2008 and 2011-2012.

<sup>54</sup> Polyvinyl Chloride.

<sup>55</sup> CSIL (2008) based on a sample of European companies.

**Figure 11 Value chain of production in the furniture industry**



Source: CSIL

In recent years, securing raw materials supplies has been a crucial issue in the wood furniture industry. Despite the fact that the EU can boast an annual increase in the volume of wood production, since it is a producer of natural renewable raw materials,<sup>56</sup> the furniture industry is facing growing competition for wood from the renewable energy sector. The EU and its Member States have indeed taken different initiatives in order to promote wood as the preferred fuel used to produce biomass energy. As a result, the European wood energy market has continued to expand and wood harvested for fuels witnessed an average annual increase of 4.6% from 2009 to 2011 (see Table 51). However, the increased demand for woody biomass has not been matched by a corresponding increase in the wood supply, thereby leading to higher prices<sup>57</sup>. This has had a serious impact on the supply of wood to furniture manufacturers, wood-based panels and components producers and on these companies' overall competitiveness and profitability.

**Table 51 European\* harvested wood for fuel in million m<sup>3</sup>**

	2009	2010	2011**	Annual average growth
<b>Wood for fuel</b>	96.6	103.3	105.7	4.60%

Notes: \*Excluding Belarus, Kazakhstan, Russia and Ukraine. \*\* Estimate.

Source: UNECE Timber Committee.

<sup>56</sup> Around 90% of the initial wood raw material input to the EU Forest Based Industry (to which the furniture sector belongs) comes from EU forests. Of the remainder, most comes from Russia and other neighbouring countries, as well as North America and very small amounts of tropical woods.

<sup>57</sup> Communication on innovative and sustainable forest-based industries in the EU, at p. 4 *supra* note 5. For a forecast of the excess demand for woody biomass in the next future see also Mantau et al. (2010), Real potential for changes in growth and use of EU forests –EUwood, at page 23, available at [http://ec.europa.eu/energy/renewables/studies/doc/bioenergy/euwood\\_final\\_report.pdf](http://ec.europa.eu/energy/renewables/studies/doc/bioenergy/euwood_final_report.pdf).

In this respect, in 2011 the European Economic and Social Committee (EESC) adopted the initiative “Opportunities and challenges for a more competitive European woodworking and furniture sector” urging the EU Member States to seriously commit to improving access to supplies of wood raw materials for the furniture, woodworking, pulp and paper industries. The initiative expresses disappointment regarding the use of inappropriate subsidy schemes for renewable energy production, which were set up to achieve the climate commitments, but which made it more profitable to burn wood directly than to use it for products. The issue is now widely recognised as one of the main challenges of the furniture sector as the “Blueprint for the EU Forest-based Industries”<sup>58</sup> published on 20 September 2013 confirms.

Finally, access to raw materials has been also affected by the EU Regulation No. 995/2010<sup>59</sup>, also known as the Timber Regulation, laying down the obligation for operators to exercise due diligence when placing timber or timber products on the market in order to prevent the diffusion of illegally harvested timber. Therefore, wood processing and furniture companies are coming under increasing pressure to show evidence that they buy their wood supplies exclusively from legal sources and, for this reason, to trace the origin of their production process inputs. As a result, companies that were already focusing their strategies toward sustainability and related traceability issues before the introduction of the EU Timber Regulation might have a competitive advantage in demonstrating their compliance with the Regulation (and in bearing the relative cost).<sup>60</sup>

#### *4.1.3 Labour cost and skilled labour availability*

As mentioned above, the furniture industry is essentially an assembly industry. As such, labour costs constitute a relatively important component of the final retail cost of furniture. Indeed, in Europe the incidence of personnel costs on the production in the furniture manufacturing sector is on average around 25% (see Figure 12).

Being a resource- and labour-intensive industry, the entry barriers to the furniture industry are rather low. This allows new producers from emerging and transition economies to easily enter the European market. In order to retain market shares, price competitiveness is a crucial driver of success. For this reason, since the beginning of the 1990s Western European firms have been restructuring their production process, investing in new plants in low-wage countries or outsourcing part of their activities to those areas. The difference in wages and salaries paid in EU15 and in EU13 is clear. On average, the cost per employee in EU13 is 25% lower than in EU15 (see Table 52). However, large differences exist among countries. Evolution over a ten-year time span is reported in Annex 2.

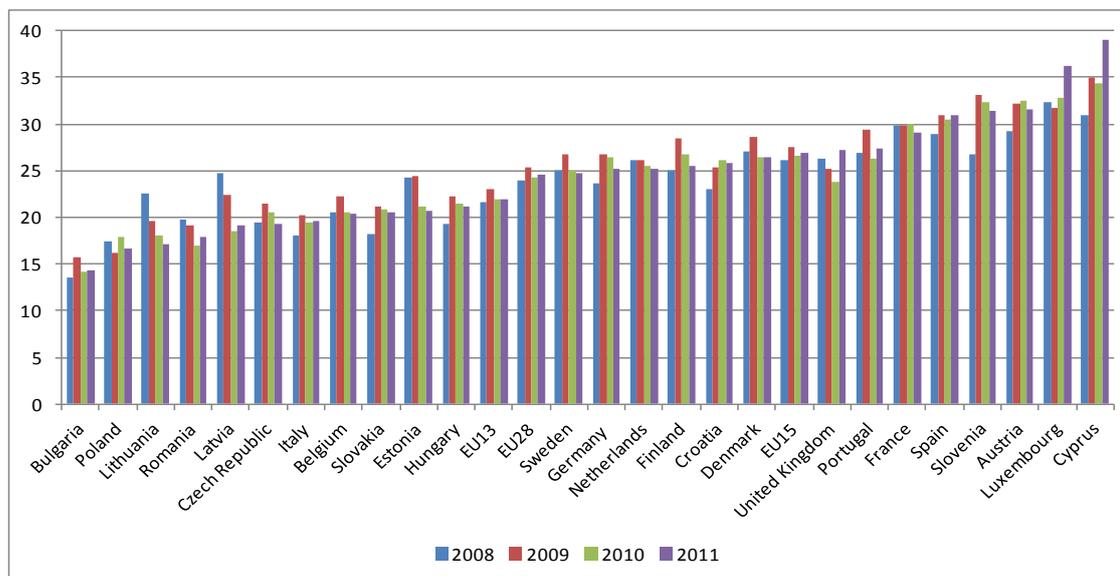
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<sup>58</sup> Commission blueprint for the EU forest-based industries, *supra* note 6.

<sup>59</sup> Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market.

<sup>60</sup> Please note that timber complying with the Timber Regulation is not necessarily sustainable insofar as national law of the country of harvest do not take account of sustainability issues. Similarly, sustainable timber is not automatically compliant with Timber Regulation.

**Figure 12 EU28, personnel costs in the manufacture of furniture (percentage of production value)**



Note: \*Excl. Greece, Malta and Ireland.  
Source: CSIL processing of Eurostat data (sbs\_na\_ind\_r2).

It is important to note that much of the furniture produced in Europe today is based on the assembly of wood-based panels. As a result, in many furniture manufacturing companies the majority of workers are production operatives and assemblers.<sup>61</sup> However, when the finishing of raw panels is carried out internally by the furniture manufacturer, knowledge of gluing techniques and of stains as well as sophisticated finishing techniques is required by some of the production workforce.

In 2011, the furniture sector overall employed almost 1 million people Europe-wide, with Germany, Poland and Italy as the largest employers. Between 2000 and 2006 employment in Europe increased marginally by 0.2 % per year. Instead, between 2008 and 2011 it witnessed an average annual decrease of -5%. This negative trend reflects the aforementioned process of investing and outsourcing in low-wage countries as well as the impact of the crisis. However, a clear distinction between EU15 and the EU13 exists. Employment in the furniture industry of EU15 has decreased over time. Conversely, the EU13 countries<sup>62</sup> which are, on average, characterised by an abundance of resources, a relatively cheap labour force and a relatively developed sector for semi-finished wood products, have attracted firms and employment has increased.

<sup>61</sup> European Commission (2009) Investing in the Future of Jobs and Skills. Scenarios, implications and options in anticipation of future skills and knowledge needs for the Furniture Sector. Policy Summary prepared by TNO, SEOR and ZSI on behalf of DG Employment, Social Affairs and Equal Opportunities.

<sup>62</sup> With differences across countries.

**Table 52 EU28, data on personnel in manufacture of furniture, 2010**

	Number of employees (1)	Personnel costs (€Million) (2)=(3+4)	Wages and salaries (€Million) (3)	Social security costs (€Million) (4)	Wages and salaries per employee (Euro) (3/1) ****
Belgium	12,388	466.5	321.0	145.5	25,912.17
Bulgaria	20,879	51.1	43.2	7.9	2,069.06
Czech Republic	22,887	262.7	193.5	69.2	8,454.58
Denmark	9,250	473.6	430.4	43.2	46,529.73
Germany	138,221	5,048.4	4,167.1	881.2	30,148.10
Estonia	7,221	70.9	52.8	18.1	7,312.01
Spain	78,998	2,076.6	1,620.3	456.3	20,510.65
France	53,642	2,087.0	1,471.9	615.1	27,439.32
Croatia	11,384	95.0	81.4	13.6	7,150.39
Italy	135,838	4,129.7	2,933.3	1,196.4	21,594.10
Cyprus	1,281	27.0	22.5	4.5	17,564.40
Latvia	5,794	27.7	22.3	5.4	3,848.81
Lithuania	19,047	136.7	104.5	32.3	5,486.43
Luxembourg	168	6.1	5.3	0.8	31,547.62
Hungary	16,115	115.7	91.1	24.6	5,653.12
Netherlands	19,786	811.4	665.8	145.6	33,650.06
Austria	27,400	903.2	718.2	185.0	26,211.68
Poland	142,484	1,143.1	947.7	195.3	6,651.27
Portugal	31,975	380.0	295.0	85.0	9,225.96
Romania	59,810	243.6	192.4	51.2	3,216.85
Slovenia	8,823	139.7	122.0	17.7	13,827.50
Slovakia	13,063	140.9	107.1	33.8	8,198.73
Finland	8,010	275.4	221.9	53.5	27,702.87
Sweden	14,915	651.3	465.1	186.2	31,183.37
UK	62,466	1,903.5	1,702.2	201.3	27,250.02
<b>EU15*</b>	<b>593,057</b>	<b>19,213</b>	<b>15,018</b>	<b>4,195</b>	<b>25,322.19</b>
<b>EU13**</b>	<b>328,788</b>	<b>2,454</b>	<b>1,981</b>	<b>474</b>	<b>6,023.64</b>
<b>EU28***</b>	<b>921,845</b>	<b>21,667</b>	<b>16,998</b>	<b>4,669</b>	<b>18,439.11</b>

Notes: \*Excl. Greece and Ireland. \*\*Excl. Malta. \*\*\* Excl. Greece, Ireland and Malta. \*\*\*\* Wages and salaries per employee values for EU15, EU13 and EU28 are average values.

Source: Eurostat (sbs\_na\_ind\_r2).

However, despite the shift of employment to the EU13, two-thirds of the workforce in the furniture industry is still based in EU15<sup>63</sup>. In particular, the number of metal machinery workers and precision handcraft workers has declined in EU15, while it has increased in

<sup>63</sup> Investing in the Future of Jobs and Skills, *supra* note 59.

EU13. On the other hand, in EU15 the number of managers, architects, engineers, designer, office personnel has increased somewhat.<sup>64</sup>

In the context of intense pressure from globalization, new competences and jobs are essential for the European furniture sector.<sup>65</sup> First of all, business skills, such as supply chain management and the development of new business models, will become very important in a globalised production system. This also requires improved language, communication and intercultural skills. Secondly, knowledge of highly automated production systems and of new materials is important, as well as the capacity to work with designers. Third, industrial designers are fundamental in order to take advantage of the higher value-added segments as well as to make the appearance and the ergonomics of mass-products more attractive and thus more competitive. Finally, ICT competences allow innovation process and make it possible to take advantage of opportunities offered by Internet applications.

Workers' qualifications remain one of the crucial points in the furniture industry.<sup>66</sup> To boost competences and skills in the workforce requires initiatives taken by furniture manufacturers and trade unions. In the wake of the crisis, support and incentive schemes available at both European and national levels become essential to invest in enhancing labour force competences. The commitment should be twofold. On the one hand, training should be offered to older workers to keep them updated and to enable them to acquire new competences in line with newly developed technologies. On the other hand, changes in education and training are required to equip the future workforce with the new skills required in the future. To this end, vocational education and training (VET) systems should be adapted to include new sector-specific skills and competences.<sup>67</sup> The European Commission's agenda on new skills and jobs and its targeted initiatives to promote the anticipation of future skill needs, demanding collaboration between industry, sectors, social partners and education, is important in this respect.<sup>68</sup>

The ageing workforce and the inability to attract young workers is another area of concern.<sup>69</sup> Poor safety at work for young employees (in 2010, 17% of total non-fatal accidents at work concerned young employees in the furniture sector, 4 percentage points above the average for the EU economy),<sup>70</sup> lead to a situation whereby there are not enough young workers willing to replace those who are leaving. Indeed, between 2008 and 2012 the

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<sup>64</sup> On potential future trends in this direction, linked to the greening of the European economy, see also Visionary Analytics and ETUC (2013), "*Anticipating the transition: engaging young workers today to reach 2050 goals*", report prepared with the support of the European Commission, available at: [http://www.etuc.org/sites/www.etuc.org/files/Analytical\\_report\\_07-08\\_kst\\_ed\\_SGFINALVERSION\\_1.pdf](http://www.etuc.org/sites/www.etuc.org/files/Analytical_report_07-08_kst_ed_SGFINALVERSION_1.pdf)

<sup>65</sup> *Ibid.*

<sup>66</sup> Conference "The Woodworking and Furniture Sectors: Proposing guidelines for European sustainable and competitive industry" 4 October 2012. Intervention by Sam Hägglund, General Secretary of the European Federation of Building and Woodworkers.

<sup>67</sup> As already suggested by the study Investing in the Future of Jobs and Skills, *supra* note 61.

<sup>68</sup> See in particular: <http://ec.europa.eu/social/main.jsp?catId=958>; and [http://eacea.ec.europa.eu/education/eurydice/documents/thematic\\_reports/125en.pdf](http://eacea.ec.europa.eu/education/eurydice/documents/thematic_reports/125en.pdf)

<sup>69</sup> EFIC (2012) Enhancing the competitiveness of the European Furniture Industry.

<sup>70</sup> Visionary Analytics and ETUC (2013), *Ibid.*

share of young employees in the furniture sector dropped from 12% to 8%: as a result, while before the economic and financial crises, young employees outnumbered older ones in the total sectoral workforce, this is not the case anymore after 2012. The problem is not likely to disappear, as it has been estimated that the total additional workforce requirement between 2010 and 2025 is of 1.5 million.<sup>71</sup> Again, the support of the European Commission and the national governments as well as the commitment of Social Partners is fundamental. The WAVE (Enhance the Value of Work in the Furniture Industry to Attract Young People) project is an example of European initiative aiming at attracting young workers in the sector. Within this project, a number of national initiatives have been supported. Social partners are active in the field of qualification as well. For instance, it is worth mentioning the ongoing "Bolster-up" project which is on the agenda of the VET working group of the sectoral social dialogue committee for Furniture.<sup>72</sup>

#### 4.1.4 Investment in technology machinery

Adequate machinery endowment is widely recognised as a crucial factor in the production process, as it delivers efficiency and productivity gains. This applies to all the furniture segments, but in particular in the case of assembly-line manufactures orientation, when production is in big series. Standardization of production should go hand in hand with minimization of costs and in this process, technology (both in production and logistic) has a decisive role. Companies' capital investments in plant and machinery have also an impact in reducing waste and increasing safety.

The EU28 furniture sector recorded €2,698 million of tangible investments in 2010, resulting in an investment rate<sup>73</sup> of 9.3% (see Table 53). If the total investments in tangible goods are broken-down into their four subcomponents, investments in machinery and equipment account for the largest share.

In general, tangible investments in the furniture sector concern the automation of the production process. Indeed, more than half of the total investments are for new machinery and equipment. In order to automate the production process furniture firms usually introduce Computer Assisted Manufacturing (CAM) solutions and Computerised Numerical Control (CNC) machines. Important investments are made in this area by medium-sized and large enterprises to optimise production, to create synergy between different lines or sites of production and to achieve scale economies. In particular, German and Italian wood furniture manufacturers are at the forefront in terms of woodworking machinery technology and are considered world leaders.

Some recently reported<sup>74</sup> investments of European companies include laser edge-banding technology, which provides a cleaner finish and a water-resistant joint replacing the use of glue, laser tube-cutting machinery, production systems for improved lacquering, production lines for glass and ceramic front finishing.

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<sup>71</sup> Visionary Analytics and ETUC (2013), *Ibid*.

<sup>72</sup> Available at [http://www.adam-europe.eu/prj/9919/project\\_9919\\_en.pdf](http://www.adam-europe.eu/prj/9919/project_9919_en.pdf)

<sup>73</sup> It is calculated as investments over value added at factory cost.

<sup>74</sup> 2013, CSIL, Top 200 furniture manufacturers worldwide, performance and strategies.

**Table 53 EU28, gross investments in tangible goods by type in furniture production, 2010 (€million and percentage values on EU28)**

	Land 1	Existing buildings and structures 3	Construction and alteration of buildings 3	Machinery and equipment 4	Tangible goods 5=1+2+3+4	Share of investment in machinery and equipment over the total investment in tangible goods (4/5)
<b>Luxembourg</b>	0	0	0	0	0	0%
<b>Latvia</b>	0.1	0.2	1	3.4	4.7	72%
<b>Cyprus</b>	0	0	2.5	2.7	5.2	52%
<b>Croatia</b>	0	0	3.4	6.5	9.9	66%
<b>Estonia</b>	0.1	0.8	1.6	8	10.5	76%
<b>Hungary</b>	0.2	1.4	4.7	15.3	21.6	71%
<b>Slovenia</b>	0.2	0.9	3.7	18.4	23.2	79%
<b>Finland</b>	0	0	3.3	20.8	24.1	86%
<b>Bulgaria</b>	0.5	1.1	11.3	12.3	25.2	49%
<b>Slovakia</b>	0.8	0.9	2.9	14.9	19.5	76%
<b>Denmark</b>	1	1.2	3.9	26.7	32.8	81%
<b>Lithuania</b>	0.1	14.9	3.5	19.3	37.8	51%
<b>Netherlands</b>	1.4	0	9.3	52.3	63	83%
<b>Czech Rep.</b>	0.6	-0.4	28	39.4	67.6	58%
<b>Sweden</b>	n.a.	n.a.	4.8	68.5	73.3	93%
<b>Romania</b>	11.2	0	26.6	68.5	106.3	64%
<b>Austria</b>	1.2	2.3	20	83.1	106.6	78%
<b>Belgium</b>	0.5	8.5	7.6	107.4	124	87%
<b>Portugal</b>	5.4	2.2	35.1	77.5	120.2	64%
<b>Spain</b>	3.4	0.5	12.9	145.2	162	90%
<b>UK</b>	0.1	0.2	96.2	66.7	163.2	41%
<b>Poland</b>	6.6	11.2	93.6	189.4	300.8	63%
<b>Germany</b>	8	13.7	76.5	388.9	487.1	80%
<b>Italy</b>	18	148.8	70.6	471.5	708.9	67%
<b>EU-15*</b>	<b>39</b>	<b>177.4</b>	<b>340.2</b>	<b>1,508.6</b>	<b>2,065.2</b>	<b>73%</b>
<b>EU-13**</b>	<b>20.4</b>	<b>31</b>	<b>182.8</b>	<b>398.1</b>	<b>632.3</b>	<b>63%</b>
<b>EU-28***</b>	<b>59.4</b>	<b>208.4</b>	<b>523</b>	<b>1,906.7</b>	<b>2,697.5</b>	<b>71%</b>

Notes: \* Excl. Greece, France, Ireland. \*\* Excl. Malta. \*\*\* Excl. Greece, France, Ireland and Malta  
Source: Eurostat (sbs\_na\_ind\_r2). Values in last three columns are based on CSIL processing.

#### 4.1.5 *R&D, innovation and design*

R&D and innovation are crucial factors to maintain market positions. This is made necessary by consumers' changing needs and market pressure. We explore these issues in greater details below.

##### 4.1.5.1 *Product trends*

Changing tastes, emerging needs and the introduction of innovative products are key issues. The competitiveness of EU manufacturers should be assessed in terms of their ability to meet consumer demand, both present and potential, through innovation and design. The present trend has to do with customization, ergonomics, and functionality. Eco-issues are also becoming increasingly important.

For instance, the kitchen furniture sector is one of the most innovative segments of the entire furniture industry in terms of new materials, coverings and devices that are launched on the market. The sector is also a significant driver for the introduction of new appliance technologies. Regarding kitchen layouts, the majority of the European market is still made of corner kitchens, which allow people to use the full space more efficiently, followed by linear layout kitchens, and finally by island/living kitchens. However, in recent years manufacturers have tended to offer product solutions capable of matching kitchen spaces with living spaces, promoting compact kitchens in small dimensions. The tendency is to ensure the coexistence of kitchens and living rooms often in combination with the requirements of new spaces.

In terms of materials used, the choice of finishing for the kitchen (as for other segments) is an important issue, because of the possibility of differentiation and producing design-oriented items. Laminate was the most commonly used material, not only because it is the most economic, but also because it satisfies those needs. However, thermoplastic finishing is also continuing its positive trend, overtaking veneer as the second most popular finish for cabinet doors. Solid wood, both for cabinets and worktops has a limited share; however, some of the top sector companies still focus on this item for the majority of their production.

One of the main trends in office furniture production concerns ergonomics and functionality: for example producing chairs that are designed to move with the body, allowing people to naturally shift their position when seated for long periods or chairs that enable permanent contact between the back and backrest in all phases of movement. Another trend relates to the increasing offer of products suitable for the organization of open spaces and "informal" meeting spaces, products that can be transformed and adapted according to specific needs.

In terms of materials used, there is a trend away from the use of wood in EU office furniture production towards plastic and metal, although wood still accounts for important shares of production (80% in office desks, 30% in worktops, 50% in cabinets, storage and filing system and wall to wall units).

In the RTA furniture segment, companies are adding real wood surfaces and other authentic-looking finishes such as veneer, improved laminates, coatings, and other finishes enhancing quality and protecting the surface against scratches. In addition, recent advances

in production machinery have enabled producers to make more intricate cuts and develop designs that are far from the basic look that was common less than a decade ago.

In the upholstered furniture segment EU supply has adapted to the reduction in the average size of apartments, focussing on smaller sofas and sofa beds, with manufacturers trying to diversify this segment with new designs, new mechanisms, new materials for mattresses, etc.

In terms of types of coverings used, EU upholstered furniture production is broken down as follows:

- Fabric 56%;
- Leather 36%;
- Microfibre 8%.

Many upholstered furniture manufacturers, historically focused only on leather, have started to introduce some fabric collections in order to satisfy the increasing demand, mainly due to the countless colour and pattern options available and greater ease of cleaning. Several companies introduced innovative textiles for upholstered furniture, such as water resistant and self-cleaning textiles, materials that block out UV rays, resist wear-and-tear and have undergone antibacterial treatment.

#### *4.1.5.2 The need for design*

Together with new consumer needs and products trends, the globalisation of the furniture industry and the difficulties experienced by European firms in competing with the prices of Asian imports have moved the design function to the forefront. European manufacturers now regard design as the best means of differentiating their products from mass production and of acquiring access to the high-income market segments. Design is indeed widely recognised as offering furniture producers a competitive advantage that can counterbalance the price advantage of low-wage countries. Europe accounts for over 80% of global sales of design luxury furniture<sup>75</sup>.

Industrial design is generally interpreted as the sum of the aesthetic-project content of a furnishing product: from function to form, from material to colour and finishing, all are seen as the realisation of technical design. Designs and new models in the furniture industry are created in-house, or by external designers and experts. External consultants are more frequently employed by medium-sized and high-brand enterprises. Moreover, they are generally hired by companies specialising in modern and contemporary styles rather than by companies making classic and traditional style products, or companies without a particular specialisation.

In general terms, the contribution of designers is most important during the first phases of the generation of a new product.

Besides design, innovation in materials and technologies is another crucial competitiveness driver. Contrary to design, only a small number of European firms carry out industrial

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<sup>75</sup> Frontier Economics (2012), The value of the cultural and creative industries to the European economy, report prepared for the ECCIA.

research activities internally in order to develop new materials or technology for furniture. However, an important asset of the European furniture industry is that it works closely with suppliers of new materials and new technologies. In particular, innovation in materials is often carried out by firms specializing in surface finishing, while technological innovation is often achieved by component producers.

An interesting field of innovation which can potentially affect the furniture sector in the near future is represented by nanomaterials<sup>76</sup> and nanotechnology<sup>77</sup>. Recently, a joint project by the European Federation of Building and Woodworkers (EFBWW), the European Furniture Manufacturers Federation (UEA) and the European Furniture Industries Federation (EFIC) has mapped current uses and near future perspective on nanomaterials in the European furniture sector. It is worth mentioning that research and development on nanomaterials and nanoproductions is not carried out by the furniture sector which typically exploits the findings of the research and development activities of other industries. Looking at the market of 2012, the aforementioned project found out that the use of manufactured nanomaterials in furniture products is still at an early stage of development since their costs are quite high while the confidence of furniture manufacturers and consumers is still low. The majority of nanomaterials applications can be found in the field of coatings, e.g., scratch resistant coatings, anti-graffiti coatings, easy-to-clean and water repellent coatings, UV-protective coatings, and self-cleaning coatings.

Table 54 shows the share of R&D personnel out of the total number of employees in the furniture manufacturing sector. On average, the share of persons employed in R&D is larger for EU15 countries than for EU13. In particular, Belgium and Denmark have the largest share of R&D personnel compared to the total number of employees in the sector, respectively 2% and 2.2%.

Concerning technological innovations, while some years ago mechanical technologies were the only frontier of research in the furniture sector, today a growing role is also played by ICT. Indeed, both wireless remote controls and smartphone apps are increasingly used to control home appliances or furniture such as mattresses, chairs and sofas, while the use of digital material for promotion and sales is also on the rise.

Process innovation is another important competitive edge for furniture manufacturers. According to the CSIL Report (2013), top European manufacturers invest in upgrading and automating their production processes through new engineering solutions. They also introduce new production methods that allow for energy savings. For instance, the furniture production line can be equipped with an environmentally-friendly woodchip burner that

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<sup>76</sup> According to the European Commission, a nanomaterial is a natural, incidental or manufactured material containing particles, in an unbound state or as an aggregate or as an agglomerate and where, for 50% or more of the particles in the number size distribution, one or more external dimensions is in the size range 1 nm – 100 nm. In specific cases and where warranted by concerns for the environment, health, safety or competitiveness the number size distribution threshold of 50% may be replaced by a threshold between 1 and 50%.

<sup>77</sup> Nanotechnology is the ability to observe, monitor and influence materials (and their behaviour) down to the nanometre detail, with one nanometre being about 10,000 times smaller than the thickness of a human hair.

recycles all the waste wood and chippings and uses it as fuel in the production facilities. The energy is used directly and without any additional transport costs.

**Table 54 EU28. R&D personnel in furniture manufacturing (Head Count), 2010**

Total R&D personnel of total number of employees	
Belgium	2.0%
Bulgaria	0.0%
Czech Republic	0.7%
Denmark	2.2%
Germany	0.6%
Estonia	0.2%
Ireland	n.a.
Spain	0.8%
France	0.4%
Croatia	0.1%
Italy	1.1%
Cyprus	0.0%
Latvia	1.2%
Lithuania	0.3%
Hungary	0.4%
Malta	n.a.
Netherlands	1.7%
Austria	0.6%
Poland	0.2%
Portugal	0.5%
Romania	0.0%
Slovenia	0.9%
Finland	1.3%
Sweden	1.4%
United Kingdom	1.3%
<b>EU15*</b>	<b>0.9%</b>
<b>EU13**</b>	<b>0.2%</b>
<b>EU28***</b>	<b>0.7%</b>

Notes: Data refer to 2010 except for Belgium, Denmark, Germany, France, Austria, Sweden, and the UK for which data refer to 2009. \* Excl. Ireland, Greece, Luxembourg. \*\* Excl. Slovakia, Malta. \*\*\* Excl. Ireland, Greece, Luxembourg, Slovakia, Malta.

Source: CSIL processing of Eurostat data (rd\_p\_bempoccr2 and sbs\_na\_ind\_r2).

## 4.1.6 Policy issues

### 4.1.6.1 R&D and innovation policy

European and national funding schemes are important elements to support research and innovation. At European level, the Research Framework Programmes are the main financial

and legal instruments for supporting basic research and innovation. As an example, ECOVARN is a project recently funded by the FP7 with the aim of developing a new durable, functional, regulation-compliant water-borne wood coating in order to help the wood coatings and the wood furniture sectors. Another example of a project funded by the FP7 is the TFE Task Furniture in Education aiming at researching and developing new and innovative task furniture solutions addressing modern advances in teaching and learning, the integration of technology in the classroom and the postural implications for children and young adults in schools. However, European programmes are not always accessible to SMEs since they lack the capacity to apply and manage such funding schemes. In this respect, the former Competitiveness and Innovation Framework Programme (CIP) supported innovation activities for SMEs. As of 2014, the CIP has been reorganised with the component on innovation falling under the broader Horizon 2020 programme, while access to finance, markets and other business support for SMEs is now under COSME, the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises.

#### *4.1.6.2 Intellectual property rights*

Overall, if design, research, product and process innovations are crucial factors and key strengths of the European furniture industry when competing on the global market, protecting innovations and enforcing intellectual property rights (IPRs) should be a priority to ensure that the EU can continue to compete in the global economy despite increasing international counterfeiting and piracy in many sectors. In the case of furniture, infringements take two forms: i) “learning by copying” when a manufacturer copies an existing product because of its inability to develop the product autonomously (e.g., when China started producing “Western-style” furniture); and ii) counterfeiting, when products of a well-known designer are copied and sold to consumers at a cheaper price. There are unfortunately no precise data on the magnitude of these infringements, but “learning by copying” is steadily declining. Conversely, counterfeiting represents a considerable problem, especially for top tier products. Considering that distribution channels for these products are controlled by producers, counterfeit furniture is usually sold only on the Internet.

The need for protection of creations is also shown by the fact that the furniture industry is strongly represented in the number of registrations for Community design protection. 47,267 furniture designs and models were registered from January 2003 through September 2008<sup>78</sup> and the furniture industry makes up 13% of the total volume of design registrations with the OHIM.<sup>79</sup>

In this regard, in 2011 the EESC in its Opinion on ‘Opportunities and challenges for a more competitive European woodworking and furniture sector’ stressed the need for enhanced cooperation in the area of industrial property rights, in particular through the creation of the European standard patent. In 2012, EU Member States and the European Parliament

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<sup>78</sup> European Commission (2009) Intellectual Property, A business tool for SMEs A Guide for the Furniture Industry, prepared in the frame of the IPeuropAware project, co-funded by the European Commission under the Competitiveness and Innovation Framework Programme CIP and managed by the Executive Agency for Competitiveness and Innovation

<sup>79</sup> Office for Harmonization in the Internal Market.

agreed on the “patent package” – a legislative initiative consisting of two Regulations and an International Agreement on a Unified Patent Court. The "patent package" lays grounds for the creation of unitary patent protection in the EU – a legal title ensuring uniform protection for an invention across 25 Member States on a one-stop-shop basis, providing huge cost advantages and reducing administrative burdens. This represents an important step towards the protection of European manufacturers' competitiveness.

#### 4.1.6.3 *Safety and environmental issues*

In recent years, an important driver of innovation in the furniture industry has been the need to meet new consumers' values, such as environmental protection. Furniture is a product with a relatively long life span (even if decreasing) and different safety and eco-issues arise from the production and disposal phases. Over the years, safety and environmental legislation have become a new key benchmark for consumer confidence in manufactured goods. As a result, a number of relevant policies and initiatives have been implemented at the European level. The main environmental directives that directly affect the furniture industry are Industrial Emissions Directive (IED) 2010/75/EU, the Volatile Organic Compounds (VOC) Directive and Waste Framework Directive.

As part of the exchange of information carried out in the framework of Article 13(1) of the Industrial Emissions Directive, a series of reference documents on Best Available Techniques, called BREFs have been drawn (or are planned). They provide descriptions of a range of industrial processes and provide, among others, information on environmental issues such as emission rates. In the area of wood and surface treatment, there are BREFs adopted, under revision, under drafting and planned. The BREF on Surface Treatment of Metals and Plastics has been adopted in 2006, the BREF on wood-based panels production<sup>80</sup> is under drafting, the BREF on Surface Treatment using Organic Solvents<sup>81</sup>, adopted in 2007, will be revised in 2014 and the BREF on wood and wood products preservation with chemicals is planned to be drafted.

In March 2013 the application of the Regulation N. 955/2010 of the European Parliament and of the Council (the so-called EU Timber Regulation) also started, thus laying down obligations for operators who place timber and timber products on the market. The Regulation aims at counter the trade of illegally harvested timber through three obligations: 1) it prohibits the placing on the EU market for the first time of illegally harvested timber and products derived from such timber; 2) it requires EU traders who place timber products on the EU market for the first time to exercise “due diligence”; 3) it imposes to operators to keep records of their suppliers and customers. This implies that operators when checked by competent authorities have to show that they have established a due diligence system and they have registers of suppliers/costumers.

Furthermore, as part of a broader EU Action Plan on Sustainable Consumption and Production and Sustainable Industrial Policy adopted by the European Commission in 2008, the EU Ecolabel<sup>82</sup> scheme and the Green Public Procurement (GPP)<sup>83</sup> instrument

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<sup>80</sup> For further details see <http://eippcb.jrc.ec.europa.eu/reference/BREF/WBP30072013D1.pdf>

<sup>81</sup> For further details see [http://eippcb.jrc.ec.europa.eu/reference/BREF/sts\\_bref\\_o807.pdf](http://eippcb.jrc.ec.europa.eu/reference/BREF/sts_bref_o807.pdf)

<sup>82</sup> The EU Ecolabel is a voluntary scheme established by the European Commission in 1992 which is now part of a broader strategy to stimulate sustainable production and consumption. The label,

exist. Currently, an EU Ecolabel is available for wooden furniture that meets the criteria set out in the Commission Decision of 30 November 2009.<sup>84</sup> A survey conducted by Eurobarometer in April 2009 shows that 40% of European respondents were aware of the EU Ecolabel, more than 80% of respondents stated that they pay attention to environmental aspects when buying, and 47% said that they tend to pay attention to ecological labelling.<sup>85</sup> However, at the beginning of 2013 there seemed to be only one furniture producer holding the EU Ecolabel.<sup>86</sup> This can be explained by the fact that solid wood or wood-based materials normally constitutes less than 90% by weight of the furniture, even when they form the main material.<sup>87</sup>

Therefore, it is considered reasonable to widen the scope of the EU Ecolabel criteria in order to cover a much broader share of the furniture market. In this purpose, a revision is ongoing to expand the product group scope from wooden furniture to other type of furniture. Concerning Green Public Procurement (GPP), a set of GPP criteria have been worked out in 2008 for each of the following aspects of furniture: production, use and waste.

As far as safety is concerned, the European legislation ensures a consistent, high level of protection for the health and safety of both consumers and workers, respectively, through the Directive 2001/95/EC of the European Parliament and the Council of 3 December 2001 on general product safety and the European Framework Directive on Safety and Health at Work. The former applies in the absence of specific European regulations, governing the safety of certain categories of products or if sectoral regulations are insufficient. The latter guarantees minimum safety and health requirements throughout Europe for worker employed in every sectors. For instance, for the furniture sector a Council Directive on the protection of workers from the risks related to exposure to carcinogens and mutagens at work, exist. A number of European standards have also been adopted for furniture safety. For instance, there are specific standards for products including children's cots, bunk beds, changing units, playpens, tables, chairs, storage units and outdoor furniture.<sup>88</sup>

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designed as a European flower, is intended to be recognised as Europe's primary label for environment-friendly products and services. The criteria for the EU Ecolabel in the wood furniture sector were set in 2009.

<sup>83</sup> According to the European Communication, COM(2008)400, GPP is a process whereby public authorities seek to produce goods, services and works with reduced impacts of environmental impact throughout its life cycle when compared to goods, services and works with the same primary function that would otherwise be produced.

<sup>84</sup> See Commission Decision on establishing the ecological criteria for the award of the Community ecolabel for wooden furniture (2009/894/EC)

<sup>85</sup> EC (2009) Europeans' attitudes towards the issue of sustainable consumption and production - Analytical report. Available At: [http://ec.europa.eu/public\\_opinion/flash/fl\\_256\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_256_en.pdf)

<sup>86</sup> See JRC (2013) Revision of the European Ecolabel and Green Public Procurement Criteria for furniture.

<sup>87</sup> The main criterion to be fulfilled in order to gain the EU Ecolabel is that the product shall be made of at least 90% solid wood or wood-based materials.

<sup>88</sup> For further details see

<http://www.cen.eu/cen/Sectors/TechnicalCommitteesWorkshops/CENTechnicalCommittees/Pages/Standards.aspx?param=6188&title=CEN/TC%20207>

The furniture industry has invested in producing eco-friendly and environmentally-safe products. In this regard, some of the strategies put in place by EU manufacturers move in the direction of increasing sourcing of FSC and PEFC wood, chains of custody, investments in research programmes for capturing VOCs such as formaldehyde, use of panels made of recycled wood, bio-composite panels, water-based lacquering, use of bio-based ingredients in foam mattress manufacturing.

#### 4.1.7 Price trends

Furniture prices depend on the margin applied by the manufacturer to production costs, which are in turn the result of many factors. Among these, the price trends in raw materials, labour costs and energy costs. Market conditions obviously also affect the trend.

As a whole the EU furniture industry has seen rising production prices over the last decade (in 2012 prices were +17% above the 2003 level); prices increased year after year, even during the crisis (see Table 55). However, the average growth in furniture production prices was lower than the average for the whole manufacturing sector (+24%).

**Table 55 EU28, producer prices in the furniture industry and total manufacturing, (index number, 2010 = 100)**

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>EU28</b>	Total manufacturing	86.72	88.73	91.25	93.92	96.18	100.14	96.71	100.01	105.15	107.33
<b>EU28</b>	Furniture	88.87	90.23	91.53	92.39	94.74	97.47	99.51	100	101.82	103.73

Source: Eurostat Short Business Statistics.

The trend of increasing production prices in furniture manufacturing is probably the combined result of three factors:

1. An increase in the prices of raw materials and energy;
2. A share of EU furniture production moving from the middle to the upper-market range (with higher unit prices). However, it is interesting to note that during the recession there was also a polarization pushing most consumers on a tighter budget to choose low-priced furniture (see Box 12), which still represents an important share of European production.
3. Operational costs increased by compliance with environmental, sustainability and technical standards and regulations.

It is also worth detailing the trend in prices on the basis of the final destination of the output. According to the Eurostat definition, the domestic output price index for an economic activity measures the average price development of goods (and related services) resulting from that activity and sold on the domestic market. The non-domestic price index shows the average price development (expressed in the national currency) of all goods and related services resulting from that activity and sold outside the domestic market (thus both to other EU Member States and to extra-EU countries).

It seems that the production prices of products destined for domestic markets have grown faster over the last decade (+17%) than those sold outside the country's borders (+14%, see Table 56). One of the explanatory factors is probably that manufacturers face greater

competition on the external market than within national boundaries, thus price increases must be contained in order to remain competitive. Also, on the domestic market their positioning is generally based on stronger and longer established relationships with the retailing system.

Another key issue is to compare the production prices applied to the domestic market with those relating to imports (see Table 57). For this purpose, Eurostat data availability is reduced, but it is still possible to make a comparison. Import prices<sup>89</sup> are sub-divided into imports from Eurozone countries and imports from other countries. Data are available for the Euro area (17 countries).

**Table 56 EU28, producer prices in the furniture industry, domestic and non-domestic prices (index number, 2010 = 100)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Domestic	88.07	89.42	90.88	91.98	94.58	97.56	99.45	100.00	101.66	103.33
Non domestic	91.66	92.87	93.64	94.13	95.62	97.59	99.96	100.00	101.90	104.30

Source: Eurostat Short Business Statistics

**Table 57 Euro Area Furniture, domestic output price index and import price index from non-Euro area (index number, 2010 = 100)**

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Euro area</b>	Domestic output price index - in national currency	88.21	89.54	91.16	92.33	95.03	98.07	99.68	100	101.67	103.45
<b>Euro area</b>	Import price index - non euro area	93.13	92.69	93.27	93.82	94.39	96.43	99.28	100	99.54	102.58

Source: Eurostat Short Business Statistics

Prices of imports into the Euro area from extra-EU countries have been growing slower than the prices applied to countries in the Euro area and to their domestic market. The former increased by +10% over the last decade, the latter by +15%. Thus, as a general trend, European furniture manufacturers are seeing prices rising more than their extra-EU foreign competitors (which, as mentioned, operate mainly in the middle/low market range).

However, it is worth stressing that the comparison does not take into consideration the effect of the retailing margin applied by distributors on the price to the end consumer. Margins vary greatly across the distribution channels and over the years<sup>90</sup>.

The consumer price index, which includes both imported and locally produced items, was 11% higher in 2011 with respect to 2003 (see Table 58). This seems to indicate that both an increase in imports prices and, to a lesser extent, production prices are reflected into higher consumer prices.

**Table 58 EU27, final consumption expenditure on furniture and furnishings, carpets and other floor coverings, 2003-2011 (Index number, 2005=100).**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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<sup>89</sup> The objective of the import price indices is to measure the monthly transaction price development of imported goods purchased from non-domestic areas by domestic residents.

<sup>90</sup> E.g. Margins (retail price/producer price ratio) varies from 1.5 to 2.5 according to CSIL data.

EU27	96.9	98.6	100.0	102.0	104.5	105.2	104.7	106.2	107.7	n.a.
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Source: CSIL processing of Eurostat data [nama\_co3\_p]

### Box 12 Western Europe, \*kitchen furniture production by market range

According to CSIL data, total kitchen furniture production in Western Europe in 2012 can be broken down as follows:

- Luxury segment (kitchens with factory prices of over €7,500): 7% of production.
- Upper-end market (kitchens with factory prices of between €5,000 and €7,500): 9% of production.
- Upper-middle price segment (kitchens priced between €3,600 and €5,000, at factory prices): 17% of production.
- Middle price segment (kitchens priced between €2,300 and €3,600, at factory prices): 23% of production.
- Middle-low segment (kitchens priced between €1,300 and €2,300, at factory prices): 21% of production.
- Low-end price segment (including kitchens with factory prices lower than €1,300): 23% of production.

\*EU15+Norway and Switzerland

## 4.2 Downstream section of the value chain

### 4.2.1 Demand determinants

The furniture sector, which encompasses a diverse range of products and markets, can be further segmented in three categories, according to purchasing characteristics:

- Domestic: serving the public, mainly through retail outlets and for household use;
- Office: relating to furniture items destined to the office environment, accounting for about 9% of the total furniture consumption;
- Contract: including furniture for public areas (hotels and restaurants, school and hospitals, stadium, airports, etc.). The segment also overlaps with the domestic and office segment, when purchases are made following a particular scheme. According to CSIL estimates, the contract segment accounts for another 10%, of which the offices/banks/institutions segment claims roughly 15% (and the rest being furniture for hotels, restaurant and others).

As the domestic segment accounts for the majority of consumption (about 82%), this Section will focus on the main drivers of furniture consumption by EU citizens. Additional information on the contract segment will be presented afterwards.

#### 4.2.1.1 Disposable income of EU furniture consumers

The disposable income of EU consumers is the main driver of furniture consumption. In the pre-crisis period, it drove the market in both Western Europe and in the other fast growing countries. During the crisis it became a constraint everywhere (with some important exceptions, such as Germany).

Disposable income and the income expectations of each household or individual have an important impact on consumption patterns. In particular, econometric research seems to indicate that there is a strong correlation between GDP growth and furniture consumption.<sup>91</sup> Thus, as a general trend, expenditures usually rise during periods of economic upturn and contract during periods of recession, when disposable income is reduced and consumer confidence usually falls. Obviously, this affects the different market segments in different ways (see Box 13).

Until 2008, the GDP per capita - a proxy for income per capita - had been constantly increasing every year, on average. It decreased in 2009 by 1.2% and then it again increased slightly every year. In 2012 it was still 0.4% below the pre-crisis levels. That said, GDP per capita varies considerably across EU countries.

The final consumption expenditure of European households was estimated to account for 57% of EU28's GDP in 2012. The relative importance of consumption expenditure ranged from 71.9% of GDP in Greece to 29.4 % of GDP in Luxembourg.

At the EU level, furniture expenditure accounts for around 1.9% of household consumption expenditure, contracting slightly in the past few years (see Table 59).

**Table 59 EU27, household final consumption expenditure on furniture and furnishings, carpets and other floor coverings\* (share of total household expenditure)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU27	2.3	2.3	2.2	2.2	2.1	2.1	2.0	1.9	1.9	n.a.

Note: \* The aggregate includes items other than furniture (e.g. carpets and floor coverings)

Source: Eurostat [nama\_co3\_c].

The trend of per capita furniture consumption<sup>92</sup> at EU level is illustrated below (see Table 60). Per capita furniture spending is higher than a decade ago in Germany and France, whereas it is contracting sharply in Italy and in the UK (where, however, there are some signs of recovery). On average per capita furniture consumption in EU13 is over 30% higher than a decade ago.

Differences across the EU are relevant in terms of per capita consumption levels, with generally higher expenditure in Western Europe and lower elsewhere (with the exception of Cyprus and Malta). This is illustrated in Figure 13.

In the current economic context, future consumers' choice of whether to save money or to spend depends on their overall perception and expectations. The Eurostat consumer confidence indicator showed a decrease in 2012 compared to 2011. In particular, when asking consumers if compared to the past 12 months, they expect to spend more or less money on major purchases (furniture, electrical/electronic devices, etc.) over the next 12 months, the balance of answers is negative.

<sup>91</sup> 2010, CSIL's WFCF model, working document.

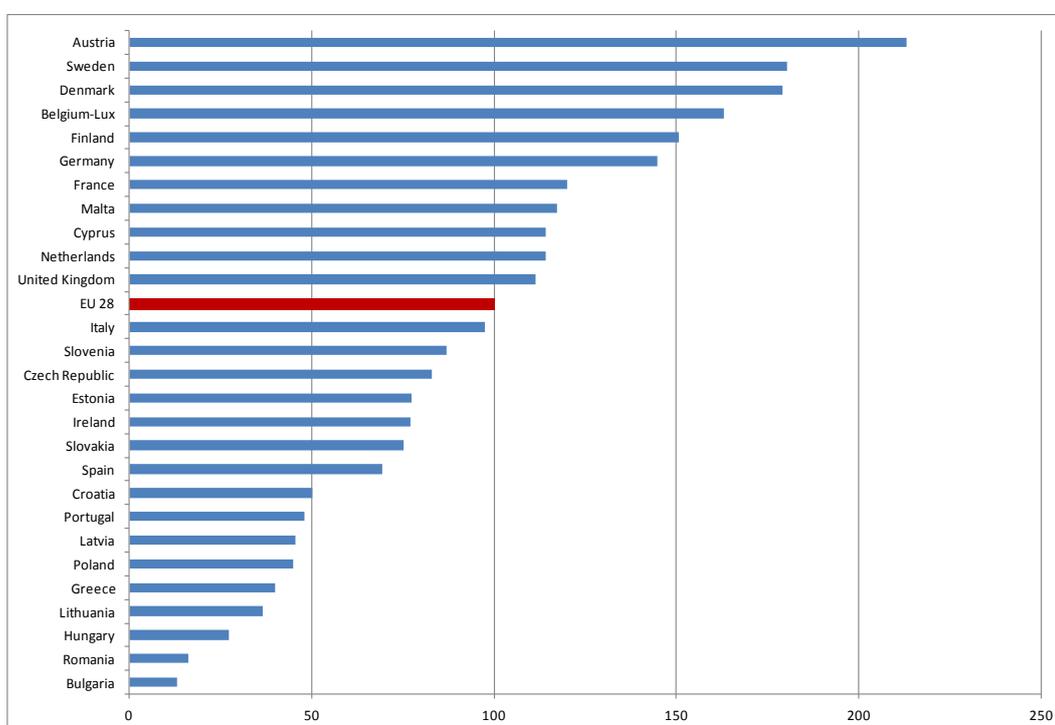
<sup>92</sup> Calculated as total country furniture consumption divided by total population (thus including contract and office consumption).

**Table 60 EU28, furniture consumption per capita (index number, 2003=100)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Germany	100	98.90	99.88	103.92	106.97	107.48	99.86	104.68	109.56	109.28
France	100	103.44	109.28	111.20	117.77	117.86	111.60	115.94	117.98	115.07
Italy	100	104.55	104.68	108.76	108.78	107.36	96.64	96.83	89.54	74.96
United Kingdom	100	108.16	105.41	107.99	112.16	98.94	76.90	78.84	77.90	83.32
Poland	100	113.27	134.41	160.68	193.13	209.12	148.40	155.49	158.09	169.08
EU15	100	103.83	105.97	110.69	115.39	111.07	95.20	97.45	96.54	92.97
EU13	100	111.08	125.59	142.77	164.73	174.10	131.52	129.58	131.85	133.61
EU28	100	104.44	107.53	113.21	119.18	115.83	98.16	100.20	99.59	96.40

Source: CSIL processing of CSIL and Eurostat data (demo\_pjanbroad).

**Figure 13 EU28, furniture consumption per capita, 2012 (index number, EU28=100)**



Source: CSIL processing of CSIL and Eurostat data (demo\_pjanbroad).

### Box 13 The luxury segment

The distribution of millionaires, individuals with assets of between €1 million and €40 million (the owned assets are the value of financial assets plus non-financial assets, principally housing, owned by an individual less his/her debts), shows that 32% of them are in Europe; considering ultra-high net worth individuals (UHNW), those with net assets exceeding €40 million, Europe has a share of 26%.

The potential in terms of furniture purchasing of this market, even if is a niche, is huge, standing at around €3 billion in Europe (at retail prices, including mark-ups and including furniture and furnishing items).

Among the leading luxury furniture manufacturers serving the market there are Western Europe companies (both companies linked to well-known fashion brands, i.e. established high-end furniture companies that have made consistent investments in communications and brand positioning in order to create a luxurious brand image, and companies that manufacture products with a high content of craftsmanship and that offer a completely customized product)

#### 4.2.1.2 Investments in residential construction

Another key variable determining furniture purchases is related to investments in residential construction. The trend of the last ten years is represented in Table 61.

Obviously, the effects of the economic context negatively affected the trend in investments in new residential building, but investments in renovations have continued to grow over the last few years. Due to the potential demand for furniture that this could generate, stimuli in terms of tax reductions for refurbishment, renovation and home extensions may have a positive effect, encouraging consumer investments in repairs and maintenance.<sup>93</sup> For example, in the case of kitchen renovations, clients often also have to pay for some installation labour, laying the tiles and plumbing, in addition to buying the kitchen furniture.

Changes in how and with whom people live also have considerable implications for the location, type and size of housing that people can afford to live in. This in turn has repercussions on furniture consumption trends. Indeed, smaller house imply less space for furniture and thus can lead to an increase in the consumption of space-saving furniture. Also, the tenure status is an important variable that can affect not only the volume of furniture consumption but also the type of furniture purchased. Indeed, home owners tend to spend much more for furniture than tenants paying a rent. In all European countries the percentage of home owners is greater than that of tenants, with differences across the countries (see Table 62).

However, furniture is subject to a substitution rate and the “lifetime” of furniture was longer in the past than today. This is due to the current global trends on the manufacturing side, in which the continuous process of product innovation, in both design and technological features, make furniture items obsolete and “out of fashion” in a reduced time span. Also, the increasing availability of products at competitive prices in the large-scale distribution channels further reinforces this process. On average Europeans acquire new kitchen furniture every 15 years, generally when they move to a new house or renovate their apartment. Other products generally have a shorter lifetime. For example, replacement cycles for outdoor furniture in the different countries studied is generally between three and four years, up to six years.

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<sup>93</sup> By way of example, in May 2013 the Italian Government introduced a “*Bonus Mobile*” (furniture subsidy) establishing a 50% tax deduction on the purchase of home furniture under the Income Tax Act. The deduction is applicable to the purchases made before December 2014. The expenditure cap for the purchase of pieces of furniture is set at a maximum of 10.000 Euros, and the 50% deduction is given over a period of 10 years on a straight-line basis. The deduction applies to: all furniture types, such as beds, wardrobes, chest of drawers, desks, tables, sofas, armchairs, cupboards, kitchens, bathroom furniture; A+ class domestic electrical appliances, and A class ovens; Mattresses and light fixtures. At the regional level, Regione Lombardia recently adopted credit contributions for tourism and hospitality and a guarantee fund for investment in the hospitality and tourism industries. Furnishing is covered by the scheme.

**Table 61 EU28, investments in residential buildings, renovation and new (index number, 2003=100)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Renovation	100,0	101,4	102,3	105,9	109,6	109,3	104,7	105,6	106,8	104,4	103,7
New	100,0	105,2	111,1	118,7	118,5	98,8	74,7	68,2	69,4	64,4	63,3

Note: \* Excluding Slovenia, Malta, Luxembourg, Croatia  
Source: CSIL processing of SIMCO database/Cresme Ricerche.

**Table 62 EU28, Population, breakdown by type of tenure, 2011 (Percentage shares)**

	Owner	Owner, with mortgage or loan	Owner, no outstanding mortgage or housing loan	Tenant	Tenant, rent at market price	Tenant, rent at reduced price or free
<b>EU-28</b>	70.9	27.4	43.4	29.1	18	11.2
<b>Belgium</b>	71.8	41.9	29.9	28.2	18.9	9.3
<b>Bulgaria</b>	87.2	1.5	85.7	12.8	1.7	11.1
<b>Czech Republic</b>	80.1	18.1	61.9	19.9	13	6.9
<b>Denmark</b>	67.1	52.7	14.4	32.9	32.8	0.1
<b>Germany</b>	53.4	28.1	25.3	46.6	39.9	6.7
<b>Estonia</b>	83.5	16.7	66.9	16.5	2.5	14
<b>Ireland</b>	70.2	34.6	35.7	29.8	14.9	14.9
<b>Greece</b>	75.9	15.7	60.1	24.1	17.2	6.9
<b>Spain</b>	82.7	32.9	49.8	17.3	9	8.2
<b>France</b>	63.1	29.4	33.7	36.9	19.1	17.8
<b>Croatia</b>	92.1	2.6	89.5	7.9	1.6	6.4
<b>Italy</b>	72.9	15.6	57.3	27.1	13.3	13.8
<b>Cyprus</b>	73.5	16.3	57.2	26.5	10.4	16.1
<b>Latvia</b>	82.5	8.3	74.2	17.5	7.9	9.6
<b>Lithuania</b>	92.2	6.7	85.5	7.8	1.2	6.6
<b>Luxembourg</b>	68.2	40	28.2	31.8	27	4.8
<b>Hungary</b>	89.8	23.1	66.7	10.2	2.9	7.3
<b>Malta</b>	80.8	17.7	63.1	19.2	1.8	17.4
<b>Netherlands</b>	67.1	59.6	7.6	32.9	32.4	0.5
<b>Austria</b>	57.5	25.7	31.8	42.5	26.2	16.3
<b>Poland</b>	82.1	8.4	73.7	17.9	3.5	14.5
<b>Portugal</b>	75	34	41	25	12.2	12.8
<b>Romania</b>	96.6	0.6	96	3.4	1	2.4
<b>Slovenia</b>	77.5	7.7	69.8	22.5	5.5	17
<b>Slovakia</b>	90.2	8.2	82	9.8	8	1.7
<b>Finland</b>	74.1	41.9	32.2	25.9	10.2	15.7
<b>Sweden</b>	69.7	65.9	3.7	30.3	30	0.3
<b>United Kingdom</b>	67.9	41.9	26	32.1	13.3	18.8

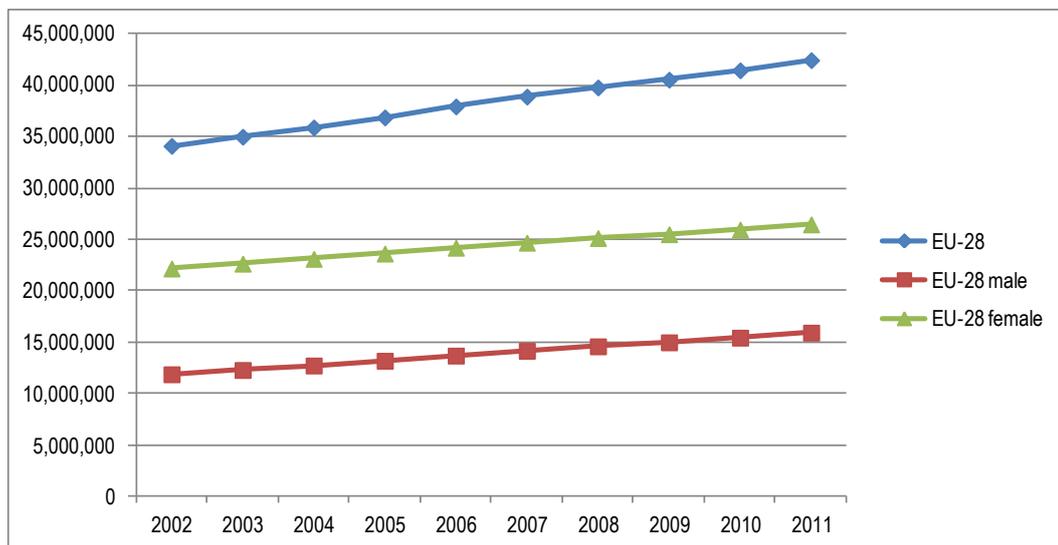
Source: Eurostat (ilc\_lvho02).

#### 4.2.1.3 Changing demography

Finally, it is worth mentioning the changing demography in Europe and its effect on consumption patterns. Looking at the demographic structure (see Figure 14), an ageing population is observed in Europe, driven by a range of factors including lower birth rates and an increase in life expectancy – all of which contribute to older generations accounting for a larger proportion of the total population. There were 42.4 million persons aged 75 or over in EU28 on 1 January 2011, equivalent to almost 8.5% of the total population. This suggests that an increasing share of consumption will be accounted for by the elderly and a targeted offer to this segment is increasingly provided by some European furniture manufacturers (for example kitchens with ergonomic and technological moulds).

At the other end of the age range, children constitute a growing consumer market, where EU furniture manufacturers are investing in order to offer functional and appealing products, but as competitive prices are also an issue, import penetration is often a threat.

**Figure 14 EU28, population aged 75 years or over**



Source: Eurostat (demo\_pjangroup).

#### 4.2.2 The contract segment

The contract segment is becoming increasingly important, if not essential, for the furniture industry. The term contract is used whenever the simple provision of furnishings, under the contracting formula (responsibility for all the work involved in a specific job order), is accompanied by a series of collateral services, such as support for designing spaces, and finding and coordinating sub-contractors for the completion of the furnishings. The contract segment includes furniture for hotels, hospitals, school, military institutions etc.

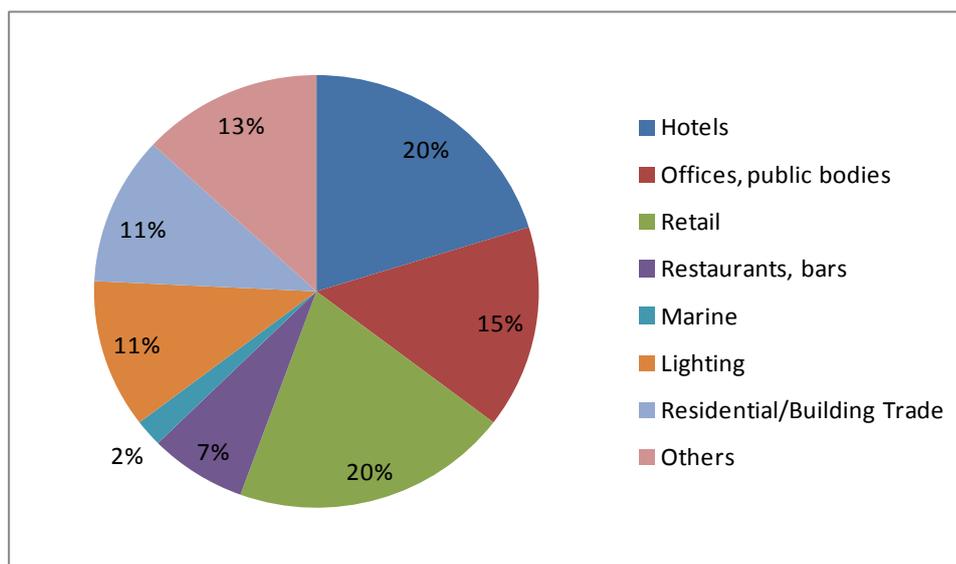
Furniture within the contract sector can take the form of direct supply to end-users. However, the distribution channel may change depending on the end-user. For example, the tourism and leisure industry is more likely to use architects, interior designers, contract furnishers and hotel buying groups. In addition, the healthcare and education sectors both tend to use central buying groups and increasingly rely on e-procurement and auctions.

It is a transversal business in the world of furniture, because it involves all types of products, from upholstered furniture to bedrooms, from seating to lamps, and from office to bathroom, kitchen and outdoor furniture.

The European market for contract furniture and furnishings was estimated to be worth around €7,731 million in 2011.<sup>94</sup> Like the furniture industry as a whole, the contract segment was hit by the global financial crisis in 2008-2009. Nevertheless, if we consider the 2007-2011 period, contract furniture production was more resilient to the credit crunch and the economic downturn, experiencing lower decreases than the European furniture industry as a whole, thanks to long-term projects acquired in the years before the crisis.

Demand in the European contract sector is driven by several factors. In 2011 the hospitality industry (hotels, restaurants and bars) is estimated to have absorbed about 27% of the contract furniture sales in Western Europe (see Figure 15).<sup>95</sup> Another important segment is retail, which absorbed an estimated 20% of European contract furniture sales. In the retail sector, a number of mergers between shops and chain stores have occurred in recent years, which have led to a greater need for refurbishment and re-profiling. Fittings and shop concepts have a shorter lifecycle and change frequently, particularly in the fashion and ready-to-wear segment.

**Figure 15 Europe\*, contract furniture market breakdown by main segment, 2011 (percentage share)**



Note: \* Western Europe.

Source: CSIL processing based on companies data (balance sheets, trade press, interviews).

Another segment where turnkey supplies are increasingly important is the design of offices and workplaces (17% of the total contract market); although with the crisis there were no signs of growth in either the private or the public sectors. The offices/banks/institutions segment is, in fact, closely linked to the dynamics of the construction market and in

<sup>94</sup> EU15+Norway and Switzerland.

<sup>95</sup> *Idem.*

particular to the trend in non-residential building. Other minor destinations for contract furniture are the marine sector and the residential sector.

Contract is a market segment with good prospects for future growth (on the EU and extra-EU markets); however, entering the contract business remains a challenge for manufacturers as production has to be adapted to contract market demands and commercial politics, and logistics have to be adapted to this particular channel, too.

Today, among the companies that claim to be active in the contract business, there are large groups, which are usually organized with their own division totally dedicated to the contract business. There are also small companies that only manufacture furniture and that rely on architects or contractors for the design/project and for distribution.

### *4.2.3 The retailing formats*

The distribution channels and the retail of furniture items have evolved greatly over the period considered and significant differences exist across countries. In particular, a higher level of concentration in retailing and the increase of large-scale distributors are reported.

Two features characterise distribution and retail. First, the production and the distribution of furniture are usually carried out by separate firms. Even though some manufacturers have their own distribution networks – this is an increasing trend especially among large manufacturers – or sell directly to consumers, the large majority sell their products to retailers (specialists in furniture or not). The relationship between retailers and manufacturers differs considerably across countries, segments, market ranges (mass production, higher end), and even within each specific retailing channel. The purchasing power and the setting of margins from producer to consumer prices is the result of mixed issues including product peculiarities, delivery terms, warehousing, customization and technical assistance in the sales, brand and advertising policy among others.

Secondly, distribution channels and the retail of furniture items in general have evolved greatly over the period considered. According to CSIL research, one third of the European top manufactures carry out retailing activities along with manufacturing (the proportion being lower than the one registered at a global level) in different ways: i) by owning monobrand stores; or ii) making direct sales through showrooms and outlets; or iii) operating through licensed stores; or iv) controlling the franchising network; as well as v) those directly managing Internet sales.

A prominent example is Ikea, a home furnishing company with a fully integrated but complex supply chain. Indeed, Ikea is both an important buyer for several European and Asian (Chinese) firms and at the same time a producer, having established many manufacturing plants in Eastern Europe the beginning of the 1990s (Swedwood Group, supplying mainly Ikea).

Other examples of manufacturers carrying out retailing activities are:

- the Swedish kitchen specialist Nobia whose sales are conducted directly to consumers through a network of more than 600 owned or franchise stores, and to professional customers in retail and new-builds;

- The Italian upholstered furniture specialist Natuzzi whose products are sold through 99 Divani & Divani by Natuzzi and 186 Natuzzi Italia stores (of which 45 are directly owned by the Group), 14 Italsofa e 13 “concessions” in UK.<sup>96</sup> In France, Natuzzi stores are franchisees managed by the French Group Roche Bobois. As of March 30, 2013, there were 314 Natuzzi galleries worldwide (“store-in-store concept” managed by independent partners).
- The British DFS which operates a national retail network of 89 upholstered furniture stores which have been established and developed gradually over 40 years of company's history;
- The Polish BRW which has a developed sales network of about 2,300 retail outlets, over half of which are located abroad. In Poland, in addition to partner outlets, the sales of furniture and home accessories is carried out by 56 owned furniture stores, including 12 large surface ones.

As to the classification of the distribution channels for furniture, it is a complicated issue since it can be made according to the following main variables: specialization, type of organization (such as franchising, independent dealers, and buying groups)<sup>97</sup> and size.

CSIL developed the following classification for the retail channels for residential furniture:

- *Furniture Specialized Distribution*
  - Large-scale distribution
    - *Independent Chains*. Chains under the same ownership specialising mainly in the sale of furniture, accessories and products for the home. Independent chains can be either mono-brand (e.g. IKEA; Boconcept.) or multi-brand chains (e.g. XXXLutz)
    - *Franchises (furniture)*. System of collaboration between independent companies, bound by contract, under which one company (the franchisor) grants the other (the franchisee) the right to use a brand name and a commercial formula, including a logo, under certain conditions and on payment. The franchisor also guarantees assistance and regular support services. This distribution model is mainly adopted by mono-brand franchising stores (e.g. kitchen specialists trading products made by only one kitchen furniture manufacturer) or stores retailing unbranded products. Multi-brand franchising stores are less frequent.
    - *Buying Groups*. Associations between retailers, each retaining its own legal status and financial independence, whose main aim is to make purchases and provide joint sales services, such as training, technological equipment, research, communication, promotion and financial services. Usually they are multi-brand, although some buying groups have their own brand.

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<sup>96</sup> Concessions are a store-in-store concept managed directly by a subsidiary of the company located in UK.

<sup>97</sup> Associations of independent retailers that offer a series of services for their members (the most frequent being the choice of purchases).

- Small scale distribution
  - *Small Scale Independent Retailers*. Small independent sales outlets that do not form part of any kind of organised structure. This distribution model is adopted by mono-brand stores (e.g. those owned by a furniture manufacturer) and multi-brand stores (trading products of more than one furniture manufacturer).
- *Non-Specialized distribution*
  - *Hypermarkets*. Retail sales outlets divided into departments (food and non-food) that have the characteristics of a supermarket and a department store.
  - *Department Stores*. Retail sales outlets operating in the non-food field, dedicated to the sale of articles belonging to different sectors and mostly of large-scale consumption.
  - *Do It Yourself*. Sale of articles for home maintenance and do-it-yourself.
  - *Mail Order and e-commerce*. Sales of various types of product via catalogue or Internet.

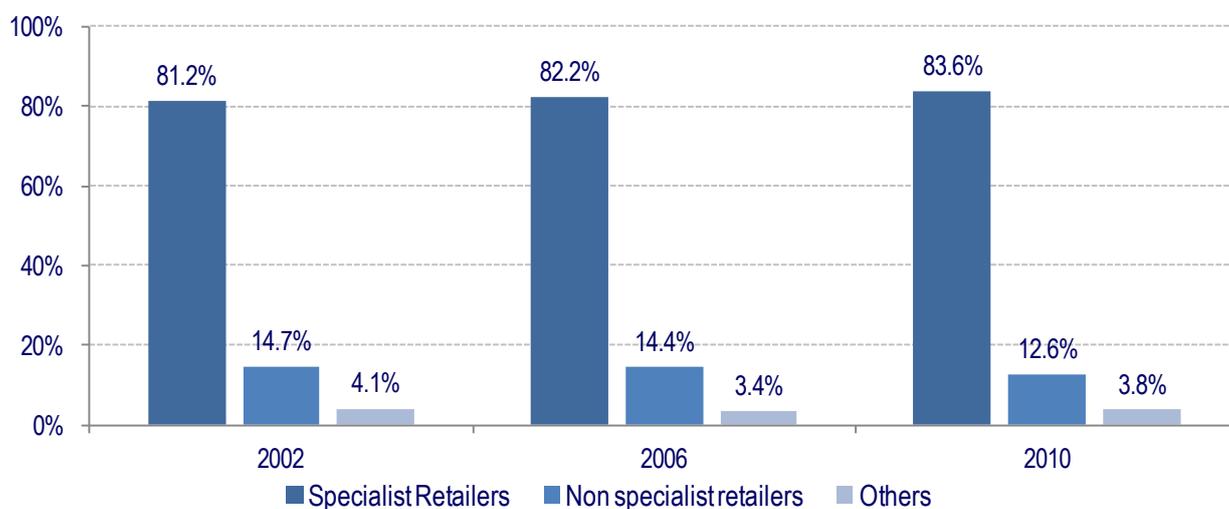
Sales of office furniture take place in a similar way, with the presence of specialists (selling only office furniture), non-specialists, large-scale chains specializing in office supplies and other large-scale dealers also operating in the home furniture segments. In addition, it is worth remembering the contract channel. There were about 170,000 companies engaged in furniture retailing in the European Union<sup>98</sup> in 2010, a contraction of 8% compared to 2008. Generally speaking, over the last decade the sector has undergone important structural changes, with the different retailing formats performing unevenly.

First, the specialists channel is becoming more important compared to the non-specialists (see Figure 16). In 2010 this channel accounted for around 84% of home furniture sales in Western Europe, according to CSIL estimates (81% in the year 2002), and includes: Upholstery specialists, Kitchen and bathroom specialists, Bedroom specialists, Large-scale furniture specialists, Furniture discount stores, Specialists in RTA furniture/Jeune Habitat, Equipement du Foyer, Furnishing and decoration specialists.

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<sup>98</sup> NACE\_R2 Retail sale of furniture, lighting equipment and other household articles in specialist stores

**Figure 16 Western Europe, home furniture sales by distribution channel (percentage shares)**



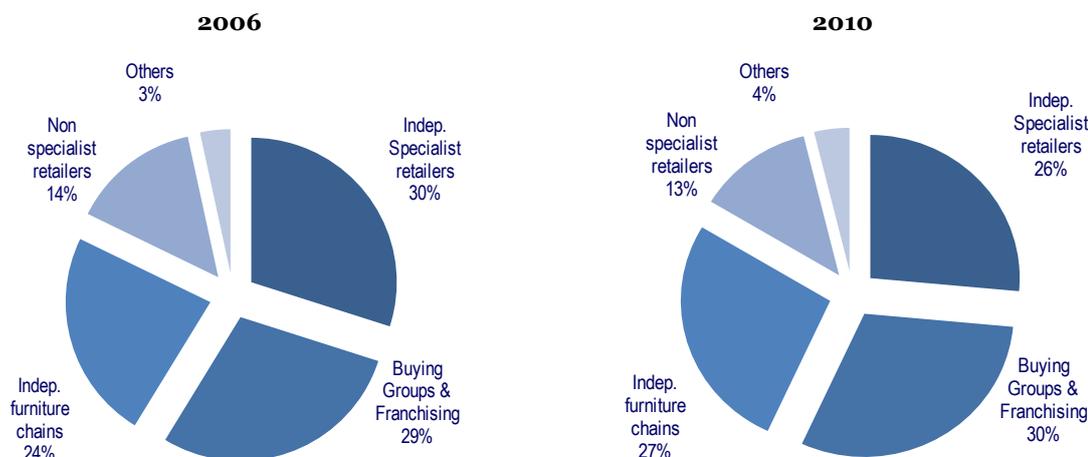
*Notes:* Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Norway, Spain, Sweden, Switzerland, The Netherlands, and UK; Specialist Retailers: small scale independent retailers and large scale specialists (Buying Groups, Franchises, Independent Chains). Non specialists: department stores, hypermarkets (multi-stores), DIY, and mail order/e-commerce. Others: direct sales, craftsmanship, and contract sales.

*Source:* CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, CSIL's databases and official statistics.

Secondly, among the specialists, traditional independent retailers are progressively losing ground while furniture chains are becoming more important. At the same time the large-scale specialist channels are becoming increasingly important on the market (buying groups, chains and franchising altogether account for around 57% of home furniture sales in Western Europe, see Figure 17). Central Eastern Europe, which started from a limited market presence of large specialist channels a decade ago, is also seeing their share growing fast.<sup>99</sup>

<sup>99</sup> As regards Central Eastern Europe, according to CSIL Report “Furniture Distribution in Central Eastern Europe, year 2008”, while large-scale specialist retailers accounted for over 30% of total retail turnover, small independent retailers accounted for about 60%. Within the large scale distribution channel, the main contribution was attributed to chains and a relatively less important role was played by franchising and buying groups. Many independent chains made their market entries in the Nineties, but the presence of big international names in distribution has been gradually intensifying in the last decade.

**Figure 17 Western Europe, home furniture sales by distribution channel (percentage shares)**



*Notes:*

Notes: Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Norway, Spain, Sweden, Switzerland, The Netherlands, and UK. Please note that whereas independent furniture chains, buying groups, and non specialist retailers can be usually classified as large companies, independent specialist retailers, franchising shops (depending on contractual arrangements), and “other” players are likely to be SMEs.

Source: CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, CSIL’s databases and official statistics.

Thirdly, distribution is more concentrated than furniture manufacturing and the trend is upward (according to CSIL estimates, the top 15 retailing companies accounted for 30% of the Western European market in 2010 compared to 24% in 2007). The increase in the level of concentration is due to the excellent performances and the growth in market shares of giants such as IKEA and some of the large furniture chains (mainly German operators, but also French).

Specifically, at the end of 2013, Conforama (owned by South African furniture manufacturer and retailer Steinhoff International Holdings) and Mobilier Européen (owner of the French retail networks Fly, Atlas and Crozatier) reached an agreement on a strategic partnership. The agreement involves the acquisition by Conforama of 20% of Fly France, as well as 19 Fly stores in Switzerland and a dozen (Fly and Atlas) in France. Furthermore in 2013, Steinhoff acquired the Austrian furniture chain Kika-Leiner Group.

The French retailer “But”, following the acquisition of Maga Meubles in 2012 (it had 21 stores in 2011), in 2013 also acquired 52 Sesame stores (“But Cosy”).

The Austrian XXXLutz Group (with stores located mainly in Germany and in Austria) continues its expansion. With recent acquisitions (in 2014), its XXXL Mann Mobilia store network has expanded to eleven locations and, again in 2014, XXXLutz acquired 13 stores from insolvent German DIY chain Max Bahr.

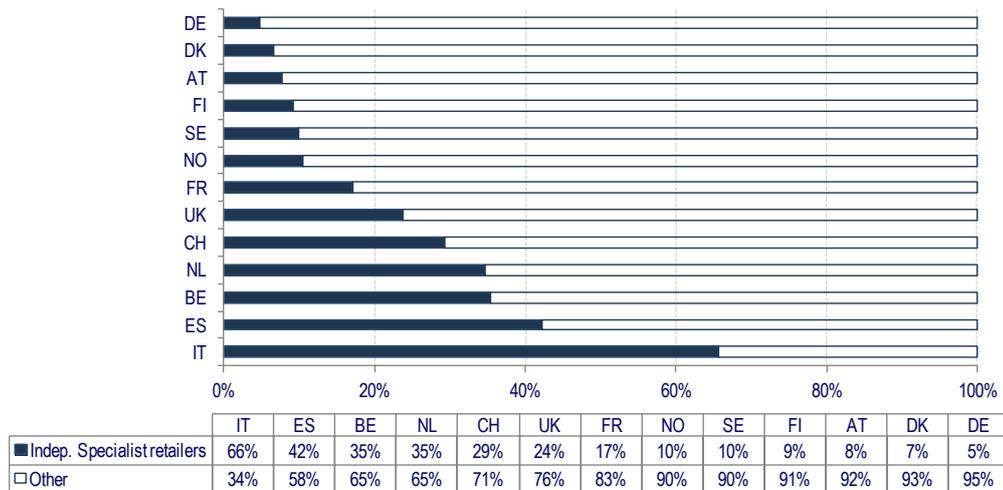
Finally, even if the phenomenon is still very limited compared to other sectors (e.g. clothing), there is an increasing trend for retailers to operate on a European scale.

In terms of cross country comparisons, there are marked differences in the distribution structure, as shown in Figure 18, Figure 19, and Figure 20:

- The largest share of (large-scale) non-specialist retailers is in the UK;

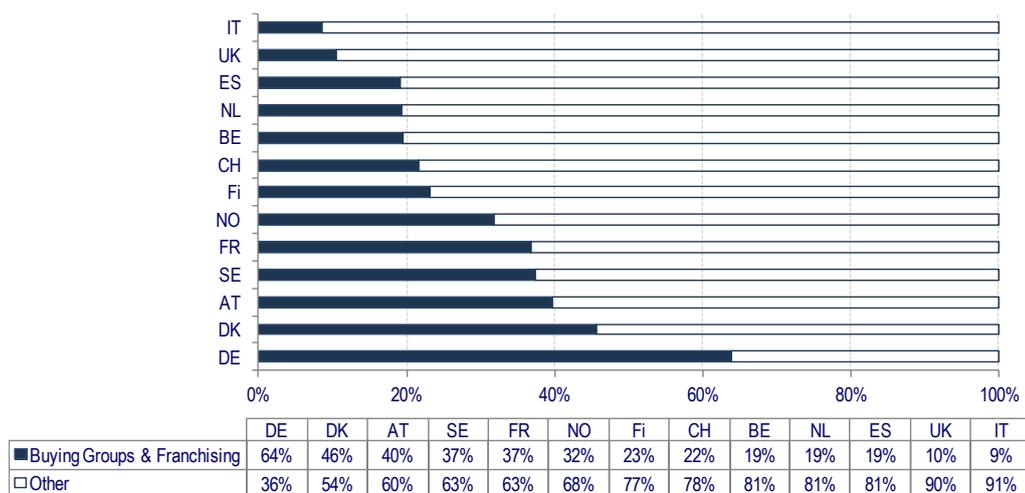
- The traditional trade (independent retailers) has a sizeable presence in Italy and Spain. Conversely, Germany, Austria and the Nordic countries record the lowest number of independent specialists;
- The buying groups and franchises have a greater presence in Germany where they account for almost 65% of furniture sales. In Italy and the UK this channel represents only about 10%;
- The furniture chains have a more uniform presence throughout Western Europe<sup>100</sup>; these are often big names with a wide presence in almost all European countries.

**Figure 18 Western Europe. Home furniture sales by independent specialist retailers. Analysis by country, 2010. Percentage shares**



Source: CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, CSIL's databases and official statistics.

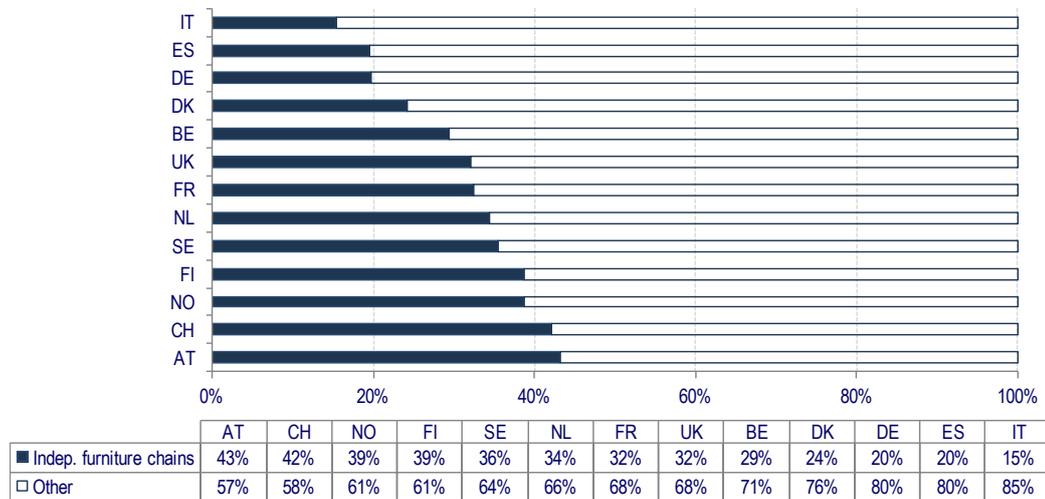
**Figure 19 Europe. Home furniture sales by buying groups and franchises. Analysis by country, 2010. Percentage shares**



Source: CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, CSIL's databases and official statistics.

<sup>100</sup> For data on Central Eastern Europe see note 99.

**Figure 20 Europe. Home furniture sales by independent furniture chains. Analysis by country, 2010. Percentage shares**

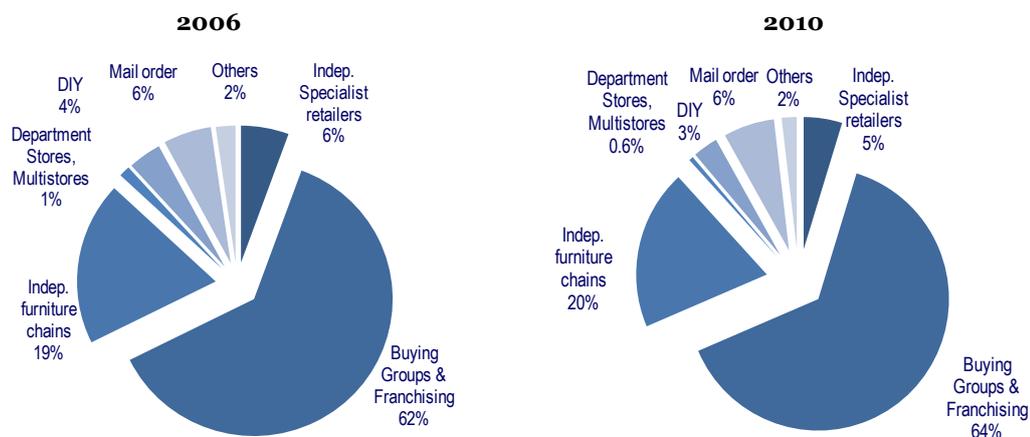


Source: CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, CSIL's databases and official statistics.

In Western Europe, the case of **Germany**, dominated by a large share of buying groups, is quite peculiar (see Figure 21). Both large chains and individual shops may be formally organised in buying groups. Amongst the major buying groups on the German market we have Begros associating extremely large chains (e.g. XXXLutz, Porta Möbel, Schaffrath and many others), Union with 29 associates in Germany and a distribution network with over 200 operators, EMV Europa Möbel Verbund with 585 associates, and EinrichtungsparntnerringVME numbering some 176 members with about 350 stores. German buying groups also boast a large number of kitchen and bathroom specialists, such as MHK, Der Kreis (which includes several chains and franchises), Kitchen Treff, Küchen Partner, and Der Küchenring.

Franchises do not rank very highly in furniture distribution in Germany, the leader being the Danish Bo Concept with 16 sales outlets in the German market. The portion of sales through independent retailers remains limited to the specialist field. Looking at the independent chains, IKEA Germany is certainly one of the leading players and currently operates 46 stores. It is followed by other leading operators including Höffner/Krieger Gruppe and Finke.

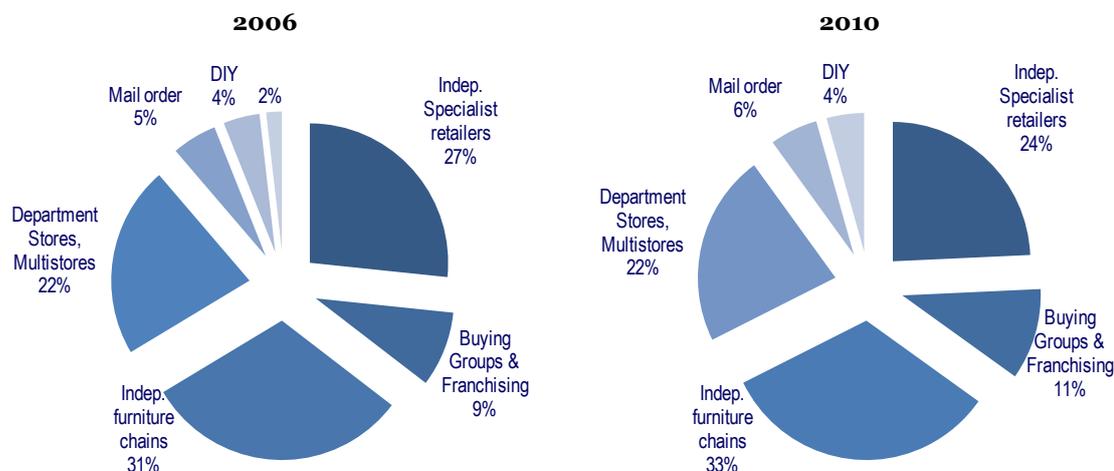
**Figure 21 Germany. Home furniture sales by distribution channels (2006 and 2010) - Percentage shares**



Source: CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, directories, CSIL's databases and official statistics.

In the **United Kingdom** (see Figure 22), 66% of furniture retail is driven by specialist retailers and 32% by non-specialist retailers (a residual 2% is sold directly by manufacturers and craftsmen). When compared to other European countries, British furniture distribution is the one with the highest share of non-specialist retailers, due to the relevant presence of alternative channels like e-commerce, mail order/catalogues and department stores. It should be noted that a sizeable market share is controlled by kitchen and upholstery specialists that are organised in “branded” retail networks like Magnet, In-Toto, Harvey Jones for kitchens, and DFS, KA International, and Thomas Lloyd for upholstered furniture. Upholstery specialist format suffered the most during the crisis. Among the non-specialist retailers, department stores heavily dominate the market, with 22% market share. They are mostly represented by the following brands: Home Retail Group, Marks & Spencer, and the John Lewis Partnership. Leading furniture distributors in UK are IKEA and the Home Retail Group, which includes the department store Argos and the DIY store Homebase. About 6% of furniture sales in the United Kingdom were driven by the mail order and online sales channel in 2010. Recently, not only the multi-product and multi-channel distributors (e.g. Argos), but also specialists, like IKEA, Heal’s and Furniture Village and department stores (M&S Direct, John Lewis Direct, Laura Ashley, House of Fraser) have chosen to launch their transitional website on the UK market.

**Figure 22 United Kingdom. Home furniture sales by distribution channels (2006 and 2010) - Percentage shares**



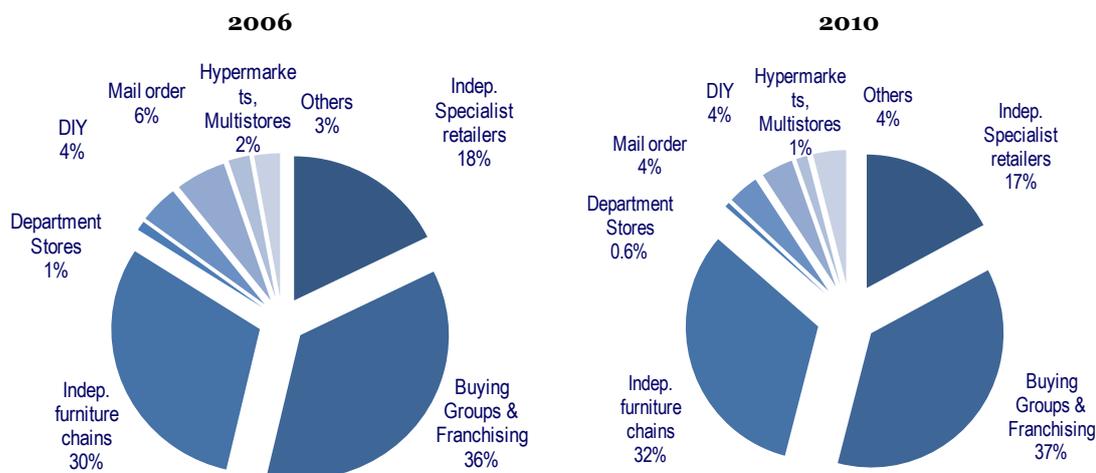
Source: CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, directories, CSIL's databases and official statistics.

In **France** (see Figure 23), over 86% of the furniture distribution market is in the hands of specialist retailers. As much as 37% of this value is distributed by buying groups and franchises (UCEM, Mobilier Européen, MDF, Pem, Gram, Maxiam, etc.). Independent furniture chains (IKEA, Alinéa, Conforama, etc.), showing a highly organised distribution network, account for 32%. Both these categories showed significant growth since 2006.

Non-specialist retailers represented 9.6% share of furniture distribution in 2010 exhibiting a significant drop when compared to the previous year. Both mail-order operators and DIY chains hold about 4% of the market. Mail order, in particular, is on the increase driven both by online operators (i.e. CAFOM, Quelle, Redoute) and the new-entry furniture chains' online websites (i.e. Habitat, IKEA, Conforama).

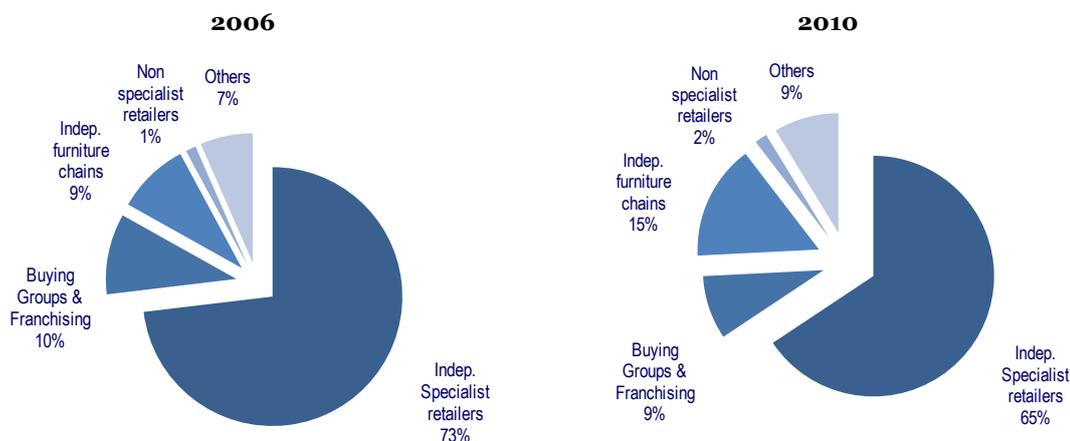
In **Italy** (see Figure 24) home furniture consumption still goes through the furniture specialists' channel (90%). Non specialists distributors, mainly DIY retailers and other distribution channels like mail order and direct sales, accounted for 10% of Italian home furniture sales in 2010. Among furniture specialist retailers, the independent retailers continue to handle the largest share of sales made through this channel. However it should be noted that since 2006 independent retailers (and consequently the specialist channel) have decreased their incidence on total home furniture sales, shrinking from 73% to 65%. The market share registered on the Italian home furniture market by independent furniture chains (15%) and by buying group & franchising (9%) continues to be the smallest in Europe. Moreover, it is important to notice that the large-scale retail trade, which appeared in Italy later than in many other European countries such as Germany, France and the United Kingdom, is now winning new shares of the market. These large-scale distributors are aware of their growing contractual power versus the suppliers and exploit scale economies, not only on the purchasing front, but also on the marketing, communication and advertising front, through a finely knit territorial distribution of sales outlets and their own brand.

**Figure 23 France. Home furniture sales by distribution channels (2006 and 2010) - Percentage shares**



Source: CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, directories, CSIL's databases and official statistics.

**Figure 24 Italy. Home furniture sales by distribution channels (2006 and 2010) - Percentage shares**



Source: CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, directories, CSIL's databases and official statistics.

The increasing share of large-scale distribution is probably one of the explanatory factors of the fast growth in imports from Asia. However, this should not lead to the generalization that large size is necessarily associated with sourcing from abroad. Other aspects go together with size: e.g. the development of an adequate logistic endowment of retailers is essential to grant cost savings.

In addition, it is worth remembering that, underlying the increasing role of large-scale distribution, is the presence of buying groups (e.g. in Germany), which have a very peculiar organizational model.

At the other extreme, in many European countries (e.g. Italy, Spain) the retailing sector is quite fragmented with many smaller companies. Selling in these countries requires local

knowledge and a large network of contacts, thus favouring mainly domestic producers. Branding policies also affect the trend.

Also, when considering the main challenges of the sector as regards import penetration, a key factor in the analysis is the degree to which European manufacturers and retailers have exploited the advantages of proximity to consumers, supplying quickly on demand, providing adequate information, providing customers with support services (both pre and after-sales) and guarantees for customers wanting to return products.

This strategy depends on many factors, such as the nature of the relationship between the manufacturers and the retailers (independent, franchises, buying groups), their respective strategies, the trade margins applied, and their impact on the purchasing patterns of end consumers.

Since 2010, the European Commission has carried out a “Consumer Market Monitoring Survey” that tracks the situation in 51 consumer markets.<sup>101</sup> The ranking of markets is based on the ‘Market Performance Indicator’ (MPI) – a composite index taking into account the following aspects of the consumer experience: 1) ease of comparing the goods or services on offer; 2) consumers’ trust in retailers/suppliers to comply with consumer protection rules; 3) problems experienced and the degree to which they have led to complaints; 4) consumer satisfaction; 5) choice of retailers/providers; and 6) switching of tariffs/providers.

According to the Market Monitoring Survey 2012, the market for furniture and furnishings<sup>102</sup> has a normalised MPI score of 100.3, indicating that this market is performing close to the average of all goods markets. In terms of comparability, furniture and furnishing score on average (7.7) with other goods markets, with a small improvement compared to previous years. Furniture scores slightly below average on the criterion “choice”, i.e. whether the consumers believes that there are enough suppliers/retailers to choose from. In geographical terms, EU15 countries have a slightly better score than EU12 countries, but the difference between the best and worst performing countries is really modest indicating that the differences in market evaluations between countries are small (see Figure 25). Germany is rated the best for this market for 2012. The high score in Germany is due to its high score on trust, comparability and a low percentage of consumers complaining.

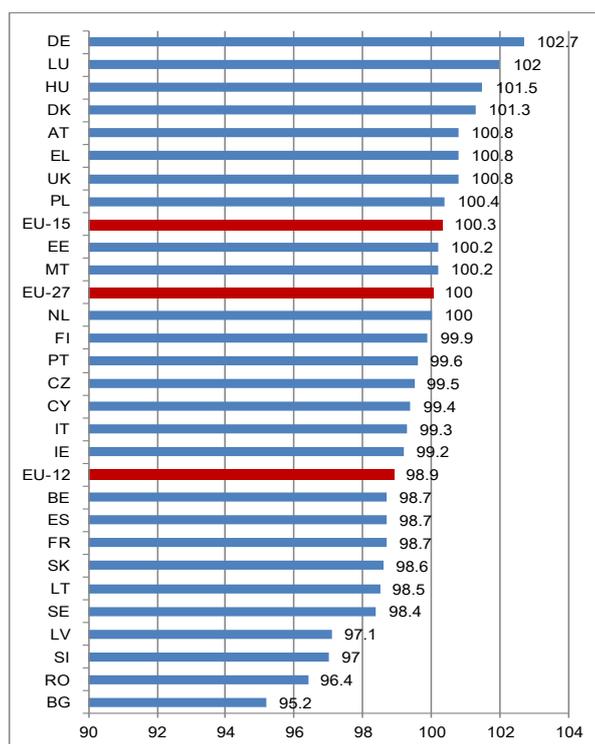
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<sup>101</sup> The report is available at

[http://ec.europa.eu/consumers/consumer\\_research/consumer\\_market\\_monitoring\\_survey\\_en.htm](http://ec.europa.eu/consumers/consumer_research/consumer_market_monitoring_survey_en.htm)

<sup>102</sup> Market definition: Furnishings Furniture (Upholstered furniture Non-upholstered furniture Beds and mattresses Kitchen furniture Fitted furniture Bathroom fittings Antiques Leather furniture Cots High chairs Other nursery furniture Garden furniture Other) Floor Coverings (Carpets Mats and rugs Laminates Ceramics Wood Linoleum Underlay Other) Household textiles (Bedding Cushions Curtains and blinds Furniture fabrics Other) Glassware, tableware and household utensils (Crockery Cooking and dining utensils Glassware Other).

**Figure 25 Market Performance Indicator by country, 2012. Index (EU-27=100)**



Source: Consumer Markets Monitoring Survey 2012<sup>103</sup>.

A socio-demographic analysis of the scoring shows that: 1) no major differences appear in terms of age; 2) female consumers give a higher score to the furniture and furnishings market than men; 3) higher educated consumers evaluate the market better than lower educated consumers; 4) No significant differences appear when looking at occupation.

Table 63 presents the results associated to each components of the Market Performance Indicator. The furniture and furnishing market is pretty much in line with the average score of goods markets as a whole and it is generally above the average score of all the 51 markets considered in the survey.

The advent of the Internet and e-commerce has also added another dimension to distribution. According to Eurostat data, more than four out of ten EU consumers (44%) have purchased goods and services over the Internet in the past year. Since 2004 the proportion of Internet shoppers has risen to 44% from 20%. Online shopping remains largely domestic, i.e. consumers are more likely to purchase online from national sellers/providers (41%) than from sellers located in other EU countries (11%, see Figure 26). However, e-commerce is the most common form of distance shopping and has been growing steadily since it was first measured in 2004. The results at country level reveal that consumers are most likely to buy online in Sweden (74%), the UK (73%) and Denmark

<sup>103</sup> Cf. *supra* note 101.

(73%). The lowest levels of online shopping are recorded in Romania (5%) and Bulgaria (9%).<sup>104</sup>

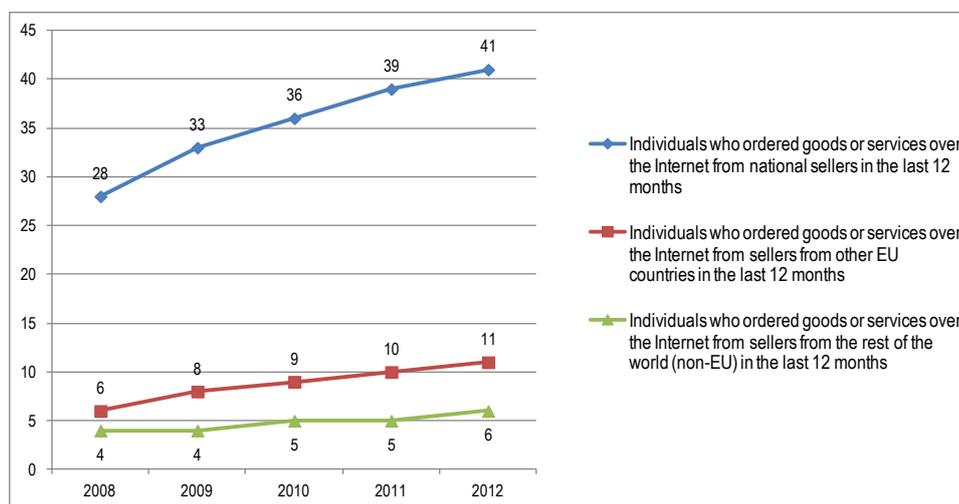
**Table 63 Market Performance Indicator by category, 2012**

	Consumers' ability to compare products and services offered by different retailers and service suppliers (*)	Consumers' trust in retailers/ suppliers to comply with consumer protection rules (*)	Occurrence of problems reported by consumers in cases where they felt the issue was severe enough to have a legitimate reason to complain	Complaints about occurred problems	Satisfaction, i.e. extent to which the services/ products on offer from different suppliers/ retailers live up to what consumers wanted within the past period (*)	Level of choice in a given market *
EU27 all markets	7.3	6.9	9%	76%	7.5	7.9
EU27 goods markets	7.7	7.1	7%	72%	7.8	8.3
EU27 furniture & furnishing market	7.7	7.2	7%	73%	7.9	8.2

Note: \* On a scale from 0 to 10

Source: Consumer Markets Monitoring Survey 2012<sup>105</sup>.

**Figure 26 EU28, individuals who ordered goods or services, over the Internet for private use. Percentage share of total population**



Source: Eurostat (isoc\_ec\_ibuy).

<sup>104</sup> The percentages represent the share of individuals who have who ordered goods or services over the Internet for private use in the last year. Data refer to 2012.

<sup>105</sup> Cf. *supra* note 101.

This trend also affected the furniture sector where online sales have been increasing in the last decade, even if they are less important than in other markets in percentage terms. In particular, larger assortments, generally at better prices than traditional retailers, were really appealing in the weak economic situation. The main actors engaged in online furniture sales are both e-retailers and furniture specialists or non-specialists with a web store.

## **4.3 SWOT Analysis**

The heterogeneity of the furniture sector at the EU level, in terms of production systems, market conditions and product peculiarities was widely illustrated in the previous Chapters. Keeping those differences in mind, the SWOT analysis of the EU in the global furniture sector unveils some common features (see Figure 27).

### *4.3.1 Strengths*

#### *4.3.1.1 All sections of the furniture production value chain are present in the EU*

EU furniture manufacturers can count on a variety of input, from materials, to components and finishing, and on a wide network of companies and qualified staff highly specialized in different parts of the productive process. This enables manufacturers to adapt production, to differentiate and customize products both in terms of materials, finishing and design.

#### *4.3.1.2 High quality raw materials and components suppliers*

In particular, EU wood based panels manufacturers are large, spread across the whole EU and they are competitive and innovative. Due to the central role that the furniture sector plays in terms of their reference markets, EU wood-based panel manufacturers pay particular attention in meeting the sector's demand.

Special leather and textiles for upholstery, high performance metal hardware for furniture are other examples.

#### *4.3.1.3 Advanced production technology and unique know-how*

Companies operating in the woodworking machinery industry are leaders at the global level and offer solutions which enable extremely performing and adaptive productive systems. This is essential both to increase productivity (a key issue in mass production) but also in terms of the possibilities to produce a wide range of products or products finishing within a company.

#### *4.3.1.4 Values other than price*

Furniture manufacturing has a long history in Europe. This, together with cultural heritage, gives European manufacturers a competitive edge in embedding innovation into furniture products, researching different styles and favouring the development of creative competences. At present, these competences are recognized at a world level.

#### *4.3.1.5 Leading design and research centres*

EU furniture manufacturers are trendsetters at global level. Although companies implement outsourcing or production fragmentation strategies, Europe still retains core competences in design, research and product innovation that can help companies to upgrade in the value chain, increasing their share in value added. EU manufacturers also hold a prestigious image among designers, media and consumers.

#### *4.3.1.6 Considerable market size*

The EU furniture market is mature and dynamic. Even with the emergence of new fast growing markets on the global scene and despite the recent crisis, the sector accounts for around one quarter of global furniture consumption. This is a strength for European furniture manufacturers that can count on proximity with final consumers, provided that they adequately satisfy demand both in terms of product and services offered.

#### *4.3.1.7 Ready to embrace sustainability and environmental performance*

Several EU furniture manufacturers have signalled their commitment to sustainability by joining voluntary schemes at the national and EU level. In addition they are relatively more advanced in this area than some of their counterparts in other world regions because of existing rules at the EU and national level. This is an asset when it comes to meeting the demand of environmentally-conscious consumers. It also gives EU manufacturers a comparative advantage in understanding and managing the environmental impact of their products via the calculation of carbon footprints, life cycle analysis, compliance with requirements on recyclability, social responsibility, and so on.

#### *4.3.1.8 Cluster cooperation and interaction*

The presence of furniture clusters in various areas of the EU and the positive impact that cluster cooperation and repeated interaction between different actors along the value chain have on innovation and R&D remains a strength of the EU furniture industry.

### *4.3.2 Weaknesses*

#### *4.3.2.1 High labour cost*

The sector is labour intensive and the incidence of labour costs in furniture production is relatively high in the EU. This makes European furniture production subject to competition of low cost of labour countries. Yet, it is not only the labour cost that is hampering the competitiveness of the EU furniture industry. Increased reliance on imported materials and components with associated trading challenges and currency fluctuations are also an issue, particularly when coupled with shortage and rising prices of raw materials. The concentration of raw materials suppliers often places them in a dominant position.

#### *4.3.2.2 Ageing workforce*

The ageing workforce and the inability to attract young workers is another area of concern. This leads to a shortage of skilled workers that becomes particularly problematic when it is also coupled with outdated training infrastructure.

#### *4.3.2.3 Weak demand determinants*

Investments in residential construction are lower than years ago and income availability of consumers has diminished. Many producers operating in the middle price range are losing their traditional markets and, under strong pressure from low cost competitors (within or outside the EU) are struggling in undertaking a re-positioning strategy. Reduced levels of public spending further contribute to this trend.

#### *4.3.2.4 Prevalence of SMEs, with limited access to finance*

Without adequate support, this partly discourages investments in innovation or in a stable commercial presence (e.g. showroom, warehouses) which maybe particularly needed in distant emerging markets. In this respect and as observed for SMEs in all sectors of the economy, internationalization remains a challenge.

#### *4.3.2.5 Protectionist measures in non-EU markets*

While the EU is the most open global market, protectionist measures exist on other international markets, with tariffs on EU furniture exports thus creating market distortions<sup>106</sup>

### *4.3.3 Opportunities*

#### *4.3.3.1 New markets*

Russia, China, the Gulf area are attractive markets, with an increasing number of potential buyers in the high end segment, where competition (both local and foreign) is relatively low. In some of these countries expenditure in furniture and furnishing has a relatively higher priority than in the EU and the contract segment is also developing fast.

#### *4.3.3.2 Relatively limited exports*

Exports flows mainly relate to the activities of large internationalized firms or companies operating in niches (contract, design, and so on) and/or under strong brands. Through adequate support aimed at increasing their visibility on foreign markets, other companies (SMEs or companies operating in the middle market range) could participate in the regional/global value chains, also by exporting intermediate products.

#### *4.3.3.3 Opportunities arising from the construction and renovation sector*

Building construction and renovation are drivers of furniture purchases. In this context, sustainable construction and eco approaches in renovation stress the importance of the use of raw materials from sustainable sources and high performing materials. This trend could lead to an increasing number of environmentally concerned end-users also in the furniture sector.

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<sup>106</sup> Commission's A blueprint for the EU forest-based industries, *supra* note 6

These trends may also affect firms' competitiveness and facilitate their upgrading in the value chain. To fully tap this potential however, consumer awareness should be further increased.

#### *4.3.3.4 Changing patterns of consumption*

As a general trend, once being lifetime purchases, at present buying is more fragmented and responds also to other needs than durability (e.g. functionality, adaptability to small spaces). Changing demographic trends (e.g., ageing of the population) also generate specific demand in terms of targeted products. European furniture manufacturers, thanks to their proximity to the market, can have a competitive advantage provided that those trends are adequately interpreted and the offer responds to these needs. Retailers, which have a closer interaction with consumers, may have a role to play too in this respect.

#### *4.3.3.5 Exploit comparative advantages: compete on quality*

Further integration of productive system within Western and Central Eastern Europe, along the entire value chain, could increase the sector competitiveness to face foreign competition and favour a trend toward more efficient and leaner operations.

#### *4.3.3.6 Improve/update skills*

Research in advanced manufacturing technologies can result in the creation of high technology and knowledge intensive jobs which, together with enhancing competitiveness, would give attractiveness to the sector in terms of employment and rejuvenate the sector.

### *4.3.4 Threats*

#### *4.3.4.1 Fierce competition from Asia*

Increasing furniture imports from Asia, particularly in the low and mid range price segment, with the recent crisis further accelerating the process, is a matter of fact. In some European countries, even large markets, it has become an established phenomenon and in others, where the price comparative advantage of Asian products is lower, penetration is still marginal in terms of value but increasing.

#### *4.3.4.2 Cost and availability of raw materials*

Fluctuations in raw material prices and problems relating to availability of products respecting environmental, sustainability and technical standards and regulations are factors upstream the value chain that could negatively impact furniture production.

#### *4.3.4.3 Insufficient protection of IPRs*

The furniture industry is increasingly reliant on products with high intangible contents (brand, design). Its competitiveness will strongly depend on how much of it is protected in the context of global competition. Today, the main form of IPR infringement is the sale of copies of well-known designer pieces at a cheaper price, most often over the Internet.

#### *4.3.4.4 Evolution of retail markets*

Several large scaled distributors are investing resources both in logistics and in creating overseas networks in order to be competitive on prices, particularly in the middle/low end of the market.

#### *4.3.4.5 Increasing quality of non-EU products*

The constant progress in quality of the production from foreign countries could lead competition out of a pure price matter, if European manufacturers are not able to successfully upgrade along the value chain. In addition, national design development in foreign markets could lead to increasing competition in the EU export destinations. Moreover the fact that EU exports high quality components and machinery may accelerate this trend in the medium term.

#### *4.3.4.6 Uncertain demand for sustainability features in products*

There could be a gap, in the short run, between the expectations of EU furniture manufacturing companies embracing the principles of sustainability (and its cost) and the real answer from the retailers/consumer side. This could discourage initiatives in this direction.

#### *4.3.4.7 Strict(er) product, environmental and health and safety regulation*

Existing rules applicable in the EU are comparatively stricter (and more costly to comply with) than those found in several areas of the world, especially in emerging markets. Whenever EU producers compete at the global level with manufacturers that are not subject to equally stringent requirements, their international competitiveness is penalized.

**Figure 27 Strengths, weaknesses, opportunities, and threats of the EU furniture industry**



Source: Authors' own elaboration.

## **PART II**

# **BACKGROUND STUDY ON A POSSIBLE FURNITURE PRODUCTS INITIATIVE**

## 5 A COMPARISON OF NATIONAL MEASURES PROMOTING QUALITY FURNITURE PRODUCTS

### 5.1 Introduction

This Chapter aims at analysing and comparing national and supranational measures setting out information requirements for furniture products put on the consumer market. These measures generally aim at improving market transparency and increasing consumers' awareness in decision-making.

In fact and as further discussed in Box 15, competition in the furniture market is multidimensional and several quality attributes other than price can influence consumers' choices. Yet, only a few quality aspects of furniture products can be defined as “search” attributes – i.e. features that can be easily discovered and assessed by the consumer before purchasing a product. To the contrary, many qualities of furniture can be either classified as “experience” attributes – i.e. features that will be ascertained while using the good – or even “credence” attributes – i.e. features that are difficult or impossible to ascertain even after purchasing and using the good.<sup>107</sup> Therefore, consumers may not have enough information to make informed choices, generating a problem of asymmetric information and endangering the proper functioning of the furniture market.<sup>108</sup>

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<sup>107</sup> For a definition of search, experience, and credence attributes see Box 14. and also: Stigler, G.J. (1961), The Economics of Information, *Journal of Political Economy*, 69(3): 213-22; Nelson, P. (1970), Information and Consumer Behavior, *Journal of Political Economy*, 78(2): 311-329; Nelson, P. (1974), Advertising as Information, *Journal of Political Economy*, 82(4): 729-754; Darby, M.R., Karni, E. (1973), Free Competition and the Optimal Amount of Fraud, *Journal of Law and Economics*, 16: 67-88.

<sup>108</sup> This may happen when the following occur simultaneously: i) the informational asymmetry is in favour of sellers; ii) a range of product qualities can be provided on the market; and iii) low quality products have lower production costs. Under these conditions, sellers do not have the correct incentive to provide quality products and this can lead to the typical inefficient outcome known as the Akerlof's “market for lemons”. In a nutshell, some sellers take advantage of information asymmetries and reduce the level of quality of their offerings for those attributes that cannot be ascertained by consumers. Consumers, who are not able to discern differences among low and high quality goods, assume an average quality and are willing to pay the same average price for all the goods that are similar in terms of ascertainable attributes. Accordingly, whereas sellers of goods with low quality attributes make profits (positive difference between average market price and production costs of their products), sellers of high quality products incur in losses (negative difference between average market price and production costs of their products). This eventually makes the provision of high quality goods unprofitable. Hence, products with high quality attributes are driven out of the market by low quality goods, under the phenomenon known as “adverse selection” by consumers. For further discussion on the topic see also: Akerlof, G. A. (1970), The Market for “Lemons”: Quality Uncertainty and the Market Mechanism, *Quarterly Journal of Economics*, 84(3): 488–500; Cave, M. (1985), Market Models and Consumer Protection, *Journal of Consumer Policy*, 8(4): 335-351; Henning Hanf, C., von Wersebe, B. (1994), Price, Quality and Consumers' Behaviour, *Journal of Consumer Policy*, 17(3): 335-348.

In an EU-context, the attempt to address at national level problems of asymmetric information between consumers and producers/retailers via dedicated measures may lead to the creation of institutional barriers to entry, due to additional administrative<sup>109</sup> and/or compliance<sup>110</sup> costs. Indeed and as will be shown in this Chapter, national measures largely vary from one another and even when they are comparable in terms e.g. of goals and scope, they may diverge in terms of specific details/modes of implementation and potentially impose different obligations in different countries on companies producing and selling furniture. As a result, these barriers can potentially hinder intra-EU trade, as well as extra-EU trade when such requirements are set by foreign importer countries. This risk might be particularly significant for SMEs, which play a pivotal role in the EU furniture industry, as explained in Part I of this Study. Their competitiveness might be harmed, to a larger extent than is the case for large companies, by costs stemming from the need to adapt labels and product information systems to the requirements of different national rules and to certify their products in one or more Member States.

In light of the above, an investigation into the existing and proposed measures promoting quality furniture products at a national and EU level is key to complete the background research for the current study. In particular, the comparative analysis of national initiatives conducted in this Chapter aims at: i) detecting the main informational problems addressed in each case and the solutions adopted; ii) assessing existing divergences and similarities among measures; iii) highlighting the type of information requirements set by each measure and in which format this information should be provided to consumers (e.g., via a product card, a label, and so on).

Accordingly, our approach followed six steps:

1. Collection and comparative analysis of **mandatory** (e.g., “*Étiquetage des meubles neufs*” in France<sup>111</sup>; “The Furniture and Furnishings (Fire) (Safety) Regulations” in UK<sup>112</sup>) **information schemes** (hereinafter “mandatory schemes”) for furniture products adopted by EU Member States;
2. Collection and comparative analysis of **voluntary information schemes** (hereinafter “voluntary schemes”) adopted at a national or EU level concerning the certification of information on features of furniture products (e.g., “*Ceska kvalita – Nabytek*” in Czech Republic)<sup>113</sup>;
3. Collection and comparative analysis of **initiatives under examination** (hereinafter “initiatives”) at a national or EU level and/or past proposals

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<sup>109</sup> Defined here as the costs incurred by firms to provide information to public authorities and third parties.

<sup>110</sup> Intended as the costs stemming from a requirement for the firm to take actions and adapt its productive process or commercial operations to comply with an act.

<sup>111</sup> See *Décret n°86-583 du 14 mars 1986 portant application de l'article L. 214-1 du code de la consommation en ce qui concerne les produits d'ameublement* and *Circulaire du 2 octobre 1989 relative à l'application du décret n° 86-583 du 14 mars 1986 concernant les objets d'ameublement*.

<sup>112</sup> See Statutory Instrument 1988/No. 1324, Statutory Instrument 1989/No. 2358, Statutory Instrument 1993/No. 207, and Statutory Instrument 2010/No. 2205.

<sup>113</sup> See <http://ceskakvalita.cz/spotrebitel/znacky/ceska-kvalita-nabytek/5> (in Czech).

(hereinafter “shelved initiatives”) that require(d) providing consumers with certain information about the characteristics of furniture products (e.g., “*Kennzeichnung von Möbeln - Beispielhaft für die Produktgruppe Polstermöbel*” in Germany)<sup>114</sup>;

4. Collection and comparative analysis of **eco-labelling schemes for furniture products** (hereinafter “eco-labelling schemes” or “eco-labels”) adopted at a national or EU level (e.g., “Nordic Ecolabelling of Furniture and fitments” in Denmark, Finland, Iceland, Norway, and Sweden)<sup>115,116</sup>
5. Collection and comparative analysis of **mandatory or voluntary schemes adopted by selected non-EU countries** (hereinafter “extra-EU schemes”; e.g., “*Ordonnance sur la déclaration concernant le bois et les produits en bois*” in Switzerland<sup>117</sup>) and assessment of their compatibility with existing schemes in EU Member States;
6. Collection and analysis of **relevant EU legislation** that includes substantial information requirements for consumer products and applies also to furniture (e.g., Directive on consumer protection in the indication of the prices of products offered to consumers)<sup>118</sup>.

## 5.2 Methodology

The identification of existing mandatory and voluntary schemes, eco-labels, and other initiatives as well as the collection of data and information for each of these measures was based on a dual approach. In practice, a survey launched among selected furniture industry associations was complemented by extensive desk research. While for measures implemented in EU Member States the investigation is comprehensive and focuses on all EU-28 countries, the analysis of extra-EU schemes centres around the foreign markets that

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<sup>114</sup> See

<http://www.verbraucherrat.din.de/cmd?cmsrubid=145879&2=&menurubricid=145879&level=tpl-artikel&menuid=145453&languageid=de&cmstextid=195560&cmsareaid=145453> (in German).

<sup>115</sup> See <http://www.nordic-ecolabel.org/>

<sup>116</sup> Eco-labels are in fact a particular kind of voluntary scheme providing a signal for the environmental sustainability of products. They are usually granted by an official body, relying on test and verification processes carried out by accredited laboratories that assess the fulfilment of specific environmental requirements. While in other voluntary schemes environmental friendliness may be just one among other information requirements, in eco-labels this attribute is further specified through many detailed requirements (e.g., formaldehyde contents and/or emissions, flame-retardant contents, genetically modified wood, biocides contents, etc.)

<sup>117</sup> See *Ordonnance sur la déclaration concernant le bois et les produits en bois du 4 juin 2010*.

<sup>118</sup> See Directive 98/6/EC of the European Parliament and of the Council of on consumer protection in the indication of the prices of products offered to consumers, OJ L 80, 18/03/1998, p. 27-31. Please note that national consumer codes fall out of the scope of the analysis performed in this Chapter, unless special implementing rules that apply specifically to furniture products are in force.

are more relevant for EU exporters, i.e. Switzerland, Russia, the United States, Norway, and China.<sup>119</sup>

Before we provide a detailed description of the methodology adopted to carry out the research activity outlined above, it is worth stressing that, despite the fact that measures promoting quality furniture products are largely heterogeneous, some common elements can be identified and a general classification can be developed around two dimensions: 1) the scope of the information provided; and 2) the product range involved. Some measures widely address the existing informational gap by setting out requirements for various characteristics of furniture products (general measures); others instead have a narrower scope and deal with asymmetric information problems concerning specific product properties<sup>120</sup> (specific measures). General or specific measures can focus either on the entire sector (industry-wide measures) or only on particular groups of products, e.g. upholstered furniture (cluster measures). This categorization of existing measures promoting quality furniture products is summarised in Table 64.

**Table 64 Classification of measure promoting quality furniture products**

<b>Product range</b> →		
<b>Scope of information</b> ↓	<b>Industry-wide measure</b>	<b>Cluster measure</b>
<b>Specific measure</b>	Specific measure applied to the entire industry	Specific measure applied to a product cluster
<b>General measure</b>	General measure applied to the entire industry	General measure applied to a product cluster

Source: Authors' own elaboration

At a preliminary stage, a quick examination of a sub-sample of national measures collected through desk research was necessary to:

- Select basic features that are comparable, thus designing a standardized summary table (see Table 65) to assess existing divergences and similarities among measures;
- Retrieve a comprehensive list of information provided to consumers under these different measures to build a scoreboard (see Table 68) and identify the most common informational problems addressed by these schemes.

A different summary table (see Table 66) and a dedicated scoreboard (see Table 69) were built especially for eco-labels, as they are essentially different from other types of schemes and initiatives.<sup>121</sup> In particular, the final versions of the scoreboards cover 31 items in the case of mandatory, voluntary, and extra-EU schemes as well as other initiatives and 42 items for eco-labels. The main findings of this preliminary stage were adopted as guidance

<sup>119</sup> In 2012, these countries were topping the EU furniture exports to extra-EU countries ranking (see Table 18, *supra*).

<sup>120</sup> For example, fire safety, environmental quality, origin of the product, and so on.

<sup>121</sup> See note 116.

to design targeted questionnaires and collect further information on national and supranational measures.

At first, a questionnaire<sup>122</sup> was sent via email to 27 European furniture industry associations<sup>123</sup> inviting them to retrieve and submit information on:

- Mandatory and voluntary schemes and initiatives, adopted in the country where they are based, that require providing consumers with certain information about the characteristics of the furniture;
- Extra-EU schemes that require providing consumers with certain information about the characteristics of furniture products;
- Eco-labels relating to furniture products, adopted in the country where they are based.

**Table 65 Information provided in summary tables for schemes and initiatives other than eco-labels**

Parts	Features
I. Scheme/initiative identification	Country Scheme Issuing body Typology of act/ official document Name of act/official document Reference number of the act/official document where the scheme is included Date of entry into force Main web reference
II. Main features	Rationale Scope of information Product range Geographic area Mandatory/voluntary Intended recipients of the information* Parties responsible for providing information to consumers** Parties responsible for correctness and reliability of information Information provided to consumers Means of information Other information

*Notes:* \* The present study focuses on information for consumers. Nonetheless, some measures may set out obligations to exchange information among actors at different levels of the value chain. \*\* Please note that while information usually has to be disclosed to the final consumer by retailers, obligations to provide relevant information may involve other actors of the value chain.

*Source:* Authors' own elaboration

<sup>122</sup> The questionnaire is on file with the authors of the report.

<sup>123</sup> This list basically includes all EU members of the two main European furniture industry associations, i.e. EFIC (European Furniture Industries Confederation) and UEA (European Furniture Manufacturers Federation), whose email addresses were available online. Surveyed countries cover about 98% of EU furniture production and more than 98% of EU furniture consumption (see Chapter 3).

The same questionnaire was also emailed to the two main EU-wide furniture industry associations, i.e. EFIC (European Furniture Industries Confederation) and UEA (European Furniture Manufacturers Federation), to obtain additional contacts of associations that might have been interested in the study and to circulate the questionnaire directly among their members. The complete list of the associations contacted, with details on their country and websites, is provided in Annex 7.

In addition, another questionnaire<sup>124</sup> was sent via email to 13 selected extra-EU furniture industry associations in order to collect information on:

- Extra-EU schemes, adopted in the country where they are based, that require providing consumers with certain information about the characteristics of the furniture;
- Eco-labels relating to furniture products, adopted in the country where they are based.

The complete list of the extra-EU associations contacted is provided in Annex 7.

In parallel with this activity, desk research was undertaken to collect additional data and information and to integrate and validate inputs provided by the responding associations (see rows in italics in Annex 7).

**Table 66 Information provided in summary tables for eco-labels**

Parts	Features
I. Eco-label identification	Country Scheme Issuing body Typology of act/ official document Name of act/official document Reference number of the act/official document where the scheme is included Date of entry into force Main web reference
II. Involved parties	Granting body Assessing body Applicants Parties responsible for correctness and reliability of information
III. Main features	Product range Geographic area Mandatory/voluntary Requirements to be fulfilled Means of information Fees Other information

*Source: Authors' own elaboration*

Data and information collected were used to perform the comparative legal analysis of the different measures identified. While detailed information for each measure can be found in Annexes 3, 4, 5, and 6 to this Study, the scoreboards categorizing information requirements are discussed in Section 5.3.1 to facilitate comparisons among EU measures and highlight the main issues of asymmetric information tackled by each measure.

<sup>124</sup> The questionnaire is on file with the authors of the report.

Moreover, a case-study approach was followed for lesson-drawing from shelved initiatives identified during data collection (see Section 5.3.2), in particular by interviewing the stakeholders involved. Finally, the main EU legislation that includes consumer information obligations was examined to highlight information that consumers are entitled to obtain even in the absence of specific measures applying to furniture products (see Section 5.3.3).

## 5.3 Results

### 5.3.1 Measures promoting quality furniture products

Based on the result of our analysis, at present 19 measures promoting quality furniture products are in force in the EU (see Annexes 3 and 4). As shown in Figure 28, which provides a categorization of the identified 19 measures according to the two dimensions introduced in Table 64: seven measures set general information requirements that are applicable to the entire range of furniture products (industry-wide), another seven are specific measures applying to a product cluster, four are specific measures and apply to the entire industry, and only one measure is general in terms of scope but focused on a cluster. Furthermore, out of these 19 measures, eight represent eco-labels; five are mandatory schemes, while the remaining six are voluntary schemes other than eco-labels.

Looking at **mandatory and voluntary schemes in force in the EU** other than eco-labels (11 out of 19, see Annexes 3 and 4 and Table 68), only France and Italy<sup>125</sup> enacted general measures that are mandatory, encompass a wide range of furniture products, and broadly aim at informing and protecting consumers.<sup>126</sup> In addition, Ireland and the UK<sup>127</sup> adopted two entirely mandatory schemes to tackle the specific issue of fire safety in the upholstered furniture cluster. France also set out mandatory rules for furniture covered in leather or split leather. The remaining schemes (one Czech, two Austrian, one German, one Spanish and one Swedish) are entirely voluntary and aim at enabling manufacturers to signal products that comply with higher standards in terms e.g. of quality, environmental sustainability, and/or social responsibility. These are basically certification systems rather than rules setting consumer information obligations and constitute a clear example of self-regulation (or co-regulation as in the case of the Czech Republic where the scheme is supported by the Ministry of Industry and Trade). It is worth stressing that voluntary schemes have a limited uptake.

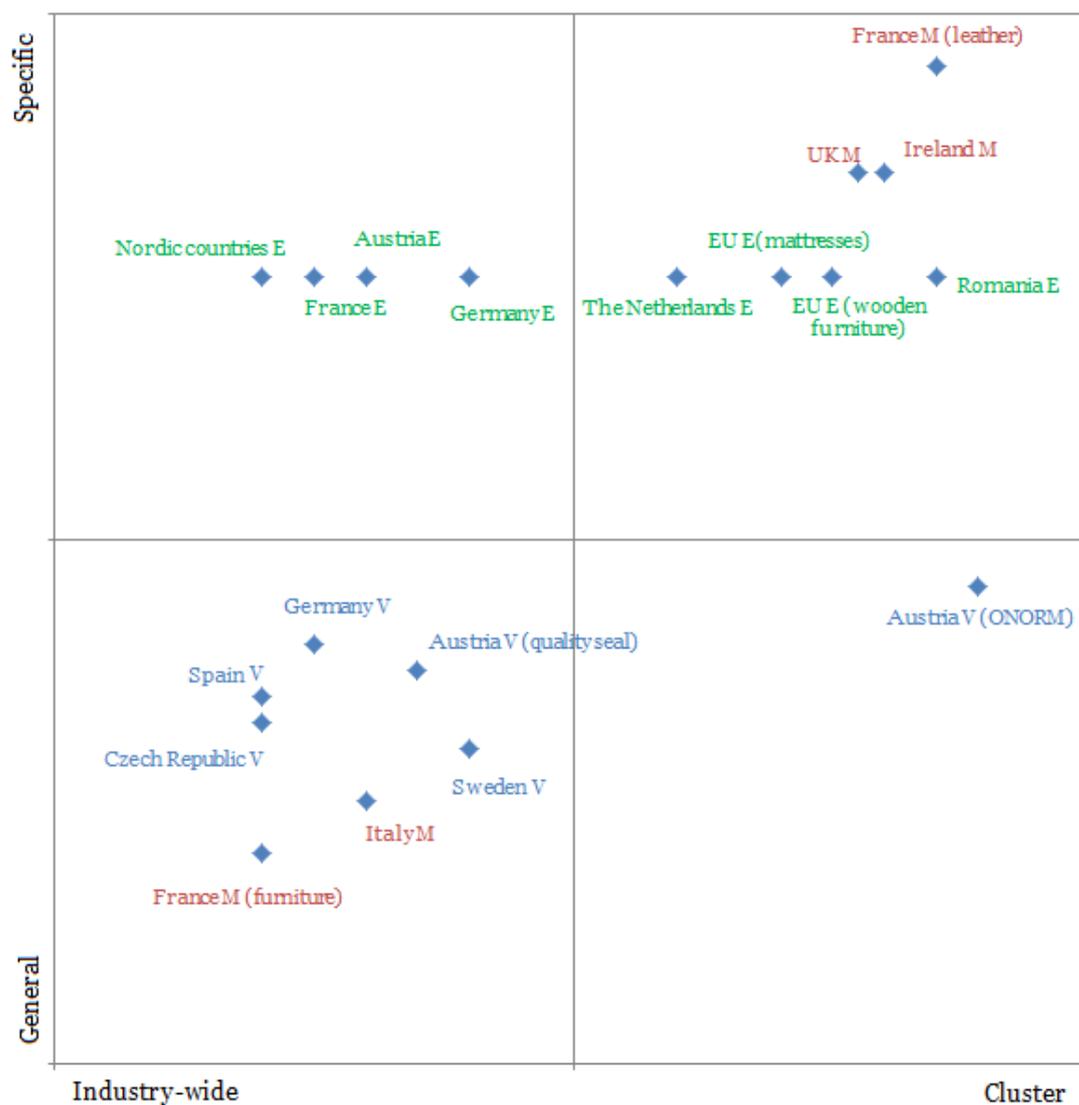
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<sup>125</sup> In 2012, France and Italy represent about 27% of total furniture consumption in EU28 countries (see Chapter 3).

<sup>126</sup> Please note that some respondents to the stakeholder consultation (see Chapter 7) identified another mandatory scheme requiring the provision of certain information on furniture product characteristics, namely the Austrian Product Liability Act (Produkthaftungsgesetz - BGBl Nr.99 / 1988). As this scheme applies to all consumer products and has no specific implementation requirement for the furniture industry, its assessment falls out of the scope of the analysis included in this Chapter. Nonetheless, when relevant, the Austrian Product Liability Act will be taken into account to perform the Impact Assessment in Part III of the present Study.

<sup>127</sup> In 2012, France, Ireland, Italy and UK represent more than 41% of total furniture consumption in EU28 countries (see Chapter 3).

**Figure 28 Classification of measures promoting quality furniture products in force in EU countries\***



Notes: \*M stands for mandatory scheme, V stands for voluntary scheme, and E stands for eco-label.

Source: Authors' own elaboration on data provided by national industry associations

In order to improve the understanding of the asymmetric information problems that these mandatory and voluntary schemes are meant to address, it is necessary to narrow down the analysis to the information requirements directed to consumers. In what follows the main information requirements are discussed. Providing the name and/or address of the manufacturer is required by the majority of schemes (eight out of 11), followed by indication of the material used (required by seven schemes); five schemes out of nine oblige also to show the date of manufacturing, instruction on maintenance and safety requirements. Instructions on cleaning, the name and/or address of the importer, hazardous substances contained in the product, and durability of use and resistance to "wear and tear" are information obligations set out in four schemes. It is worth stressing that the last two attributes, together with the origin of the product, the weight bearing capacity (in three

schemes) and environmental friendliness (in two schemes) are requirements included only in voluntary schemes.<sup>128</sup> Furthermore, only one voluntary scheme in force in the EU tackles the social responsibility issue. In all the identified schemes, information has to be provided on a product label (e.g., a symbol), which in four cases needs to be accompanied and in one case can be substituted (with additional consumer information obligations borne by the seller) by a product card.<sup>129</sup>

The eight **eco-labelling schemes in force in the EU** are always voluntary and have, by their very nature, a specific focus on information regarding the environmental friendliness of products. In particular, such eco-labels represent a credible means to signal furniture complying with specific environmental requirements. Whereas half of the analysed eco-labels apply to a particular cluster of furniture products (the Dutch, the Romanian, and the two EU Ecolabels) and the other half (the Austrian, the French, the German, and the one implemented in Nordic countries) to the whole range of furniture products, all of them enable the applicant party to use a special label (with just a symbol and/or a short text) attached to the product and/or to the packaging (see Annex 4 and Table 69). As a result, consumers can easily recognize the environmental sustainability of the labelled piece of furniture, but are informed only indirectly about the characteristics of the product in case they decide to check, usually on the web, what criteria need to be fulfilled to obtain the relevant eco-label. Eco-labels have a lower uptake than voluntary schemes.

Focusing on the requirements to obtain these eco-labels, fitness for use and formaldehyde contents and/or emissions are criteria to be fulfilled in eight eco-labelling schemes out of nine. While hazardous substance contents as well as other chemical contents and features of the packaging are checked in seven eco-labels; biocides contents, wood traceability, recycling and disposal options, information appearing on the label, and features of coating systems and surface treatments are requirements included in six schemes. Five eco-labels provide also a signal for flame retardants contents, sustainable wood procurement, separability of component materials, characteristics of plastic parts, and information that the company has to display on the packaging of the final product.

Taking a look abroad, seven **extra-EU schemes**<sup>130</sup> have been detected (see Annex 6). The Norwegian one is general in informational scope and voluntary and does not have any

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<sup>128</sup> Please note that the Italian mandatory scheme is expected to be amended by article 6 of the national Consumer Code (Law Decree 206/2004), thus introducing five additional mandatory information requirements: i) material used (when affecting the quality products); ii) hazardous substances contained in the product; iii) production process applied (when affecting the quality products); iv) instructions and/or precautions on use; and v) origin of the products (if extra-EU). Nonetheless, the entry into force of article 6 requires additional implementing rules. Absent these rules, which had not been enacted at the time of writing, the new requirements are not in force.

<sup>129</sup> Whereas a “product card” is a sheet or booklet collecting relevant information on the characteristic of the item, a label is a small piece of paper, fabric, plastic, or similar material attached to an item and giving information about it.

<sup>130</sup> Please note that, as explained above, this analysis focuses on five extra-EU countries, i.e. Russia, the United States, Norway, and China. The Nordic Ecolabelling scheme, already discussed above, applies not only in the EU, but also in Iceland and Norway. At the time of writing, reliable information on schemes enacted in China was not available. It is worth stressing that mandatory schemes are common also in other extra-EU countries. For instance, in Canada Federal labelling

peculiar/distinguishing features when compared to the voluntary schemes implemented in EU Member States. To the contrary, the measure enacted in Switzerland represents the only example of specific measure that is entirely mandatory and essentially deals with the origin of the component materials for wood and wood products. Mandatory schemes providing specific information are in force in the US too, to protect children using bunk beds, to ensure against flammability of mattresses and mattress pads, and (in 31 states) to inform about filling materials contained in bedding and furniture. In the US, a voluntary scheme for manufacturers that want to certify the sustainability of business and institutional furniture is also available. Among foreign countries that attract a significant share of EU exports, the Russian case is noteworthy. In June 2012, the Council of Eurasian Economic Commission approved a Technical Regulation on safety of furniture, aiming i.a. at protecting consumers from misleading information. This mandatory scheme, which will enter into force in July 2014, applies to all furniture products sold in the territories of Belarus, Kazakhstan, and the Russian Federation and imposes consumer information obligations (e.g., origin of the product, instruction and precautions on use, lifetime established by the manufacturer, installation instructions for disassembled furniture, etc.) to be included in a label attached to any piece of furniture and compliance with safety requirements listed in the Regulation and certified by accredited bodies.

To complete the analysis of measures requiring the provision to consumers of information on furniture products, two initiatives that were still under discussion at the time of writing were assessed (see Annex 5):

- In Germany, the DIN Consumer Council commissioned a study which was issued in February 2013 and proposed a general measure for upholstered furniture,<sup>131</sup> aimed at displaying a standardized set of information (e.g., material used, flammability, instruction on cleaning, durability of use and resistance to "wear and tear", etc.) for comparison purposes at the point of sale by means of a product label and a product card;
- In France, the President of the Republic in August 2009 enacted a law to implement the key points of the so-called *Grenelle de l'environnement*, a multi-party debate on environmental issues; this law is not yet in force, as implementing regulations are required. Article 40 is the ground to set out new rules on labelling of volatile pollutants (e.g., formaldehyde, volatile organic compounds, etc.) for home furniture. Article 54, instead should lead to the establishment of a new eco-label (*affichage environnemental*) to disclose the environmental impacts of all furniture products. Reportedly, discussions are ongoing and part of these initiatives is expected to be mandatory (e.g., labelling of volatile pollutants for children furniture might be made compulsory).

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requirements for upholstered furniture are in force and in Brazil and Peru new technical regulations setting, i.a., labelling requirements for bed mattresses are under discussion.

<sup>131</sup> An extension to all furniture products is envisaged, should the scheme enter into force.

### 5.3.2 Case studies on shelved furniture product specific initiatives

While surveying trade associations, two furniture product specific initiatives that were eventually not adopted were also detected: i) the Belgian scheme “Pi-Greco”; and ii) the Italian scheme “Nice to Meet You”. Hence, a case study approach was followed to analyse these initiatives and see whether they would offer some lessons and insights on the challenges of adopting and implementing this type of initiative.

The Belgian scheme “Pi-Greco” was developed at the end of the 1990s. The scheme had been requested by manufacturers and aimed at providing clearer information to consumers on the characteristics of furniture products. In particular, the main goal of “Pi-Greco” was to ensure that the qualitative differences between products available on the market would not remain hidden to consumers at the time of purchase.<sup>132</sup>

The scheme was designed by a dedicated working group composed of representatives of both manufacturers and retailers that worked together for about a year and a half. The initiative was meant to be purely voluntary. In terms of scope, it applied to wooden furniture, seating furniture, and upholstered furniture products. The scheme did not foresee a minimal level of quality for the product characteristics covered by the scheme, but simply information transparency on materials used and maintenance of the product. A specific product card was developed and consisted of two sides: i) information about the product properties covered by the scheme was to be provided on the front; ii) the back of the card should have contained details on usage, design, production and some free space for commercial/marketing information. Contrary to the rest of the card, the format for providing commercial/marketing information was flexible, so that companies could tailor it to their needs. To minimize complexity in implementation for those willing to adopt the scheme, the card itself was developed as an excel spreadsheet that could be easily adapted. As the scheme was voluntary, it would not have precluded the placing on the Belgian market of products not bearing the label, and foreign producers wishing to comply with the scheme could have done so as well.

Once ready, reportedly retailers reconsidered their position and decided not to support the scheme. As the entire initiative had been designed and conceived on a consensus basis, the scheme never saw the light. One interviewee reported that rather than aborting the entire initiative, retailers suggested that manufacturers could take part in the scheme but that retailers should be left free to decide on a case by case basis whether to display the card. As this was seen as defeating the very purpose of the initiative, the scheme was shelved. Voluntary initiatives may in fact fail when they face the opposition of some actors of the supply chain that do not have enough incentives to provide additional information to consumers.

The Italian environmental quality mark “Nice to Meet You” is another example of unsuccessful furniture product specific initiative. This initiative, which was developed based

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<sup>132</sup> A common example of hidden information would be for instance the density of filling foam included in a sofa: although not visible to the consumer, it has a clear impact on the durability of the product and its comfort in the long term. However, in the absence of detailed information, the consumer can only see the price difference between two apparently very similar sofas, without being aware of what lies behind the price premium.

on the results of a pilot experiment conducted in the Livenza Industrial Furniture District, aimed at establishing an Italian eco-label encompassing several industries<sup>133</sup>. Inspired by well-known labels such as the Nordic Ecolabelling or the Blue Angel, “Nice to Meet You” had been requested by manufacturers to tackle the issue of asymmetric information between them and consumers and to increase transparency when dealing with environmental sustainability of goods. The scheme was meant to be entirely voluntary, thus providing a signalling tool for eco-friendly products.

Basically, the Italian Ministry of Environment, Land and Sea should have introduced by decree a new procedure to grant an official eco-label to those products complying with selected environmental requirements. The decree was meant to enable the selection of those institutions that would have been responsible to set out criteria catalogues for each sector potentially included in the labelling system. Reportedly, although all the relevant stakeholders agreed on a draft decree, the initiative born in the summer of 2012 was suddenly shelved when a change in the Italian government occurred. Apparently, the new government shifted the attention from “Nice to Meet You” to a new programme on environmental footprint.

As the pilot experiment for “Nice to Meet You” involved the furniture industry, a criteria catalogue for furniture products had been completed. It encompassed all furniture products with the exception of upholstered furniture and seating, without distinction of materials used, and provided a list of requirements to be fulfilled by potential applicants in terms of product features and on the production process. The case of “Nice to Meet You” seems to indicate that for some industry players a purely self-regulatory initiative is not sufficient to send the right message to consumers. Reportedly, an independent initiative might be perceived as insufficiently reliable by consumers and would entail significant marketing costs that cannot be afforded by only one industry. Hence, a solution implemented without a strong support of the Italian Ministry of Environment was deemed too risky and not feasible. It is worth noting that, according to one interviewee, the introduction of a product range extension for the existing EU Ecolabel for wooden furniture would enable furniture manufacturers to rely on the EU eco-labelling scheme, thus making the Italian initiative less important and partially redundant.

### 5.3.3 Main EU legislation including consumer information obligations

In addition to the various schemes covered in the previous Sections, several EU rules already impose consumer information obligations on companies that intend to sell products - no matter whether furniture or something else - in the EU market. The analysis that follows sifts both EU consumer protection legislation and EU product safety legislation in force with the sole purpose of retrieving the information obligations that apply also to furniture products.

As regards EU consumer protection, the following pieces of legislation are relevant:

- *Directive on consumer protection in the indication of the prices of products offered to consumers* (Price Indication Directive 98/6/EC).<sup>134</sup> This directive obliges traders<sup>135</sup>

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<sup>133</sup> The new eco-label should have been implemented, i.a., for furniture, glass, and brick and tiles.

<sup>134</sup> Directive 98/6/EC, *supra* note 118.

to indicate for all products offered both the selling price and the unit price in an unambiguous, easily identifiable, and clearly legible way;

- *Unfair Commercial Practices Directive* (UCP Directive 2005/29/EC).<sup>136</sup> According to this directive, unfair commercial practices are prohibited. Both misleading actions and misleading omissions are included, i.a., among forbidden practices. As a result, traders cannot provide consumers with false or deceiving information (even if the information is factually correct), which causes or is likely to cause them to take transactional decisions they would not have taken otherwise. Furthermore, traders cannot omit (or hide or provide in an unclear, unintelligible, ambiguous, or untimely manner) material information that an average consumer needs in order to take an informed transactional decision. In the case of an invitation to purchase, the Directive provides a list of information that is considered material, such as the main characteristics and the price inclusive of taxes of the product, and the arrangements for payment, delivery, and the complaint handling policy;
- *Directive on consumer rights* (Consumer Rights Directive 2011/83/EU).<sup>137</sup> This Directive that shall be applied by Member States from 13 June 2014 is applicable to any contract concluded between a trader and a consumer<sup>138</sup>. Before the consumer is bound by a contract (or any corresponding offer) other than a distance or an off-premises contract<sup>139</sup>, the trader has to provide him/her with a list of information in a clear and comprehensible manner including i.a.: i) the main characteristics of the

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<sup>135</sup> “Trader shall mean any natural or legal person who sells or offers for sale products which fall within his commercial or professional activity”, Art. 2 of Directive 98/6/EC, *supra* note 118.

<sup>136</sup> Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the Internal Market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council, OJ L 149, 11/06/2005, p. 22-39.

<sup>137</sup> Directive 2011/83/EU of the European Parliament and of the Council on consumer rights, OJ L 304, 22/11/2011, p. 64-88. This Directive repeals Directive 85/577/EEC to protect the consumer in respect of contracts negotiated away from business premises and Directive 97/7/EC on the protection of consumers in respect of distance contracts as of 13 June 2014.

<sup>138</sup> While provisions of another EU act governing specific sectors prevail over those included in the Directive on consumer rights, a list of contracts for which this Directive does not apply is provided in article 3, paragraph 3 (Directive 2011/83/EU, *supra* note 137).

<sup>139</sup> With regard to distance or off-premises contract (or any corresponding offer), the trader has to provide consumers, i.a., with the following additional information: i) the fax-number and e-mail address of the trader as well as, where applicable, the geographic address and identity of the trader on whose behalf he/she is acting; ii) the geographical address of the place of business where the consumer can address any complaints; iii) the cost of using the means of distance communication to conclude the contract; iv) in case a right of withdrawal exists, the conditions, time, limit and procedures to exercise such a right as well as the model withdrawal form; v) where applicable, that the consumer has to bear the cost of returning the goods; vi) in case a right of withdrawal does not exist or can be lost, the relevant information; vii) the existence of relevant codes of conduct; viii) where applicable, the existence and the conditions of deposits or other financial guarantees; ix) where applicable, the possibility of having recourse of an out-of-court complaint and redress mechanism.

good/service; ii) the identity of the trader (name, address, and phone number); iii) the total price of the good/service (including taxes and additional charges); iv) where applicable, the arrangements for payment, delivery, performance, the lead time, and the trader's complaint handling policy; v) a reminder of the legal guarantee of conformity for goods and, where applicable, the existence and the conditions of after-sales services and commercial guarantees.

Shifting the attention to product safety, it is worth stressing that the EU product safety legislation is now under revision (see Box 14). Nonetheless, some consumer information obligations are already included in the so-called *General Product Safety Directive* (GPS Directive 2001/95/EC)<sup>140</sup> that is already in force. According to this Directive producers<sup>141</sup> are obliged to put only safe products on the consumer market. They are also obliged to provide consumers with information that is relevant to enable them to assess the risk inherent in a product, when such risk is not immediately perceptible without adequate warnings, and to take precautions against this risk. In addition, producers have to adopt measures enabling them to be informed about risks that their product might pose. For instance, they have to indicate on the product or packaging the identity and details of the producer and the product reference, or where applicable, the batch of products to which it belongs. The same directive entitles Member States' competent authorities, for any product potentially posing risks in certain conditions, to take measures requiring that it be marked with adequate warnings on the inherent risk. Furthermore, for any product potentially posing risks for certain persons, authorities can mandate the inclusion of a special warning about these risks. These measures are addressed to the producers, distributors, and the parties responsible for the first stage of distribution on the national market. The *GPS Directive* also requires these economic operators, within the limits of their respective activities, to take corrective actions (to avoid the risks posed by products which they supply or have supplied) that includes not only withdrawal or recall of a product but also effectively warning consumers. The main information that consumers are entitled to access according to the main EU legislation is summarized in Table 67.

**Box 14 Proposal for a Regulation of the European Parliament and of the Council on consumer product safety and repealing Council Directive 87/357/EEC and Directive 2001/95/EC**

The European Commission proposed on 13 February 2013 a new Regulation on consumer product safety -COM(2013)78 - laying down, i.a., elementary consumer information obligations of economic operators (manufacturers, importers, and distributors) involved in the supply chain of consumer products insofar as they are not subject to corresponding requirements under sector specific Union harmonisation legislation. These obligations are rooted on the reference provisions set out in Decision No 768/2008/EC of the European Parliament and of the Council of 9 July 2008 on a common framework for the marketing of products.

The so-called "indication of the origin" is one of the most innovative consumer information obligations included in the new Regulation. According to this provision, manufacturers and importers have to ensure that products bear an indication of the country of origin of the product

<sup>140</sup> Directive 2001/95/EC of the European Parliament and of the Council on general product safety, OJ L 11, 15/01/2002, p. 4–17.

<sup>141</sup> The producer is either the manufacturer of the product or the manufacturer' representative, when the manufacturer is not established in the EU, or the importer of the product, or another professional that may affect the safety properties of a product with his/her activity.

(basically the country where the goods were wholly obtained or underwent their last substantial transformation).

With regard to manufactures and importers, they are obliged to indicate their name, registered trade name or registered trade mark and their contact address and to provide instructions and safety information in a language that can be easily understood by consumers. Manufacturers have also to ensure that their products bear a type, batch, or serial number, or other element allowing the identification of the product. Distributors are obliged to verify that the manufacturer and the importer have complied with consumer information obligations laid down in the Regulation.

The European Parliament, during the ordinary legislative procedure (first reading) suggested a few amendments affecting the obligations listed above. As for the indication of origin, it can be given in English. Whenever information, due to the size or nature of the product, is provided on the packaging or in a document accompanying the product, it should be indicated in a sufficiently visible manner that the medium of information should be retained. Importers and distributors are obliged not to obscure any compulsory information or safety-related information provided by the manufacturer (and the importer with regard to distributors). The European Parliament also reintroduced, as a corrective action, the option to warn consumers that are at risk caused by non-conformity of the product.

To sum up, at this stage the following consumer information obligations are included in the Regulation on Consumer Product Safety:

- manufacturer's and/or importer's name and contact address;
- details to univocally identify the product;
- instructions and safety information;
- indication of origin;
- warning consumers as a corrective action.

**Table 67 Consumer information obligations included in EU consumer protection and product safety legislation**

Directive	Consumer information obligations
Price Indication Directive 98/6/EC	<ul style="list-style-type: none"> <li>• Price</li> </ul>
UCP Directive 2005/29/EC	<ul style="list-style-type: none"> <li>• Material information that an average consumer needs</li> </ul>
Consumer Rights Directive 2011/83/EU*	<ul style="list-style-type: none"> <li>• Main characteristics of the good/service**</li> <li>• Trader's name, address, and phone</li> <li>• Price</li> <li>• Arrangements for payment, delivery, performance, the lead time and trader's complaint handling policy</li> <li>• Reminder of the conformity guarantee, after-sales services and commercial guarantees</li> </ul>
GPS Directive 2001/95/EC***	<ul style="list-style-type: none"> <li>• Risk inherent in the product</li> <li>• Identity and details of the producer (on the packaging)</li> <li>• Details to univocally identify the product</li> <li>• Warning consumers as a corrective action</li> </ul>

*Notes:* \*Additional information is required with regard to distance or off-premises contract (or any corresponding offer).

Member States have been applying this directive since 13 June 2014. \*\* As regards the national implementation of the Consumer Rights Directive (currently transposed in some 18 countries), the transposition measures analysed so far do not go beyond or stipulate further details as to what constitutes "main characteristics". \*\*\* This Directive is likely to be repealed by the Regulation on Consumer Product Safety (see Box 14).

*Source:* Authors' own elaboration.

**Table 68 Information requirements included in mandatory and voluntary schemes in force in EU Member States**

	Decree on Trade in furniture products	Decree on certain leather products and certain similar products	Industrial research and standards (fire safety) (domestic furniture order)	Product sheet	The Furniture and Furnishings (Fire) (Safety) Regulations	Austria quality seal	ÖNORM A 1650 tested	Czech Quality – Furniture	German Furniture Quality Association - The Golden M	Simbolo calidad	Mobelfakta	TOTAL
	Mandatory schemes					Voluntary schemes						Number of schemes
Country	FRANCE	FRANCE	IRELAND	ITALY	UK	AUSTRIA	AUSTRIA	CZECH REPUBLIC	GERMANY	SPAIN	SWEDEN	
<b>Scope of information</b>	General	Leather	Flammability	General	Flammability	General	Safety	General	General	General	General	11
<b>Product range</b>	All furniture	Furniture covered in leather or split leather	Upholstered furniture	Wooden furniture	Upholstered furniture	All furniture	Seating and tables for general school education	All furniture	All furniture	All furniture	All furniture	
<b>Card/label</b>	Card or label	Label	Label	Card and label	Label	Label	Card and label	Card and label	Card and label	Label	Label	
<b>Uptake as of March 2014 (companies/products)</b>	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	19/n.a.	1/14	13/3.537	80/n.a.	133/n.a.	31/330	
<b>Mandatory information according to EU consumer protection and product safety legislation in force</b>												
<b>Name and/or address of the manufacturer</b>	NO	YES	YES	YES	YES	NO	YES	YES	NO	YES	YES	8
<b>Name and/or address of the importer</b>	NO	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO	4
<b>Price</b>	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	1
<b>Name and/or address of the distributor/retailer</b>	NO	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	1
<b>Information provided in at least one mandatory scheme</b>												
<b>Materials used</b>	YES	YES	YES	YES	YES	NO	NO	NO	NO	YES	YES	7
<b>Compliance with safety requirements</b>	YES	NO	NO	NO	NO	NO	YES	NO	YES	YES	YES	5
<b>Instructions on maintenance</b>	YES	NO	NO	YES	NO	NO	YES	YES	NO	NO	YES	5
<b>Date of manufacturing</b>	NO	NO	YES	NO	YES	NO	YES	YES	NO	NO	YES	5
<b>Instructions on cleaning</b>	NO	NO	NO	YES	NO	NO	YES	YES	NO	NO	YES	4
<b>Instructions and/or precautions on use</b>	YES	NO	NO	P	NO	NO	NO	NO	NO	YES	YES	3
<b>Dimensions</b>	YES	NO	NO	NO	NO	NO	NO	YES	NO	NO	YES	3
<b>Items included (if they can be sold separately)</b>	YES	NO	NO	NO	YES	NO	NO	YES	NO	NO	NO	3

	Decree on Trade in furniture products	Decree on certain leather products and certain similar products	Industrial research and standards (fire safety) (domestic furniture) order	Product sheet	The Furniture and Furnishings (Fire) (Safety) Regulations	Austria quality seal	ÖNORM A 1650 tested	Czech Quality – Furniture	German Furniture Quality Association - The Golden M	Simbolo calidad	Mobelfakta	TOTAL
	Mandatory schemes					Voluntary schemes						Number of schemes
Country	FRANCE	FRANCE	IRELAND	ITALY	UK	AUSTRIA	AUSTRIA	CZECH REPUBLIC	GERMANY	SPAIN	SWEDEN	
Scope of information	General	Leather	Flammability	General	Flammability	General	Safety	General	General	General	General	11
Product range	All furniture	Furniture covered in leather or split leather	Upholstered furniture	Wooden furniture	Upholstered furniture	All furniture	Seating and tables for general school education	All furniture	All furniture	All furniture	All furniture	
Card/label	Card or label	Label	Label	Card and label	Label	Label	Card and label	Card and label	Card and label	Label	Label	
Uptake as of March 2014 (companies/products)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	19/n.a.	1/14	13/3,537	80/n.a.	133/n.a.	31/330	
Flammability	NO	NO	YES	NO	YES	NO	NO	NO	NO	NO	YES	3
Clear indication of material imitated	YES	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO	2
Self-assembly/assembled	YES	NO	NO	NO	NO	NO	NO	YES	NO	NO	NO	2
Date of importation	NO	NO	YES	NO	YES	NO	NO	NO	NO	NO	NO	2
Instructions on disposal or recycling	NO	NO	NO	YES	NO	NO	NO	YES	NO	NO	NO	2
Clear indication of the style imitated	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	1
New/second-hand/antique	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	1
Production process applied	YES	NO	NO	P	NO	NO	NO	NO	NO	NO	NO	1
<b>Information provided only in voluntary schemes</b>												
Durability of use and resistance to "wear and tear"	NO	NO	NO	NO	NO	YES	NO	NO	YES	YES	YES	4
Hazardous substance contained in the product	NO	NO	NO	P	NO	NO	NO	YES	YES	YES	YES	4
Origin of the product	NO	NO	NO	P	NO	YES	NO	YES	NO	NO	YES	3
Weight-bearing capacity	NO	NO	NO	NO	NO	NO	NO	YES	NO	YES	YES	3
Environmental friendliness	NO	NO	NO	NO	NO	NO	NO	NO	YES	NO	YES	2
Conformity to fair labour conditions	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	YES	1
Weight	NO	NO	NO	NO	NO	NO	NO	YES	NO	NO	NO	1

	Decree on Trade in furniture products	Decree on certain leather products and certain similar products	Industrial research and standards (fire safety) (domestic furniture) order	Product sheet	The Furniture and Furnishings (Fire) (Safety) Regulations	Austria quality seal	ÖNORM A 1650 tested	Czech Quality – Furniture	German Furniture Quality Association - The Golden M	Simbolo calidad	Mobelfakta	TOTAL
	Mandatory schemes					Voluntary schemes						Number of schemes
Country	FRANCE	FRANCE	IRELAND	ITALY	UK	AUSTRIA	AUSTRIA	CZECH REPUBLIC	GERMANY	SPAIN	SWEDEN	
Scope of information	General	Leather	Flammability	General	Flammability	General	Safety	General	General	General	General	11
Product range	All furniture	Furniture covered in leather or split leather	Upholstered furniture	Wooden furniture	Upholstered furniture	All furniture	Seating and tables for general school education	All furniture	All furniture	All furniture	All furniture	
Card/label	Card or label	Label	Label	Card and label	Label	Label	Card and label	Card and label	Card and label	Label	Label	
Uptake as of March 2014 (companies/products)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	19/n.a.	1/14	13/3,537	80/n.a.	133/n.a.	31/330	
<b>Information not provided in existing schemes</b>												
Home delivery included/excluded	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	0
Identification of design protection	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	0
Origin of the product's component materials	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	0
<b>Other</b>												
Additional information	YES	YES	YES	NO	YES	YES	NO	NO	YES	YES	YES	8

Note: P stands for pending information requirements, see note 128.  
Source: Authors' elaboration on data provided by national industry associations.

**Table 69 Requirements to be fulfilled listed in eco-labels for furniture in force in EU Member States**

	Austrian Eco-label	Nordic Ecolabelling (Svanen)	NF Environment	EU Ecolabel for wooden furniture	EU Ecolabel for bed mattresses	The Blue Angel –Environmental Label Jury	Milieukeur certification scheme for furniture	EU Ecolabel for bed mattresses (national implementation)	TOTAL
<b>Country</b>	AUSTRIA	DENMARK, FINLAND, ICELAND, NORWAY, & SWEDEN	FRANCE	EU & EEA	EU & EEA	GERMANY	THE NETHERLANDS	ROMANIA	Number of schemes
<b>Mandatory/Voluntary</b>	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	8
<b>Scope of information</b>	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	
<b>Product range</b>	All furniture	All furniture	All furniture	Furniture made of at least 90 % w/w solid wood or wood-based materials	Bed mattresses, materials filling the bed mattresses, wooden bed bases	All furniture	Seats, Tables and desks, cupboards and shelves, kitchens, beds, bedsteads and cradles, bathroom furniture	Bed mattresses	
<b>Card/Label</b>	Label	Label	Label	Label	Label	Label	Card and/or label	Label	
<b>Uptake as of March 2014 (companies/products)</b>	15/46	25/233	51/482	2/39	4/18	46/125	2/2	0/0	
<b>Requirements to be fulfilled</b>									
<b>Fitness for use (durability, strength, safety, and stability)</b>	YES	YES	YES	YES	YES	YES	YES	YES	8
<b>Formaldehyde contents and/or emissions</b>	YES	YES	YES	YES	YES	YES	YES	YES	8
<b>Hazardous substance contents</b>	YES	YES	YES	YES	YES	YES	NO	YES	7
<b>Other chemical contents</b>	NO	YES	YES	YES	YES	YES	YES	YES	7
<b>Packaging</b>	YES	YES	YES	YES	YES	YES	YES	NO	7
<b>Biocides contents</b>	YES	YES	YES	YES	YES	NO	NO	YES	6
<b>Coating systems</b>	YES	YES	YES	NO	NO	YES	YES	YES	6
<b>Information appearing on the eco-label</b>	YES	NO	YES	YES	YES	YES	NO	YES	6
<b>Recycling and disposal</b>	YES	YES	YES	YES	NO	YES	YES	NO	6
<b>Surface treatments</b>	YES	YES	NO	YES	YES	NO	YES	YES	6
<b>Wood traceability</b>	YES	YES	YES	YES	YES	YES	NO	NO	6
<b>Flame-retardant contents</b>	NO	NO	YES	YES	YES	NO	YES	YES	5
<b>Information appearing on the packaging</b>	NO	NO	YES	YES	YES	YES	NO	YES	5
<b>Plastic parts</b>	YES	YES	YES	YES	NO	NO	YES	NO	5
<b>Separability of component materials</b>	YES	YES	YES	YES	NO	NO	YES	NO	5
<b>Sustainable wood procurement</b>	YES	NO	YES	YES	YES	NO	YES	NO	5

	Austrian Eco-label	Nordic Ecolabelling (Svanen)	NF Environment	EU Ecolabel for wooden furniture	EU Ecolabel for bed mattresses	The Blue Angel –Environmental Label Jury	Milieukeur certification scheme for furniture	EU Ecolabel for bed mattresses (national implementation)	TOTAL
Country	AUSTRIA	DENMARK, FINLAND, ICELAND, NORWAY, & SWEDEN	FRANCE	EU & EEA	EU & EEA	GERMANY	THE NETHERLANDS	ROMANIA	Number of schemes
Mandatory/Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	8
Scope of information	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	
Product range	All furniture	All furniture	All furniture	Furniture made of at least 90 % w/w solid wood or wood-based materials	Bed mattresses, materials filling the bed mattresses, wooden bed bases	All furniture	Seats, Tables and desks, cupboards and shelves, kitchens, beds, bedsteads and cradles, bathroom furniture	Bed mattresses	
Card/Label	Label	Label	Label	Label	Label	Label	Card and/or label	Label	
Uptake as of March 2014 (companies/products)	15/46	25/233	51/482	2/39	4/18	46/125	2/2	0/0	
Information provided to consumers	YES	NO	YES	YES	NO	NO	YES	NO	4
Instructions on disposal or recycling	YES	NO	YES	YES	NO	YES	NO	NO	4
Product description	YES	NO	YES	YES	NO	NO	NO	YES	4
Energy consumption of the production processes	NO	YES	YES	NO	NO	YES	NO	NO	3
Instructions on maintenance	YES	NO	YES	YES	NO	NO	NO	NO	3
Instructions on use	YES	YES	NO	YES	NO	NO	NO	NO	3
Production process applied	NO	YES	YES	NO	NO	NO	YES	NO	3
Wearing parts	YES	YES	NO	NO	NO	YES	NO	NO	3
Wood species	NO	NO	YES	YES	YES	NO	NO	NO	3
Other	NO	NO	NO	YES	YES	NO	YES	NO	3
Advertising and marketing rules	NO	NO	YES	NO	NO	YES	NO	NO	2
Compliance with worker safety and work environment standards and regulations	YES	YES	NO	NO	NO	NO	NO	NO	2
Life cycle assessment of the product	NO	NO	YES	NO	NO	YES	NO	NO	2
Lighting equipment	NO	YES	YES	NO	NO	NO	NO	NO	2
Nano material/particle contents	NO	YES	YES	NO	NO	NO	NO	NO	2
Product maintenance	NO	NO	NO	YES	NO	NO	YES	NO	2
Quality management certification (e.g., ISO 9000)	NO	YES	YES	NO	NO	NO	NO	NO	2
Recycled material contents	NO	NO	YES	YES	NO	NO	NO	NO	2
Service provided to consumers	YES	NO	YES	NO	NO	NO	NO	NO	2

	Austrian Eco-label	Nordic Ecolabelling (Svanen)	NF Environment	EU Ecolabel for wooden furniture	EU Ecolabel for bed mattresses	The Blue Angel –Environmental Label Jury	Milieukeur certification scheme for furniture	EU Ecolabel for bed mattresses (national implementation)	TOTAL
<b>Country</b>	AUSTRIA	DENMARK, FINLAND, ICELAND, NORWAY, & SWEDEN	FRANCE	EU & EEA	EU & EEA	GERMANY	THE NETHERLANDS	ROMANIA	Number of schemes
<b>Mandatory/Voluntary</b>	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	8
<b>Scope of information</b>	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	Environmental sustainability	
<b>Product range</b>	All furniture	All furniture	All furniture	Furniture made of at least 90 % w/w solid wood or wood-based materials	Bed mattresses, materials filling the bed mattresses, wooden bed bases	All furniture	Seats, Tables and desks, cupboards and shelves, kitchens, beds, bedsteads and cradles, bathroom furniture	Bed mattresses	
<b>Card/Label</b>	Label	Label	Label	Label	Label	Label	Card and/or label	Label	
<b>Uptake as of March 2014 (companies/products)</b>	15/46	25/233	51/482	2/39	4/18	46/125	2/2	0/0	
<b>Waste minimization</b>	YES	NO	YES	NO	NO	NO	NO	NO	2
<b>Environmental management certification (e.g., ISO 14001)</b>	NO	NO	NO	NO	NO	YES	NO	NO	1
<b>Genetically modified wood</b>	NO	NO	NO	YES	NO	NO	NO	NO	1
<b>Geographic origin of the product</b>	NO	NO	YES	NO	NO	NO	NO	NO	1
<b>Glass and mirror parts</b>	NO	YES	NO	NO	NO	NO	NO	NO	1
<b>Space optimizing during transportation or storage</b>	NO	NO	YES	NO	NO	NO	NO	NO	1
<b>Geographic origin of the product's component materials</b>	NO	NO	NO	NO	NO	NO	NO	NO	0

Source: Authors' elaboration on data provided by national industry associations.

## 6 CONSUMER SURVEY

This Chapter presents and analyses the results of the consumer online survey aimed at collecting information on consumers' behaviour when buying furniture products.<sup>142</sup> Specifically, the purpose of the survey was to assess the extent to which consumers can make informed choices about furniture products and are able to compare different products on the market. The survey was completed between October and November 2013 and covers a total of 5,072 respondents equally spread over ten EU Member States, namely: Italy, Germany, France, Austria, United Kingdom, Poland, the Netherlands, Romania, Sweden and Spain. These ten countries were selected in agreement with the European Commission on the basis of the following criteria: 1) consumption rate of furniture products 2) presence of measures setting out information requirements for furniture products put on the consumer market; 3) geographical balance.

The methodological approach to run the on-line survey is based on Computer Assisted Web Interviewing (hereafter, CAWI) and the use of online panels in order to reach a very wide audience.<sup>143</sup> To minimize the risk of introducing biases, the research team ran a pilot test of the questionnaire in one language. The survey contains 12 questions and is structured as follows: questions 1 to 4 focus on the sample's composition in terms of age, gender, level of education and occupation. This Section collects details on the respondents that can be useful to interpret the answers provided to the other parts of the questionnaire. Questions 5 to 9 collect general information on purchasing behaviour; finally, questions 10 to 12 aim at better understanding consumers' needs as regards information on furniture products. Extrapolation of survey results to the entire population of each country is not appropriate; however these results allow identifying some key trends that are relevant for the purpose of the present study, as explained below.

### 6.1 Sample composition

The interviewed sample was designed to be gender-balanced, with 51% of female respondents and 49% of male respondents. Age ranges (four in total) are normally distributed, as almost 70% of the sample is located in the two central ranges covering individuals between 27 and 55 years of age (see Figure 29). It is fair to add that these two age ranges are among the most relevant in an individual's lifetime when it comes to choosing and purchasing furniture products. Indeed, the share of respondents that reported a recent purchase or intention to purchase furniture in coming 12 months is 88% among those aged between 27 and 40, and 82% among respondents aged between 41 and 55. This share is also high among respondents below 26 years of age (83%),

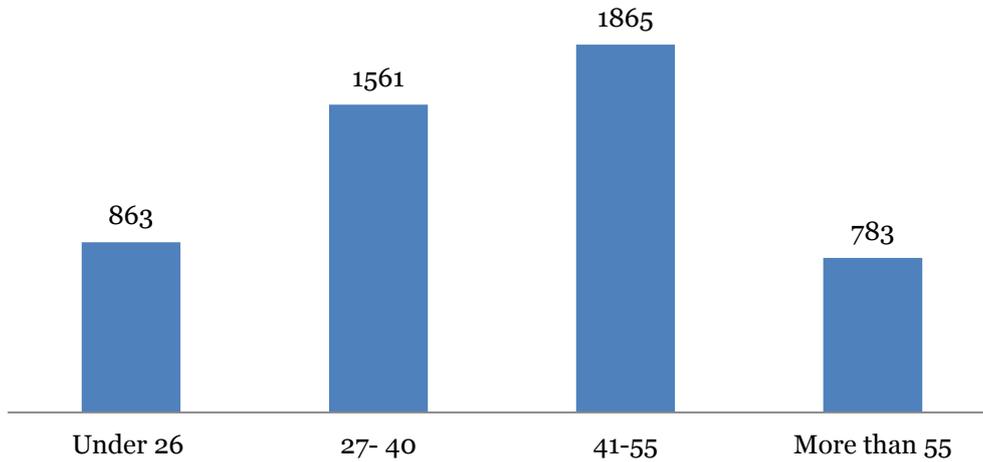
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<sup>142</sup> Country level data are shown in Annex 8.

<sup>143</sup> For further details on surveys using on-line panels, see the AAPOR Report (American Association Public Opinion Research) available at [http://www.aapor.org/AAPOR\\_Releases\\_Report\\_on\\_Online\\_Survey\\_Panels1.htm](http://www.aapor.org/AAPOR_Releases_Report_on_Online_Survey_Panels1.htm)

while it decreases to 77% for respondents aged over 55. All in all, the demographics of the respondents indicates that, despite its relatively small size when compared to the overall population of the ten countries surveyed, the sample offers a reliable pool to better understand the choices and behaviour of furniture products consumers.

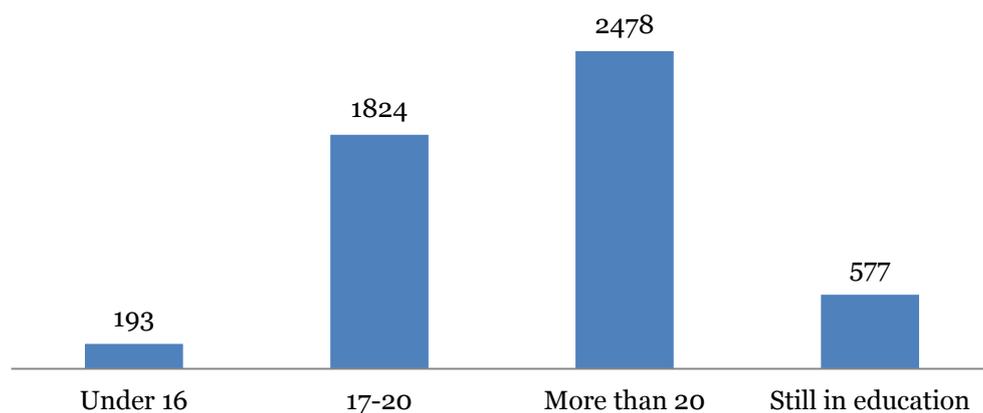
**Figure 29 Q2 – What is your age group (years)?**



Source: Authors' own elaboration

Figure 30 shows that almost 50% of the sample completed education after the age of 20, while 11 % of respondents are still in education. The remaining 39% completed their education before the age of 20. More precisely, 193 respondents finished their studies before 16 years of age, and 1,824 before age 20.

**Figure 30 Q3 – At what age did you complete your education (years)?**

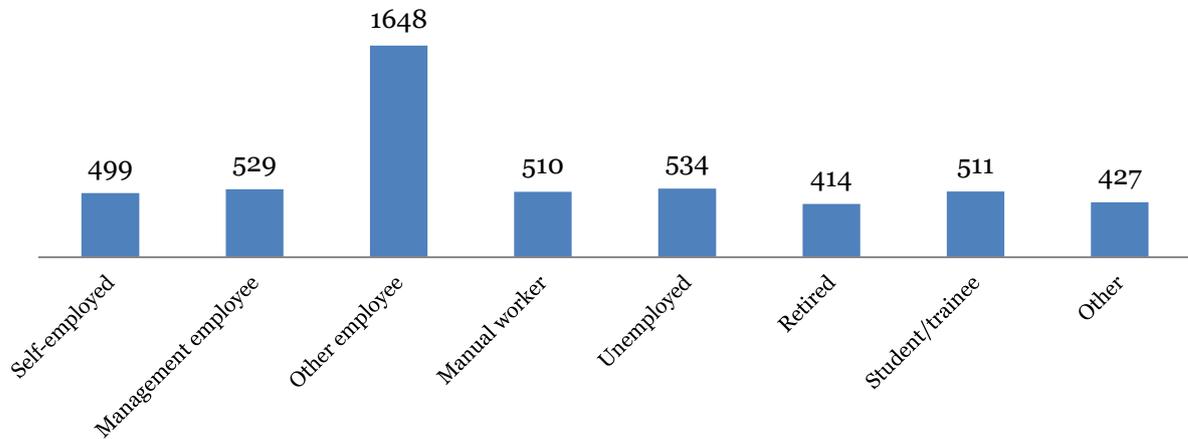


Source: Authors' own elaboration

As regards data on occupation, Figure 31 indicates that 32% of the respondents fall under the category “Other Employee”, while the rest of the sample is almost equally

split among the other options listed (i.e. self-employed, managers, manual works, unemployed, retired, student/trainee, and other). Note that 10% of the sample is constituted by unemployed respondents.

**Figure 31 Q4 – What is your occupation?**



Source: Authors' own elaboration

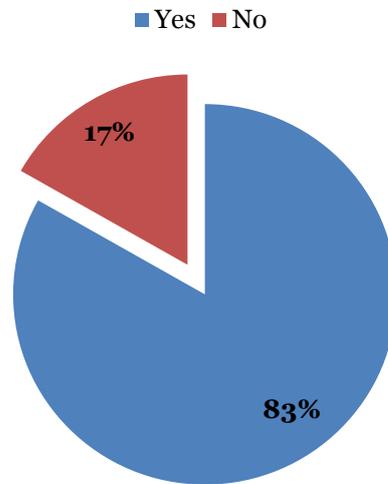
## 6.2 General information on purchasing behaviour

As mentioned, the second part of the questionnaire investigates purchasing behaviour in general terms. It starts by qualifying the sample with a question on whether respondents have bought furniture recently or intend to do so in the coming year. Respondents were also asked to specify which furniture items were or are going to be purchased. Secondly, questions aim at understanding if and how consumers gather information before buying furniture and from which sources this information is obtained. Finally, respondents were asked to provide details on which product characteristics they look for when they purchase furniture.

Eighty-three per cent of the respondents (see Figure 32) report having bought a piece of furniture in the last three years or are planning to do so in the coming 12 months. This criterion, although arbitrary, ensures that respondents have a relatively recent experience of purchasing furniture and are thus in a better position to remember and motivate their choices. As mentioned, the survey covers ten EU Member States. In this respect, it is worth noting that the percentages reported do not vary significantly at country level, as shown in Figure 33.<sup>144</sup>

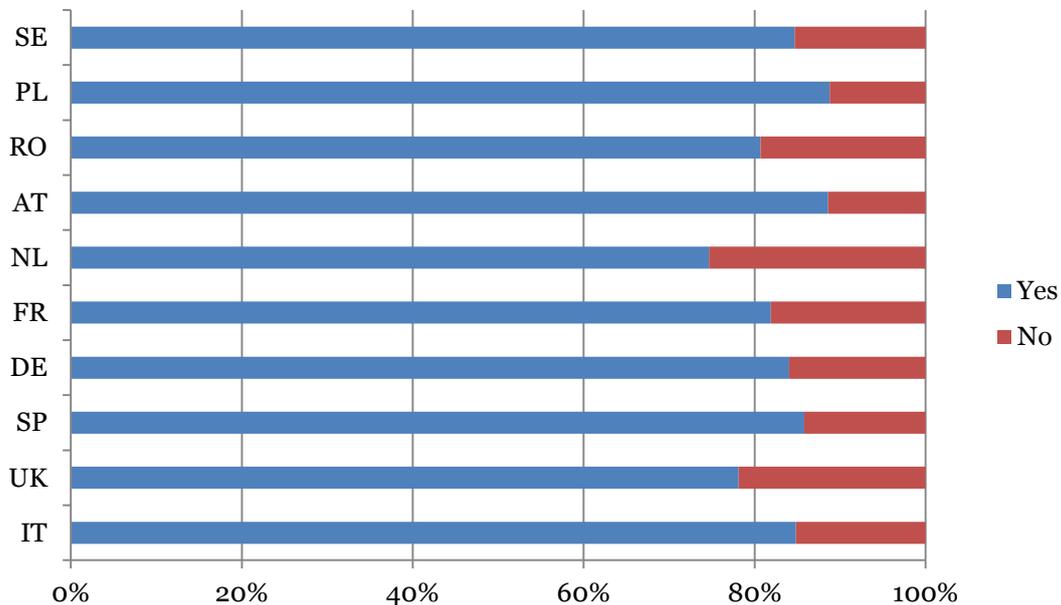
<sup>144</sup> This Report uses the following country abbreviations: AT (Austria); DE (Germany), FR (France); IT (Italy); NL (The Netherlands); PL (Poland); RO (Romania); SE (Sweden); SP (Spain); UK (United Kingdom).

**Figure 32 Q5 – Did you buy any furniture product over the last 3 years or are you planning to buy some in the coming 12 months?**



Source: Authors' own elaboration

**Figure 33 Q5 – Did you buy any furniture product over the last 3 years or are you planning to buy some in the coming 12 months - Breakdown per country**

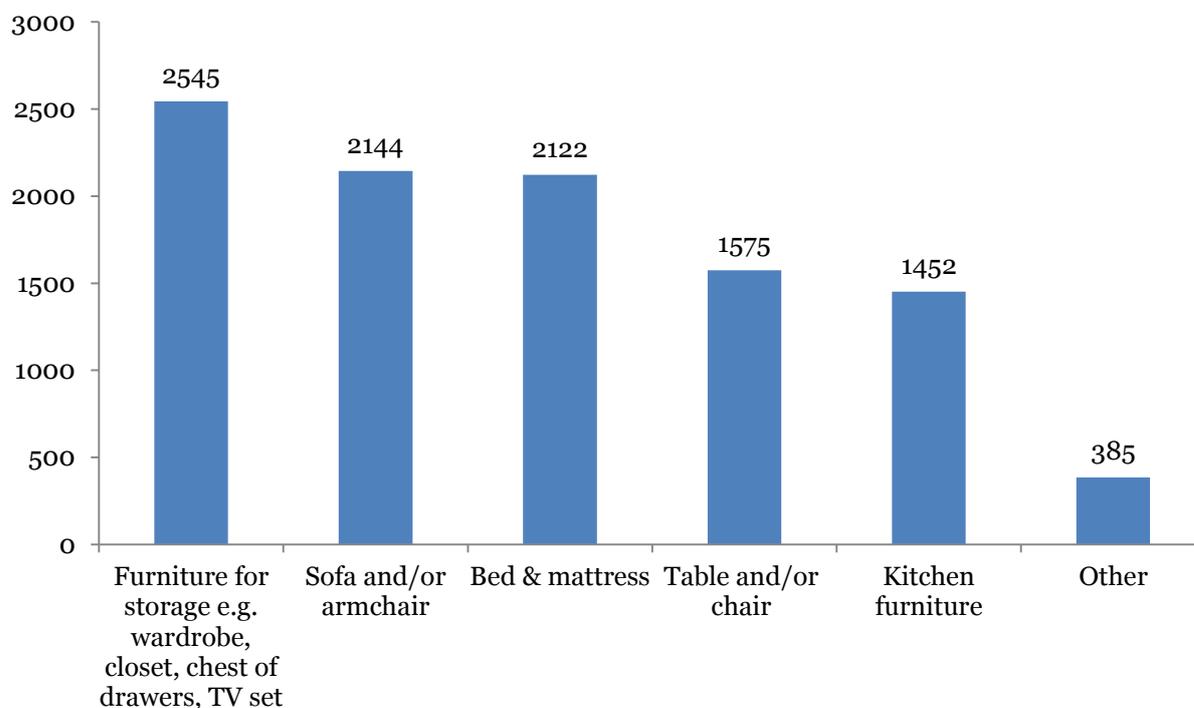


Source: Authors' own elaboration

As regards the items purchased, a considerable portion of respondents (50%) reported having bought or having the intention to buy furniture for storage (wardrobes, closets, chests of drawers, and so on), closely followed by sofas and armchairs, and bed and mattresses (both around 42%). A smaller share of respondents reported the purchase of kitchen furniture (29%). Furniture items that do not fall in any of these categories

(indicated as “other” in Figure 34) were reportedly the least purchased in the interviewed sample (8%). Many respondents (70%) reported having bought more than one item (e.g., 28% selected two items, 20% selected three pieces of furniture, and 2% six items).<sup>145</sup>

**Figure 34 Q6 – Which furniture product(s) did you buy over the last three years and/or intend to buy within the coming 12 months?**



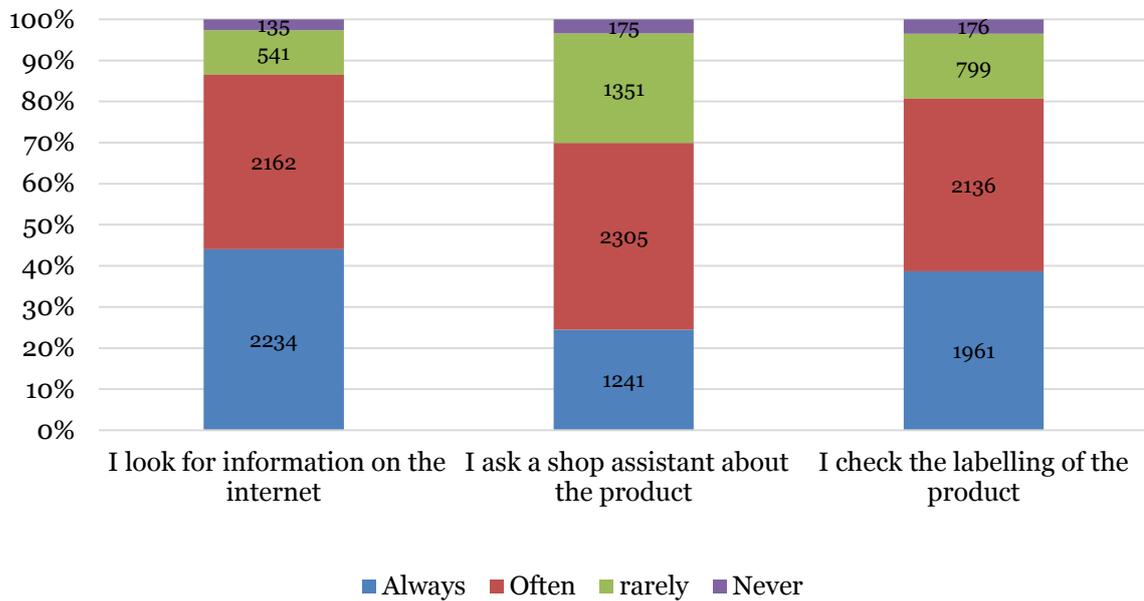
Source: Authors' own elaboration

To better interpret the answers collected in the final part of the survey on consumers' informational needs, the questionnaire investigated how consumers gather information on the furniture products they want to buy. A clear overview of the main sources of information consumers resort to is important to understand how informational gaps are filled during the purchasing process. Hence, the survey investigated to what extent respondents opt for online information search, look at product labels or consult shop assistants to compare different producers/retailers and products.

Figure 35 shows that the Internet is the preferred source for gathering details about a product and is consulted *always* or *often* by almost 90% of the respondents, closely followed by the label of the product (slightly more than 80%). Finally, the support of shop assistants appears less relevant when compared to the first two sources of information (70% of respondents use it *always* or *often*).

<sup>145</sup> The remaining 30% of respondents that reported the purchase or intention to purchase only one piece of furniture were distributed as follows: furniture for storage (29% of the cases), a sofa/armchair (27%), bed or mattress (17%), kitchen (12%), table/chairs (11%), other furniture (4%).

**Figure 35 Q7 – Do you use the following sources to get more information about the furniture product before its purchase?**



Source: Authors' own elaboration

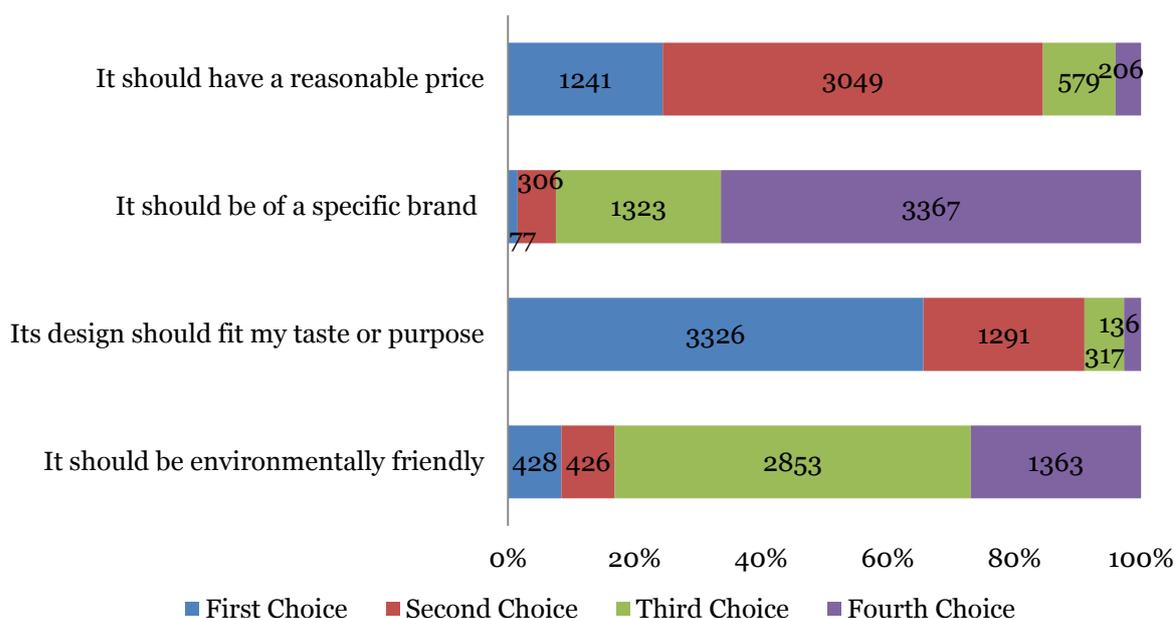
If one applies a top-two box and bottom-two box approach to the answers,<sup>146</sup> the UK, the Netherlands and Romania are the countries where the Internet is used the most as a source of information prior to the purchase of a furniture item. Romania, Spain and Poland are the top three countries when it comes to asking a shop attendant. Finally and particularly relevant for the present study, France tops the list of countries where respondents reported looking at the label of the product *always* or *often* before making a purchase, followed by Germany and Austria. France has a mandatory scheme (see above, Chapter X) requiring the provision of certain product information to consumers. Another country with a mandatory scheme in place (Italy) is however among the last three countries (together with Sweden and Poland) when it comes to checking the product label as a source of information. It should be noted that in numerical terms the differences between countries in the ranking is very small and should not be used to draw definite conclusions but rather to shed light on some of the differences that lie behind the average figures presented for the entire sample in Figure 35. Given that over 80% of the respondents declared having recently bought a piece of furniture or having the intention to do so in the next 12 months, a similar analysis was done as regards the type of product purchased. In this respect, we observed no relevant differences in the ranking between product types when it comes to sources of information.

In the next question, respondents were asked to rank in order of importance four product aspects that are commonly identified as key drivers when purchasing a piece of

<sup>146</sup> I.e., the answers *always* and *often* are grouped together (top-two boxes), while a second group is formed by the *rarely* and *never* answer (bottom-two boxes). The main drawback of this approach is that it loses in accuracy; yet it allows an effective summary of the most important results. For details on the answers provided at country level, see Annex 8.

furniture. Among the surveyed consumers, the design of the product fulfilling their taste and needs clearly ranks among the most important feature (see Figure 36), with over 60% of respondents indicating this item as their first choice, followed by price (60% of the respondents indicated it as their second choice). The environmental friendliness of the product was ranked as third choice by 56% of respondents, while branding appears as the least important criteria when purchasing furniture, and was ranked as the fourth choice by 66% of respondents. The ranking between the four product features was also analysed at the national level and no significant differences were found among the ten countries surveyed. Nonetheless, focusing only on the first choice selected by respondents, Sweden (31%), Spain (27%) and the Netherlands (28%) are countries with the highest number of price sensitive consumers, while Italy (14%) and France (20%) are well below the average when it comes to rank “a reasonable price” as the most important aspect. The latter countries have also the highest share of respondents interested in design of the product as first aspect (respectively 77% and 60%). German (14%), Spanish (12%), and Polish (10%) consumers pay attention to environment well above the average. “A specific brand” is a trivial aspect in all the surveyed countries.

**Figure 36 Q8 – When you buy furniture, how do you rank the following aspects of the product from the most to the least important?**

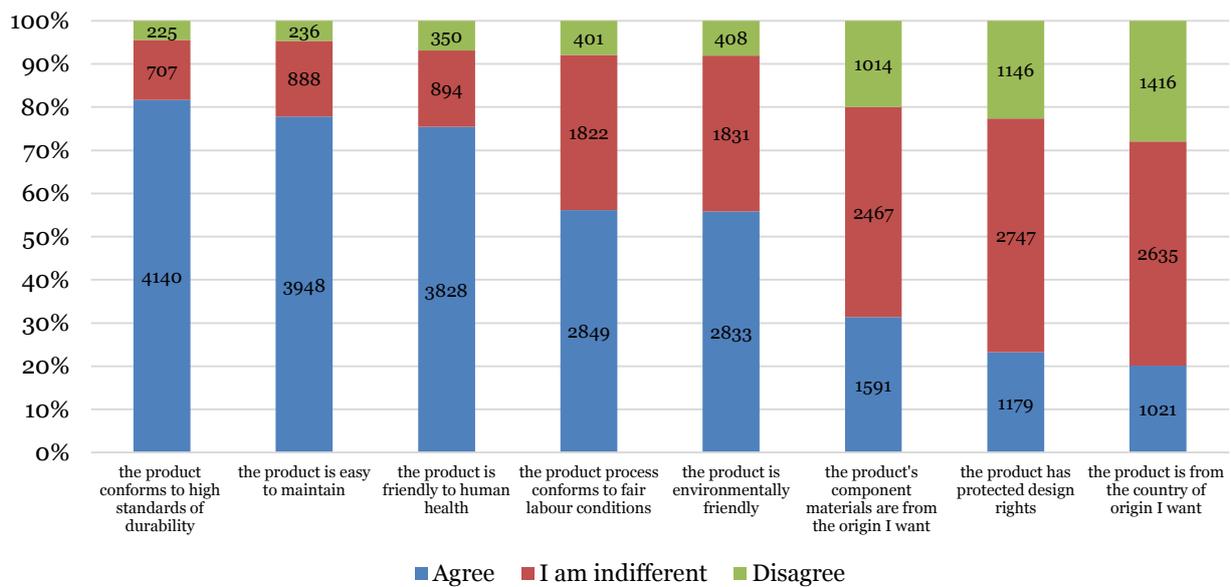


Source: Authors' own elaboration

Surveyed consumers were also asked whether they would be willing to pay more for a product with certain characteristics (see Figure 37). This question is crucial in the context of the present study, as it sheds light on which product features play a more important role in the choice of surveyed consumers. Bearing in mind all the caveats on the representativeness of the interviewed sample, the responses collected can serve as a general basis to understand which type of information could be usefully included in a possible initiative for furniture, as they are likely to respond to a demand from consumers. High standards of durability clearly ranks first among the furniture product

features for which respondents would be willing to pay a price premium (82% of respondents), followed by ease of maintenance (78% of respondents) and by the guarantee that the furniture product is friendly to human health (75%). The last requirement is already covered by existing rules on product safety at the EU and national level; however, the fact that survey respondents have put it among the product features for which they would be willing to pay more may either indicate that this is indeed a crucial concern for EU consumers and/or that consumers are not always sure that the product they purchase does indeed respect certain standards on human health. Sustainability requirements have an intermediate position, with 56% of respondents declaring that they would be willing to pay more for a product that was made respecting fair labour conditions and that is environmentally friendly. A lower share of respondents is willing to pay a price premium for furniture products from a specific country of origin (20% of respondents), followed by the guarantee that the furniture products respects design rights (23%) and the materials used in the furniture product are sourced from a specific country (32%).

**Figure 37: Q9 – I am willing to pay more for a furniture product if**



Source: Authors' own elaboration

Table 70 focuses on country level data and presents the net balance between respondents that agree on paying more for a certain product feature and those that disagree. In particular, it worth focusing on the last three columns of the table covering the product features for which surveyed consumers reported less willingness to pay a premium price. For the origin of the product's component material a relatively limited (when compared to the product features covered by the preceding columns in the table) but positive willingness to pay is observed in most countries with the exception of Sweden. In France this net differences reaches 37%. The picture is more mixed for the last two attributes. In five countries (Austria, Germany, Spain, Sweden and the Netherlands) a higher proportion of respondents are against paying a premium price

for protected design rights, while the share of those willing to pay a price premium for this feature in the remaining five countries ranges from 1% (United Kingdom) to 37% (Romania). In six countries (France, Romania, Spain, Sweden, the Netherlands and the United Kingdom) a higher proportion of respondents are against paying a premium price for a specific country of origin. The willingness to pay for a specific country of origin is mildly positive in the remaining four countries in our sample but never goes above 6% (Germany and Poland). As shown in the figure above, those three attributes were also those with the highest share of respondents that declared being indifferent in terms of willingness to pay. Conversely, technical performance features such as durability and ease of maintenance elicited strong “net support” (80% and 74% respectively) overall. Finally, human health friendliness and sustainability aspects have a more intermediate net share of supporters. A similar analysis was performed by analysing data per type of product purchased and no relevant differences emerged.

**Table 70 Net balance between respondents that agree on paying more for selected attributes and those that disagree**

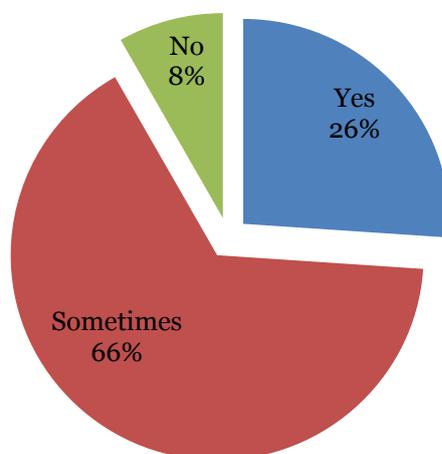
Country	Durability	Ease of maintenance	Human health friendliness	Fair labour conditions	Environmental friendliness	Origin of component materials	Protected design rights	Country of origin
Austria	75%	74%	77%	53%	48%	6%	-26%	1%
France	62%	64%	63%	47%	44%	37%	19%	-7%
Germany	78%	70%	77%	53%	50%	19%	-19%	6%
Italy	93%	75%	89%	76%	77%	15%	14%	3%
Poland	79%	81%	74%	39%	47%	12%	5%	6%
Romania	92%	86%	79%	38%	50%	11%	37%	-22%
Spain	68%	74%	72%	59%	55%	11%	-7%	-19%
Sweden	71%	67%	46%	30%	41%	-7%	-3%	-13%
The Netherlands	75%	66%	54%	44%	27%	11%	-11%	-33%
United Kingdom	77%	73%	69%	48%	48%	0%	1%	-1%
<b>Total</b>	<b>80%</b>	<b>74%</b>	<b>55%</b>	<b>45%</b>	<b>39%</b>	<b>10%</b>	<b>-3%</b>	<b>-8%</b>

Source: Authors' own elaboration

### 6.3 Consumers' needs on furniture products information

As anticipated, the last part of the survey aims at improving the understanding of consumers' needs as concerns information on furniture products. Respondents were asked whether they consider the product information displayed in the store sufficient to make an informed choice when they buy furniture (see Figure 38). A considerable share of respondents (66%) declared this information to be sufficient at times, and only 26% declared they have enough information. A small share of consumers (8%) reported finding the product information displayed in shops insufficient to make an informed choice.

**Figure 38 Q10-When you buy furniture, is the product information displayed in the store sufficient?**



Source: Authors' own elaboration

A more fine-grained analysis of responses shows, rather unsurprisingly, that consumers satisfied with available information are more likely to be found at the two extremes of the market, namely among the price-sensitive and brand-sensitive clusters. Consumers that are less satisfied with the information received were more frequently found among those interested in environmental characteristics of the product (see Table 71).

**Table 71 Q10 – When you buy furniture, is the product information displayed in the store sufficient? – Breakdown for most important aspect considered by consumers when buying furniture**

		10. When you buy furniture, is the product information displayed in the store sufficient?				
		Yes	Sometim es	No	Top box (Yes/Total)	Bottom box (No/Total)
8. When you buy furniture, how do you rank the following aspects of the product from the most to the least important? [Only First Choice]	<b>It should be environmentally friendly</b>	117	257	54	27%	13%
	<b>It should be of a specific brand</b>	31	43	3	40%	4%
	<b>It should have a reasonable price</b>	354	796	91	29%	7%
	<b>Its design should fit my taste or purpose</b>	820	2235	270	25%	8%

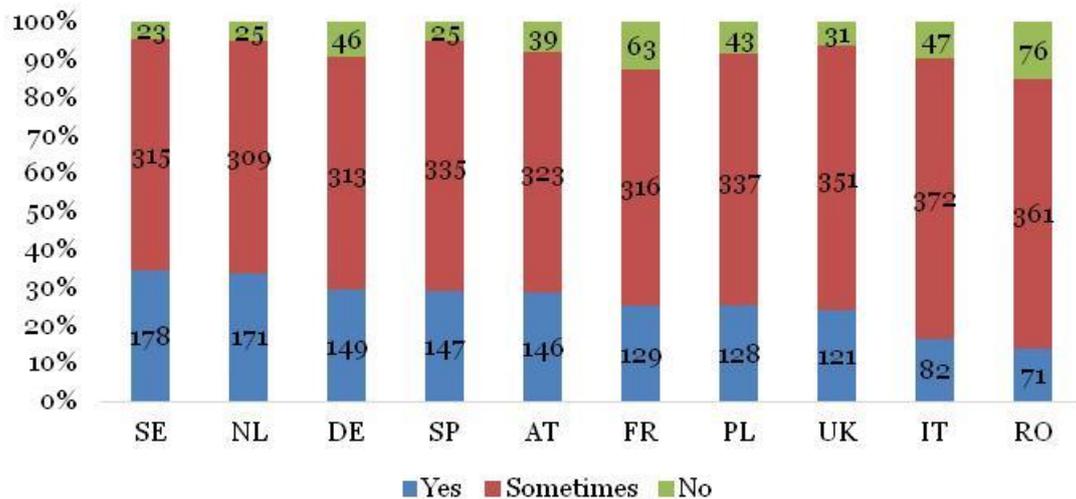
Source: Authors' own elaboration

We also investigated whether there are national differences among responses regarding the level of satisfaction on information provided at the point of sale (see Figure 39). While differences are not significant among the ten countries surveyed, Dutch and Swedish consumers appear to be more satisfied than their counterparts in other

countries as regards the level of information displayed in shops.<sup>147</sup> Conversely, the lowest share of respondents reporting full satisfaction on information received is found in Romania, followed by Italy. Because of the limitation of the sample size it is not possible to draw any correlation between the level of consumer satisfaction on the information provided and their place of residence that could be used to establish empirical confirmation of the effectiveness of existing schemes from the consumer's viewpoint.<sup>148</sup>

We also cross-checked these results with the answers to question 7 on the source of information most often selected by consumers by applying a top-two and bottom-two box approach. There are no significant differences in reported levels of satisfaction for the three different sources of information (i.e., Internet, product label, and shop assistance); this is also the case when answers are checked by type of product purchased.

**Figure 39 Q10 – When you buy furniture, is the product information displayed in the store sufficient – Breakdown per country**



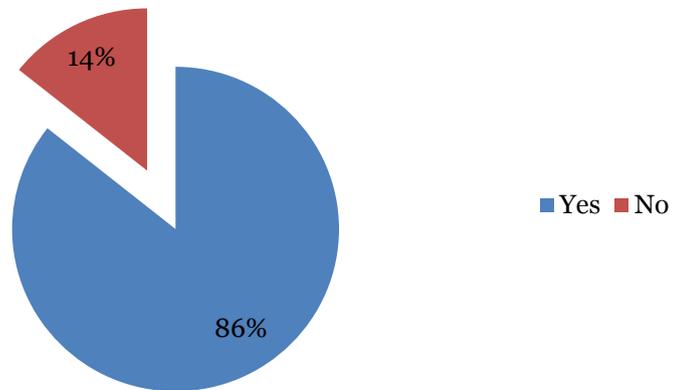
Source: Authors' own elaboration

<sup>147</sup> In these two countries consumers are also much more likely to use the Internet rather than product label or asking a shop assistant as a means to gather information before purchasing a furniture product. As a result, it can be argued that these consumers search for a lower amount of information at the point of sale.

<sup>148</sup> Yet, it is worth recalling (see Chapter 5) that Romania has a voluntary eco-label for mattresses but this measure suffers from an extremely limited uptake. In Italy instead, there is a mandatory scheme in force, but the results of the stakeholder consultation and the stakeholder workshop indicate that it is very poorly enforced. Moreover, Italian consumers appear relatively less price-sensitive than in the other Member States surveyed for this study, which could also explain the lower level of satisfaction concerning the information displayed in shops.

The survey asked consumers whether they would like to receive product information in a standardized format to compare furniture products displayed in shops (Figure 40).

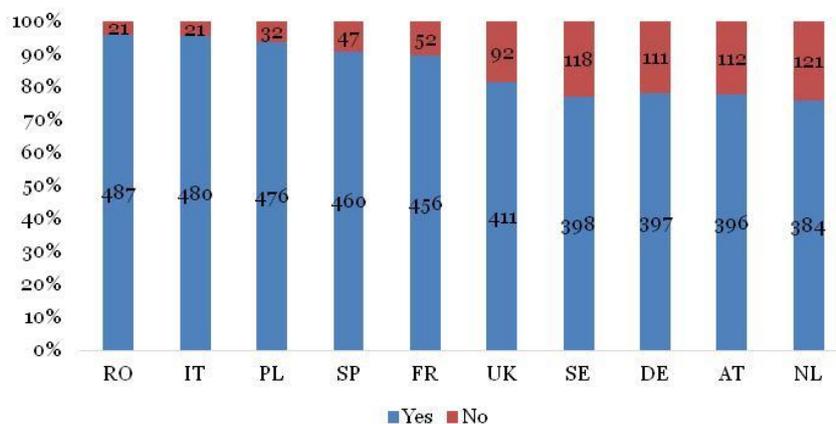
**Figure 40 Q12 – Would it be important for you to have such information provided in a standardised format, in order to allow for comparison between furniture products?**



Source: Authors' own elaboration

The overwhelming majority of respondents (86%) answered positively. There are no major differences on this point among the surveyed Member States (Figure 41), although Italian, Romanian and Polish consumers exhibit a stronger preference for a standardized format. Italy and Romania were also the two countries where a slightly larger share of respondents reported that an insufficient level of product information is displayed in shops; yet, the surveyed sample is too small to draw definite conclusions on this point, as the difference with other countries is limited and could be explained by a multitude of factors ranging from a real informational gap to a more marked attention to product information in those countries, and so on. When controlled for the type of product purchased and for the preferred source of information (i.e., Internet, product label, shop assistant), no notable differences emerged in terms of preferences for providing information in a standardized format.

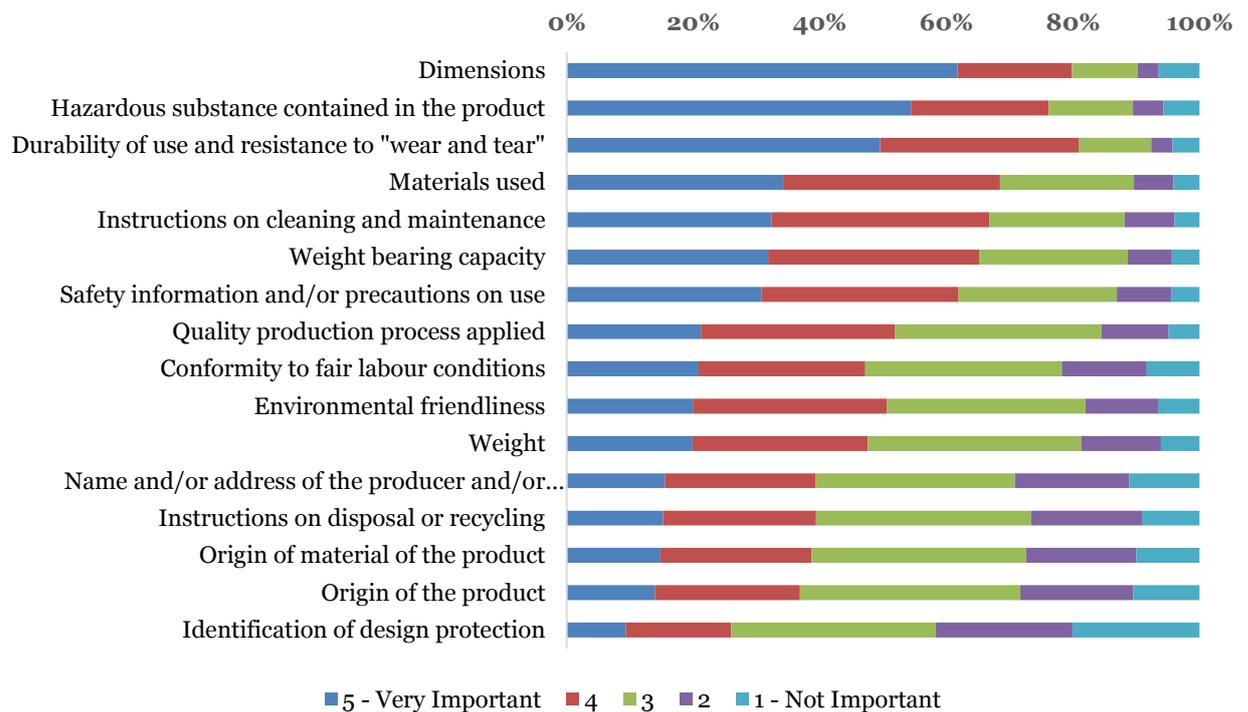
**Figure 41 Q12 – Would it be important for you to have such information provided in a standardised format, in order to allow for comparison between furniture products? Breakdown per country**



Source: Authors' own elaboration

Finally, the questionnaire further investigated consumers' demand for certain types of furniture product information by asking respondents to rank on a scale from 1 to 5 (where 1 indicates that the information is considered as "not important" and 5 as "very important") a selection of items (see Figure 42). The list of items was developed largely on the basis of the comparative analysis of existing product information schemes (see Chapter 5). When applying a top-two box approach (i.e. grouping items that were ranked with a 4 or a 5 by the 5,072 respondents), durability and resistance to "wear and tear" tops the list (81%) closely followed by dimensions (80%) and hazardous substances contained in the product (76%). Materials used and instructions on cleaning and maintenance are reportedly relevant pieces of information for 68% of surveyed consumers; information on the environmental friendliness of the product was ranked with a 4 (important) or a 5 (very important) by 51% of respondents, closely followed by information on conformity with fair labour conditions (47%). Following the top-two box approach, the identification of design protection seems to play an important role for 26% of respondents, and items related to the indication of the name and address of the producer/importer, the origin of the product and of its component materials were each ranked as "important/very important" by 40% of respondents.

**Figure 42 Q11 – How important is it for you to receive the following information?  
(From 5-very important to 1-not important)**



Source: Authors' own elaboration

## 6.4 Concluding remarks

The results of the Consumer Survey show that price is not the main driving element behind consumer choice when it comes to furniture products, although it remains the first factor for about 20-25% of respondents in our sample. This is in line with other estimations on the share of the purely price-sensitive consumers on the market. On the opposite end, product brand appears as the least relevant criterion for most of the surveyed consumers, with the exception of 10-15% of respondents that rank it as their first or second criterion for choice, roughly corresponding to what is normally considered the upper segment of the market. In term of sources of product information, Internet clearly ranks as the top source in our sample. While one should bear in mind that the survey was undertaken online and this might somewhat overestimate the preference for Internet as a means of information, its growing importance in all countries considered was confirmed during interviews to various groups of stakeholders and should thus be taken into account also when exploring possible options to increase the quality and quantity of information provided to consumers of furniture products.

In terms of satisfaction as regards the information received, 26% of respondents declared to be fully satisfied and these are mostly found at the two extremes of the market, namely among the purely price-sensitive consumers and among the brand-sensitive ones. Sixty-six per cent of consumers reported being satisfied only sometimes. Lack of satisfaction was found in particular among those that are interested in environmental features. Levels of satisfaction were lower in some Member States (Italy and Romania) and higher in others (Sweden and the Netherlands). The data collected do not allow us to draw specific conclusions on the links between the level of satisfaction and the means used to get the information (i.e., Internet, product label, shop assistant) or the type of product purchased. Because of the limited size of the sample, we could not derive any correlation between the level of consumer satisfaction on the information provided and the country of residence that could be used to establish empirical confirmation of the effectiveness of existing schemes (e.g., mandatory schemes in Italy and France) from the consumer's viewpoint.

Finally, as regards consumer demand for some specific type of information, durability and resistance to "wear and tear" ranks first, followed by product dimensions, and hazardous substances contained in the product. The least sought after piece of information is the identification of design protection.

## **7 PUBLIC ONLINE CONSULTATION ON INFORMATION PROVIDED TO CONSUMERS ABOUT CHARACTERISTICS OF FURNITURE PRODUCTS**

### **7.1 Introduction and methodology**

A public online consultation to gather stakeholders' views on the possible need for and impacts of enhanced information accompanying furniture products sold in the EU was launched on 11 December 2013. The consultation was officially closed on 18 March 2014, after 14 weeks of data collection. Contributions were collected via a web questionnaire available on the survey platform SurveyMonkey®. This questionnaire consisted of three main parts: i) general information and identification of information needs and problems related to its provision; ii) impact assessment and policy options; iii) comments and final remarks.

While questions included in parts two and three were common to all types of respondent, the first part comprised five different sets of questions tailored to collect specific information from: i) individuals; ii) consumer organisations; iii) business-enterprises, industry federations-associations, and trade unions; iv) public administrations and technology institutes/standardization bodies; v) other stakeholders (residual category). In total, 94 complete replies were received.<sup>149</sup> What follows presents an analysis of all these responses. After an overview of aggregated results, the views expressed by the different stakeholder groups and, where relevant, by specific sub-groups are analysed in detail.

### **7.2 Results**

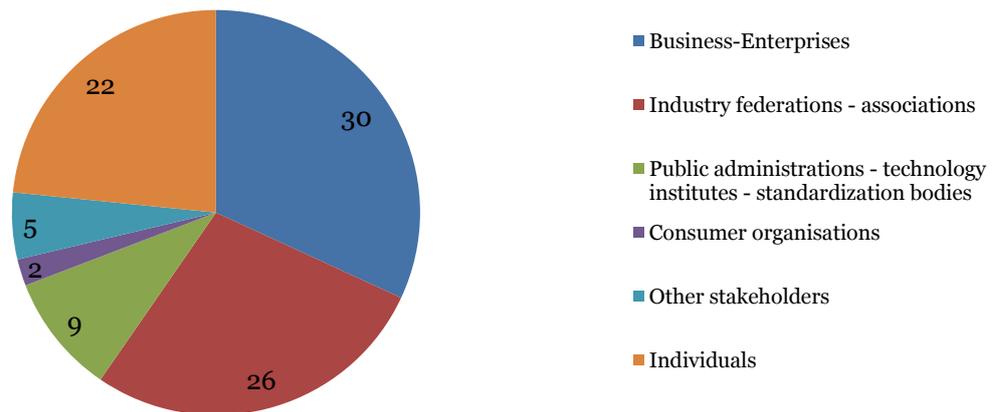
As mentioned, 94 responses were analysed. In terms of breakdown per stakeholder group, the majority of respondents were business-enterprises (32%), followed by industry federations-associations (28%), individuals (23%, see Figure 43), public administrations and technology institutes/standardization bodies (10%), other stakeholders (5%, including a non-profit organisation, a university, two researchers, and a consultant), and consumer organisations (2%). A detailed examination of the contributions provided by each group is presented below. To improve the accuracy of the analysis, some groups have been further divided into sub-groups, given the relatively higher number of responses collected and the sharp heterogeneity detected

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<sup>149</sup> Specifically, 91 complete contributions were submitted online and an additional four full contributions were sent directly to the European Commission and are processed in our analysis. It is worth stressing that responses collected online are deemed complete only if respondents submitted them by clicking the “done” button at the end of the web questionnaire. Nonetheless, some of these respondents decided to skip some questions; hence complete replies might still have some questions left unanswered.

among identified sub-groups, highlighted by the striking difference between those based in Italy and those based in other Member States. In particular, the group “business-enterprises” is divided in two sub-groups i) enterprises headquartered in EU Member States, except in Italy (11.7%); and ii) enterprises headquartered in Italy (20.2%). The group “industry federations-associations” is also divided in two sub-groups: i) associations representing wholesalers/retailers (5.3%);<sup>150</sup> and ii) associations representing manufacturers (22.3%).<sup>151</sup>

**Figure 43 Number of respondents by stakeholder group**



*Note:* the group “other stakeholders” includes a non-profit organisation, a university, two researchers, and a consultant.

*Source:* Authors’ own elaboration

Prior to analysing the feedback provided by each stakeholder group, we provide a graphic summary of the main views that emerged during the consultation by the means of a matrix based on replies given to two selected questions (see Figure 44), which were common and of relevance to all stakeholders groups.<sup>152</sup> Specifically, the x-axis measures the percentage of respondents included in each group that either “fully disagree” or “somewhat disagree” (bottom two boxes approach) with the following statement: “information displayed in shops to consumers on furniture products characteristics is sufficient to make informed choices”. Accordingly, stakeholders placed in the right part of the graph believe that the market for furniture is affected by an informational failure. The y-axis instead measures the percentage of respondents that either “fully agree” or “somewhat agree” (top two boxes approach) with the statement: “the requirements on

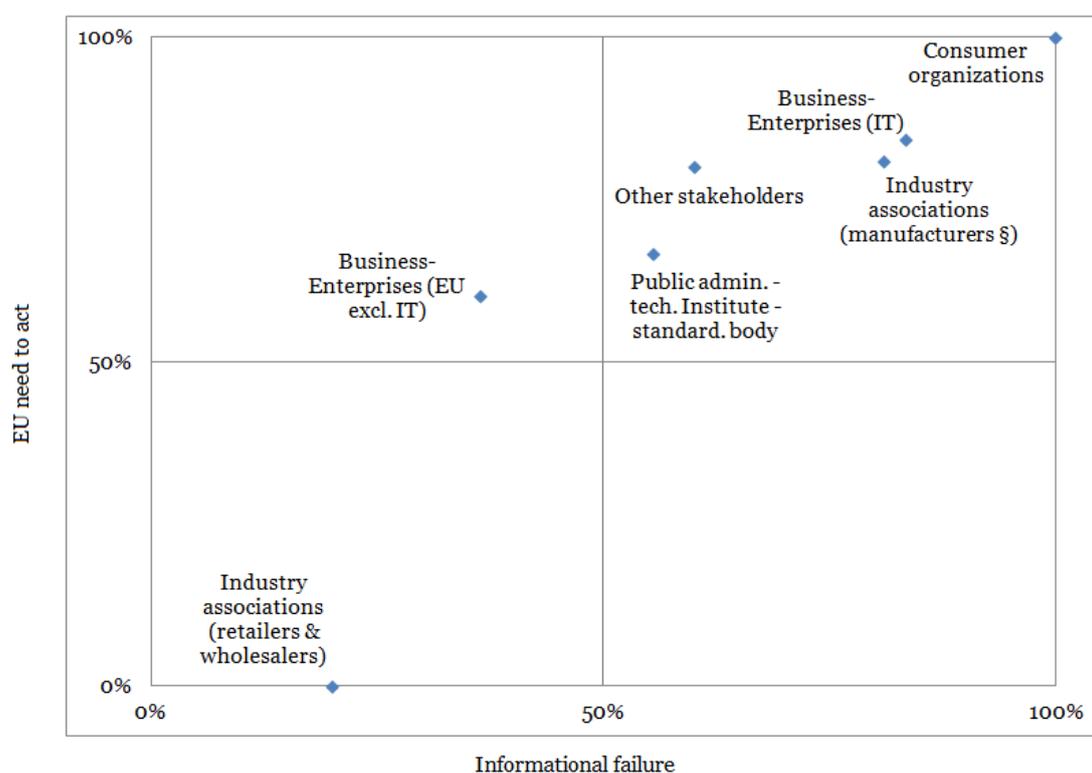
<sup>150</sup> A sub-group including only retailers cannot be singled out among business-enterprises, as only one responding company operates exclusively in retailing.

<sup>151</sup> Please note that almost one third of the associations included in this group represent not only manufacturers, but also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

<sup>152</sup> Please note that individuals are not included in this matrix. Only 22 individuals submitted their contributions; hence, they cannot be considered a representative sample of EU consumers, whose views are better expressed by two consumer organisations (one European and one German) that provided their response to the consultation and are included in the matrix.

information to be provided/displayed to consumers on characteristics of furniture products should be defined at the European level and apply on a mandatory basis". As a result, stakeholders placed in the upper part of the graph are those calling for an action by EU institutions to set out information requirements for furniture. Looking at specific groups, industry associations representing retailers/wholesalers are the only defenders of the *status quo*. Companies based in EU Member States, except in Italy do not perceive a strong problem of asymmetric information in the market for furniture. Nonetheless, the majority of respondents in this group still advocated for EU intervention as they experienced problems with other actors in their supply chain as regards the provision of product information to consumers, and were also negatively affected by competitors' non-compliance with national requirements for consumer information obligations. Finally, stakeholders in all remaining groups (consumer organisations, industry federations - associations representing manufacturers, public administrations - technology institutes - standardisation bodies, and other stakeholders) indicated their perception of an informational failure and on the need for an EU action.<sup>153</sup>

**Figure 44 Stakeholder map**



*Note:* § This stakeholder group includes industry associations that represent the interests of manufacturers. Please note that one third of these associations represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

*Source:* Authors' own elaboration

<sup>153</sup> Note that the questionnaire contained different possibilities of EU action, ranging from less intrusive measures such as the provision of information/guidelines to the adoption of a mandatory initiative. Most stakeholders that advocated EU action also opted for the most stringent regulatory approach.

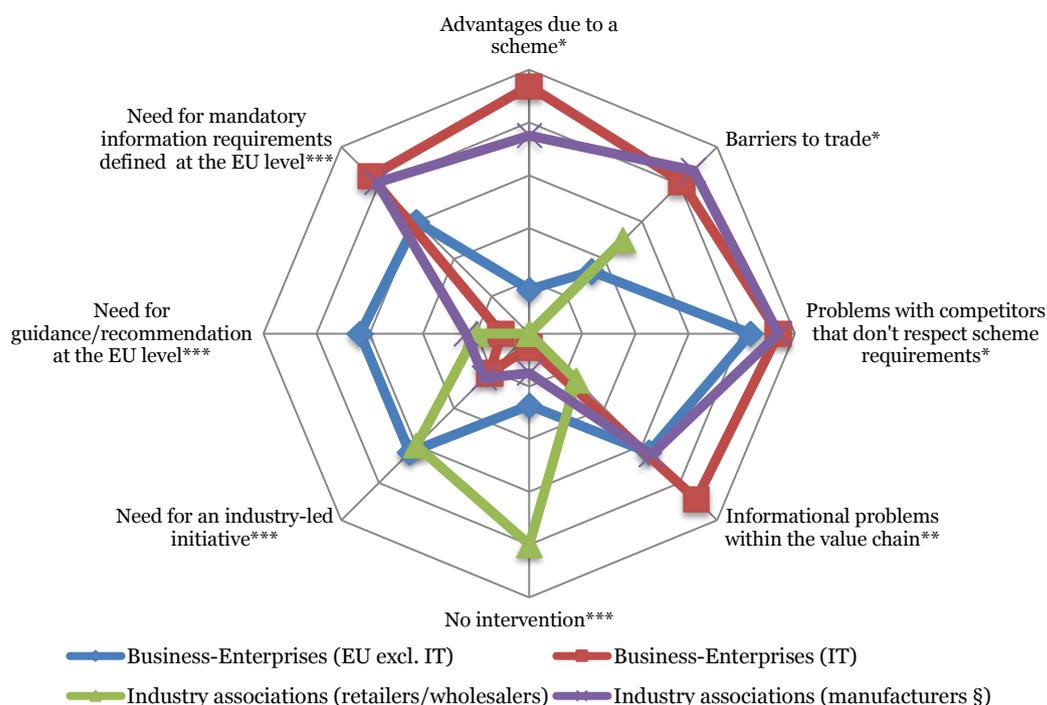
To better understand the potential problems affecting the EU furniture industry, Figure 45 focuses on the replies provided by companies and industry associations and shows: i) the impacts of existing schemes in terms of perceived advantages, barriers to trade, and problem with competitors that do not comply with existing information requirements; ii) informational problems experienced within the value chain; iii) the support for different forms of policy intervention at the EU level, ranging from no intervention to the introduction of mandatory information requirements defined at the EU level.

Companies based in Italy and industry associations representing manufacturers provided comparable replies. They acknowledge some competitive advantages stemming from the presence of national schemes. Nonetheless these schemes reportedly create barriers to trade and can result in unfair competition when some competitors do not comply with mandatory requirements. Informational problems along the value chain also exist and impinge on the effectiveness of schemes when it comes to providing valuable information to consumers. As a result, these two groups of stakeholders asked for a strong EU intervention to set information requirements for furniture products to be applied on a mandatory basis.

Companies based in other Member States are also affected by problems with competitors that do not respect existing information requirements and by informational problems along the value chain; hence, they ask for changing the status quo, but they are indifferent between an industry-led initiative, guidance/recommendations at the EU level, or the introduction of mandatory requirements across the EU.

Conversely, retailer associations reported some impact of the existing schemes on barriers to trade and information problems within the value chain. In addition, those who responded did not perceive that their members get any advantages from the existing schemes. As regards possible courses of action, retailer associations would like to keep the situation as it is or, to a lesser extent, would be in favour of an initiative taken by industry players together with relevant stakeholders.

**Figure 45 Impacts of existing schemes, informational problems within the value chain, and need for intervention for companies and industry associations**



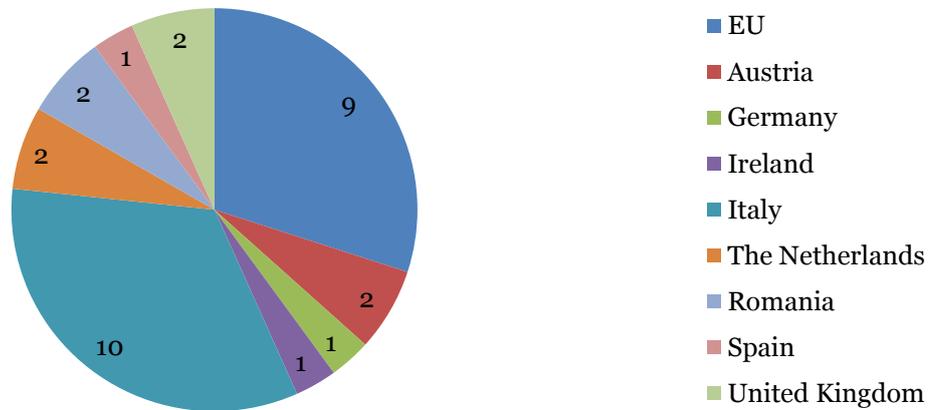
Notes: The centre of the radar chart represents 0% of respondents, the chart edge represent 100% of respondents. \*Percentage out of respondents aware of informational schemes. \*\* Percentage out of total respondents. \*\*\* Top-two boxes. § This stakeholder group includes industry associations that represent the interests of manufacturers. Nonetheless, almost one third of the associations included in this group represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain. Source: Authors' own elaboration

### 7.2.1 Business - enterprises

Companies participating to the public consultation cover eight EU Member States (see Figure 46), and a majority of respondents (33%) were located in Italy. Taking a closer look at respondents, all the companies that have generically indicated “EU” as the country where they are based rather than a specific Member State are *de facto* Italian businesses<sup>154</sup>; in other words, more than 50% of the stakeholders included in this group are based in Italy. Views expressed by Italian respondents show a high level of homogeneity among each other and some divergences with those of other EU companies. Therefore, data are further processed by splitting this stakeholder group into two sub-groups: i) enterprises headquartered in EU Member States, except in Italy; and ii) enterprises headquartered in Italy.

<sup>154</sup> To be more specific, according to the Italian Business Register (available at <https://www.registroimprese.it/en/web/guest/home>), these companies are headquartered in Italy.

**Figure 46 Enterprises by country where headquarters are located**

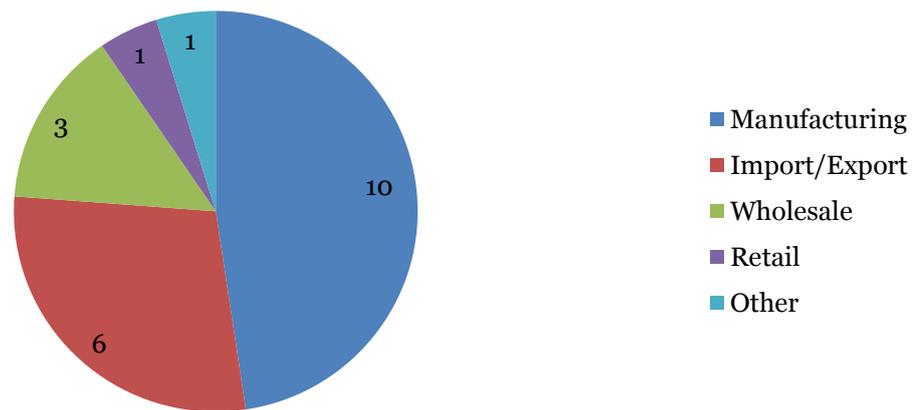


Source: Authors' own elaboration

*7.2.1.1 Business - enterprises headquartered in the EU except in Italy*

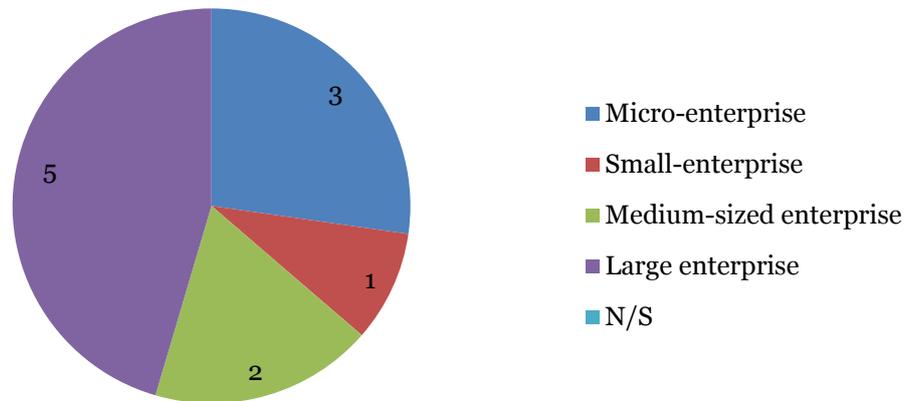
Ten out of 11 enterprises based in EU countries other than Italy are involved, i.a., in the manufacturing segment (see Figure 47). One company is exclusively operating in the import/export segment. This stakeholder sub-group includes only actors that are part of the furniture supply chain and covers all types of furniture products. As regards company size, there are three micro-enterprises, one small company, and two medium ones (see Figure 48).

**Figure 47 Enterprises headquartered in EU except in Italy by segment**



Source: Authors' own elaboration

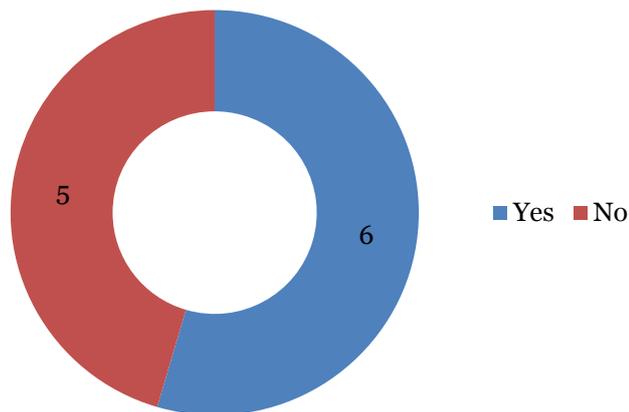
**Figure 48 Enterprises headquartered in EU except in Italy by company size**



Source: Authors' own elaboration

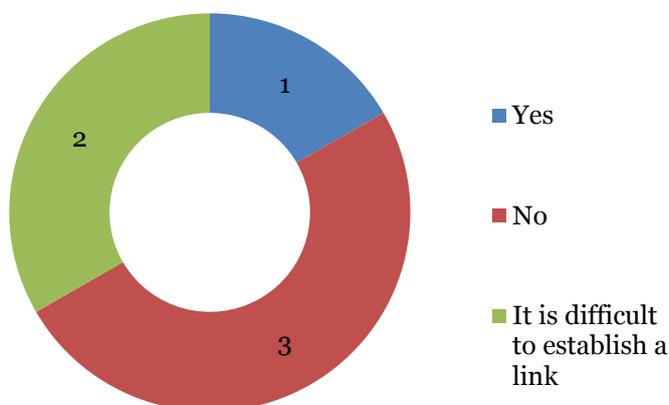
More than half of the stakeholders included in this sub-group are aware of measures requiring the provision of information about furniture products to consumers (see Figure 49). Nonetheless only one company (based in Austria) reported to experience an advantage due to such measures in terms of better reputation for product/services and lower litigation costs (see Figure 50 and Figure 51)

**Figure 49 Awareness of measures requiring the provision of information about furniture products to consumers among enterprises headquartered in EU except in Italy**



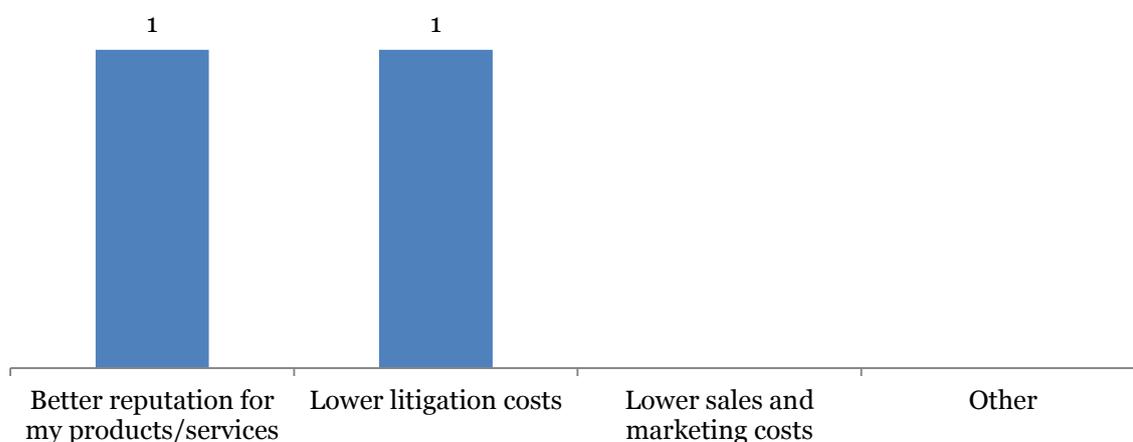
Source: Authors' own elaboration

**Figure 50 Enterprises headquartered in EU except in Italy that have experienced an advantage in the last five years due to a specific measure**



Source: Authors' own elaboration

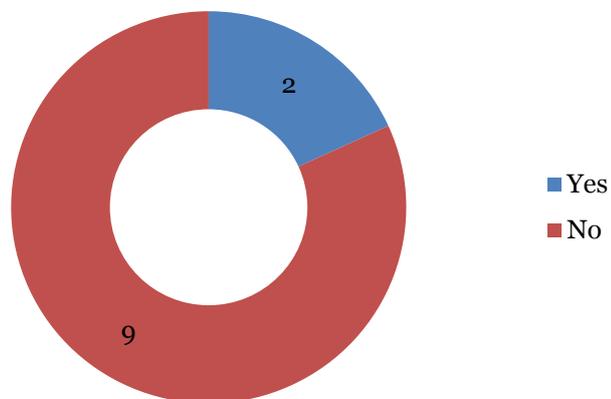
**Figure 51 Advantages experienced in the last five years due to a specific measure by enterprises headquartered in EU except in Italy**



Source: Authors' own elaboration

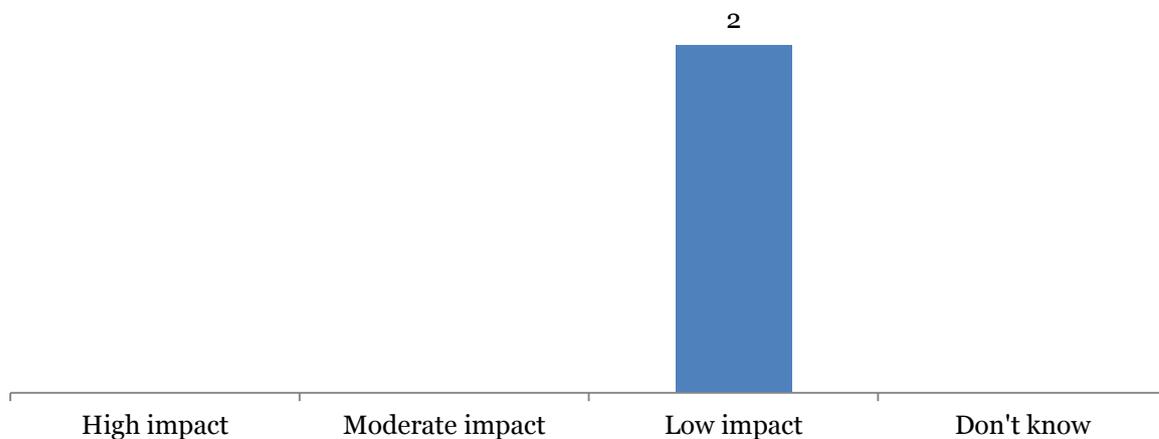
Only two companies reported experiencing some impact caused by divergences between the mandatory schemes in force in the countries they trade with. The same companies also declared that the effect of those differences on their willingness to trade cross-border is low (see Figure 52 and Figure 53) and consisting of an increase in administration, sales and marketing costs in the last five years (see Figure 54) that, according to one player, is lower than 1% of its annual turnover. In particular, one company identified two main barriers to trade: i) the need to adapt the layout of its catalogue in different Member States due to different information obligations at national level; ii) the difficulties of managing stocks of labelled products and move them between Member States with diverging labelling requirements.

**Figure 52 Enterprises headquartered in EU except in Italy that are impacted by differences in mandatory schemes in country they trade with**



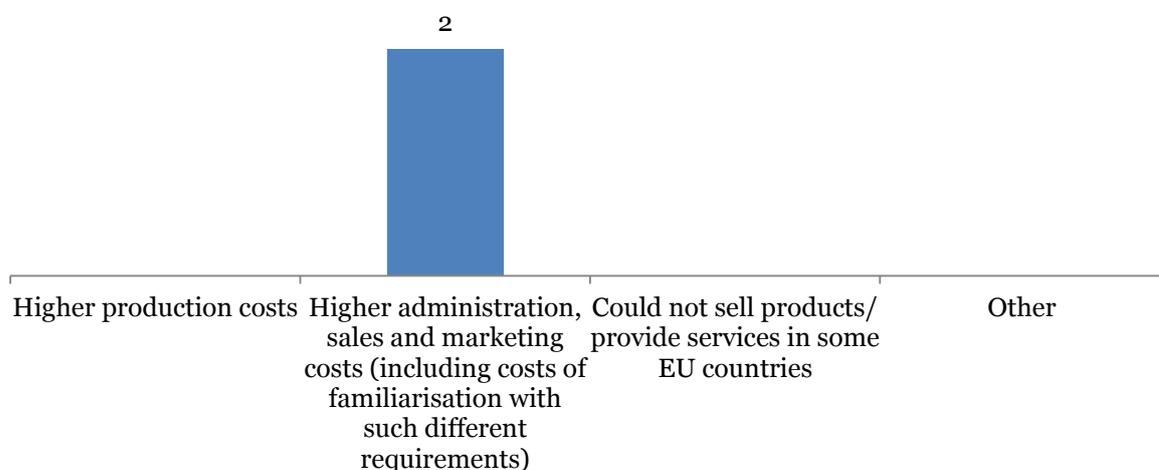
Source: Authors' own elaboration

**Figure 53 Impacts of different mandatory schemes on the willingness to trade cross-border within the EU of enterprises headquartered in EU except in Italy**



Source: Authors' own elaboration

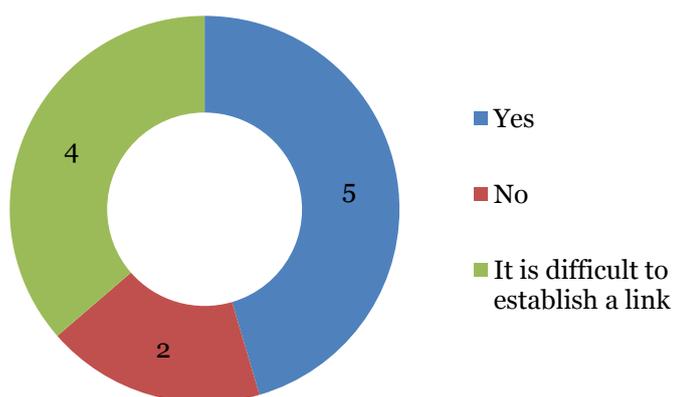
**Figure 54 Problems experienced due to different mandatory schemes by enterprises headquartered in EU except in Italy**



Source: Authors' own elaboration

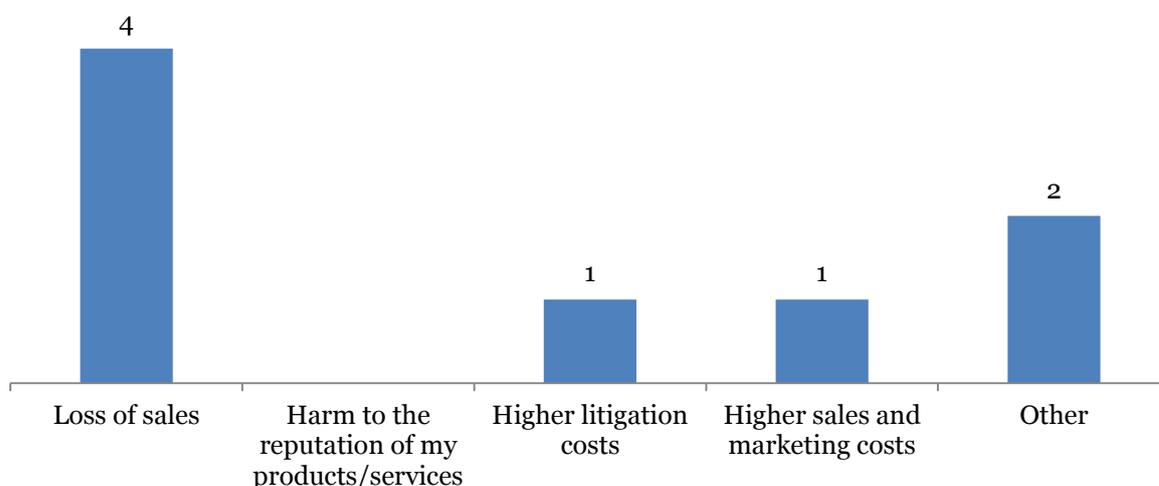
Over the same period, five companies out of 11 reported being harmed by competitors that do not comply with binding provisions on information provided to consumers on furniture product characteristics (see Figure 55). These companies experienced loss of sales that were estimated in the range 0-4% of the annual turnover by some stakeholders (see Figure 56).

**Figure 55 Enterprises headquartered in EU except in Italy that are impacted by competitors' non-compliance with national requirements for consumer information obligations**



Source: Authors' own elaboration

**Figure 56 Problems experienced by enterprises headquartered in the EU except in Italy due to competitors' non-compliance with national requirements for consumer information obligations**

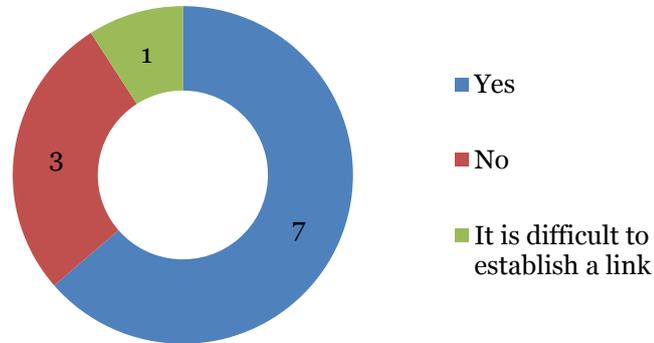


Source: Authors' own elaboration

More than 60% of the players included in this stakeholder sub-group have been affected in the recent past by problems with other actors in their supply chain when providing information to consumers (see Figure 57). Retailer's resistance to provide/display information is the most common problem, followed by difficulties in obtaining information from manufacturers. One manufacturer also identified problems in obtaining information from its suppliers, thus stressing the impacts of fragmentation within the furniture supply chain on providing information to consumers. Another player pointed to the low awareness of retailers as regards information on furniture products (see Figure 58).

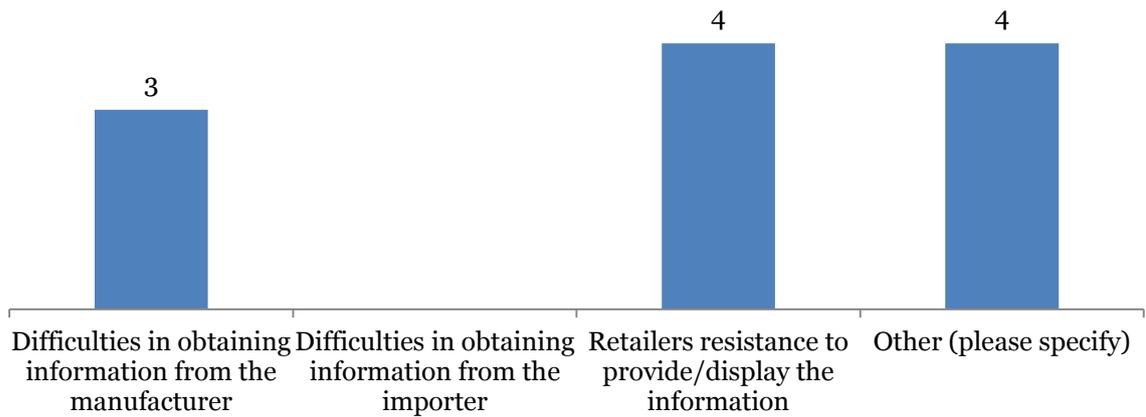
As a consequence, these companies have incurred higher administration, sales and marketing costs and they have not been able to provide consumers with all information they would have liked to share (see Figure 59). For instance, leather suppliers explained that synthetic upholstered furniture is often presented on the market as made of genuine leather, thus misleading and confusing consumers and damaging quality products. Reportedly, a possible solution to these informational problems along the value chain would be the voluntary building of long-term partnerships among actors based on shared values (such as safety and quality of the final product).

**Figure 57 Enterprises headquartered in EU except in Italy that have experienced problems with other actors in their supply chain to provide information to consumers**



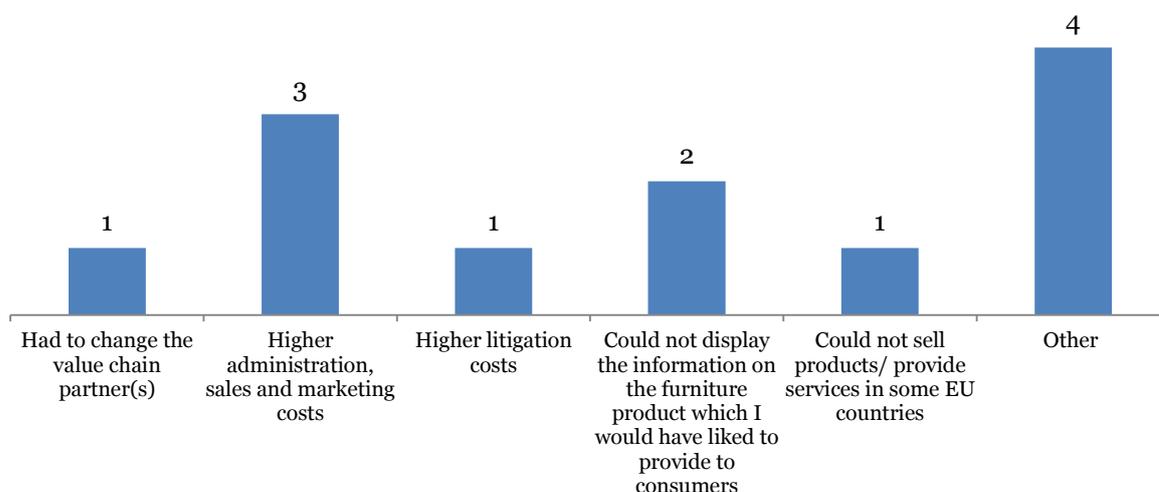
Source: Authors' own elaboration

**Figure 58 Problems experienced by enterprises headquartered in EU with other actors in their supply chain to provide information to consumers**



Source: Authors' own elaboration

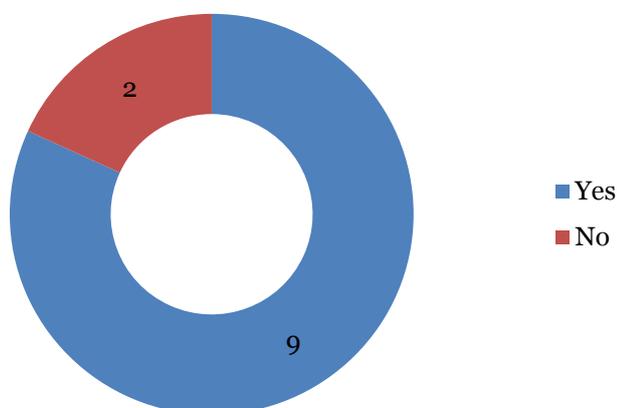
**Figure 59 Consequences of the problems experienced by enterprises headquartered in EU except in Italy due to other actors in their supply chain**



Source: Authors' own elaboration

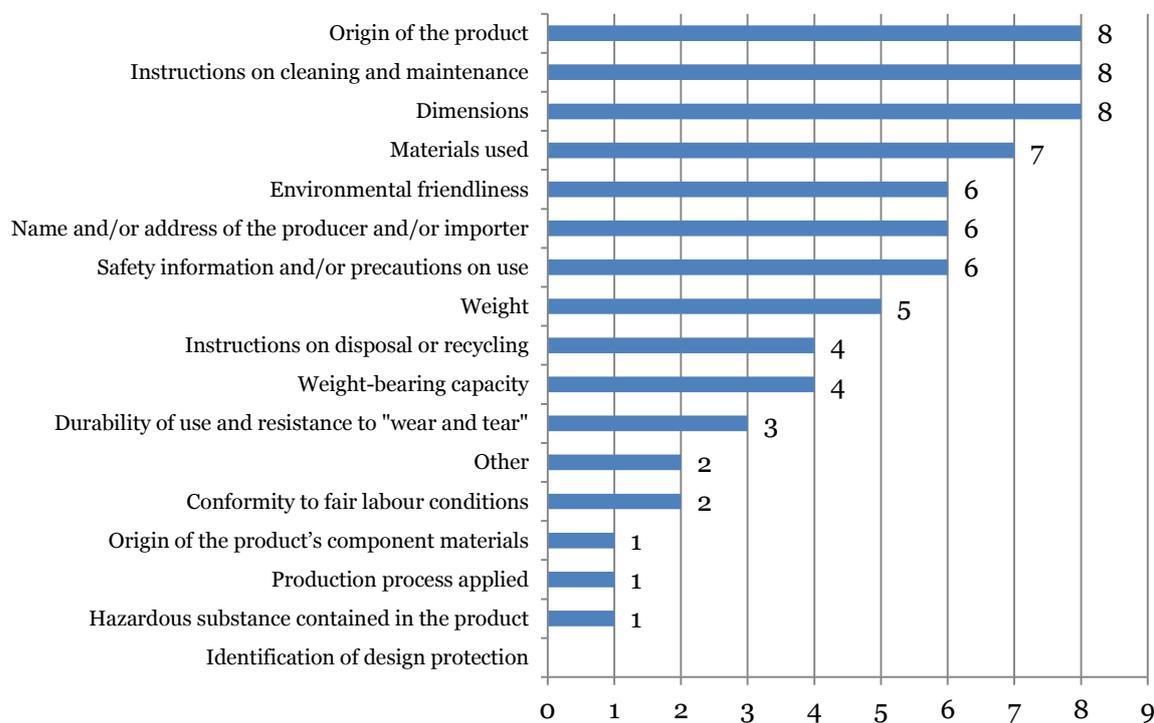
Two companies out of 11 supply leather to furniture manufacturers; hence, they do not display information on furniture characteristics to final consumers (see Figure 60). The product characteristics already displayed by the remaining nine companies are shown in Figure 61. Instructions on cleaning and maintenance, dimensions, and origins of the product are the most common attributes provided to consumers (reported by eight out of nine respondents), followed by materials used (seven out of nine). One player reported communicating some pieces of information such as environmental friendliness and conformity to fair labour conditions at company level (compliance with company policies) rather than for each product. In terms of benefits stemming from this information disclosure, respondents mentioned better reputation for products/services and increases in sales as well as other intangible benefits (see Figure 62). Whereas these benefits were estimated by some companies in the area of 2-4% of their annual turnover, additional costs to provide such information were deemed lower than 1% of their annual turnover.

**Figure 60 Enterprises headquartered in other EU countries and displaying information on certain furniture product characteristics to consumers**



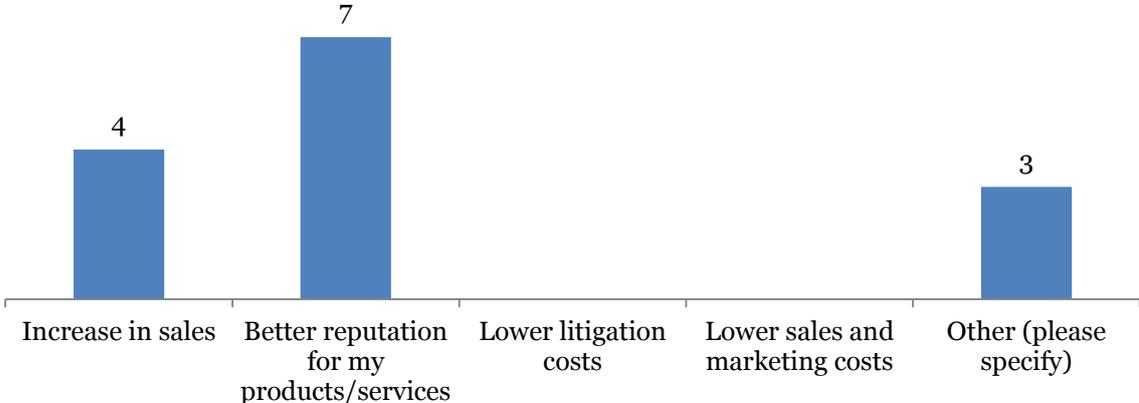
Source: Authors' own elaboration

**Figure 61 Attributes displayed by enterprises headquartered in the EU except in Italy and displaying information on certain furniture product characteristics to consumers**



Source: Authors' own elaboration

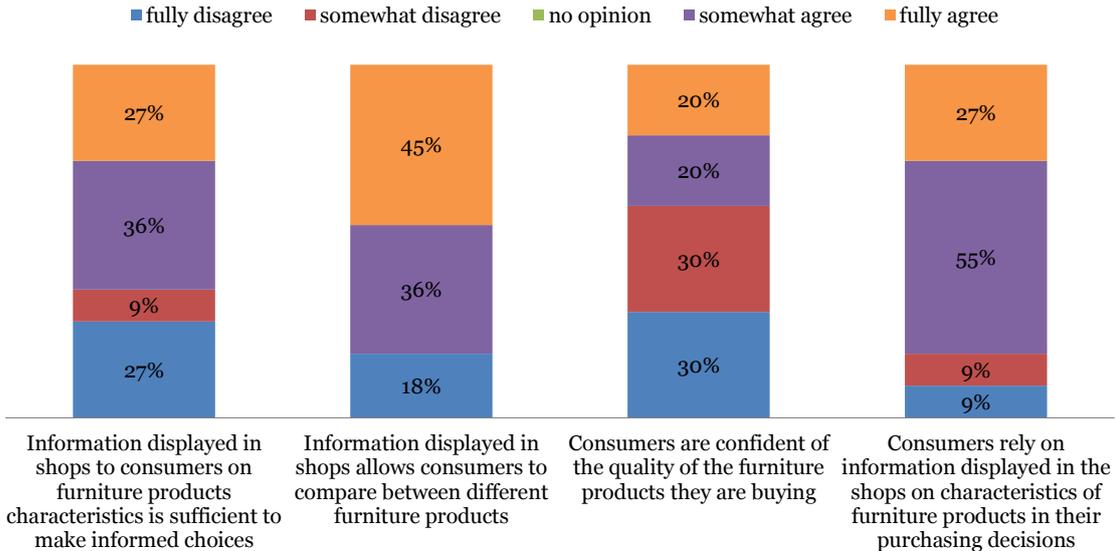
**Figure 62 Advantages for enterprises headquartered in the EU except in Italy stemming from information displayed to consumers about furniture product characteristics**



Source: Authors' own elaboration

The majority of companies included in this stakeholder sub-group (top two boxes, 64%) point out that information provided in shops is sufficient for consumers to make informed choices. Furthermore, these respondents believe (top two boxes, 82%) that available information allows consumers to compare between different products (see Figure 63). According to these stakeholders consumers rely on information displayed in the shop to make purchase decisions (top two boxes, 82%), but they are not confident of the quality of furniture products they are buying (bottom two boxes, 60%).

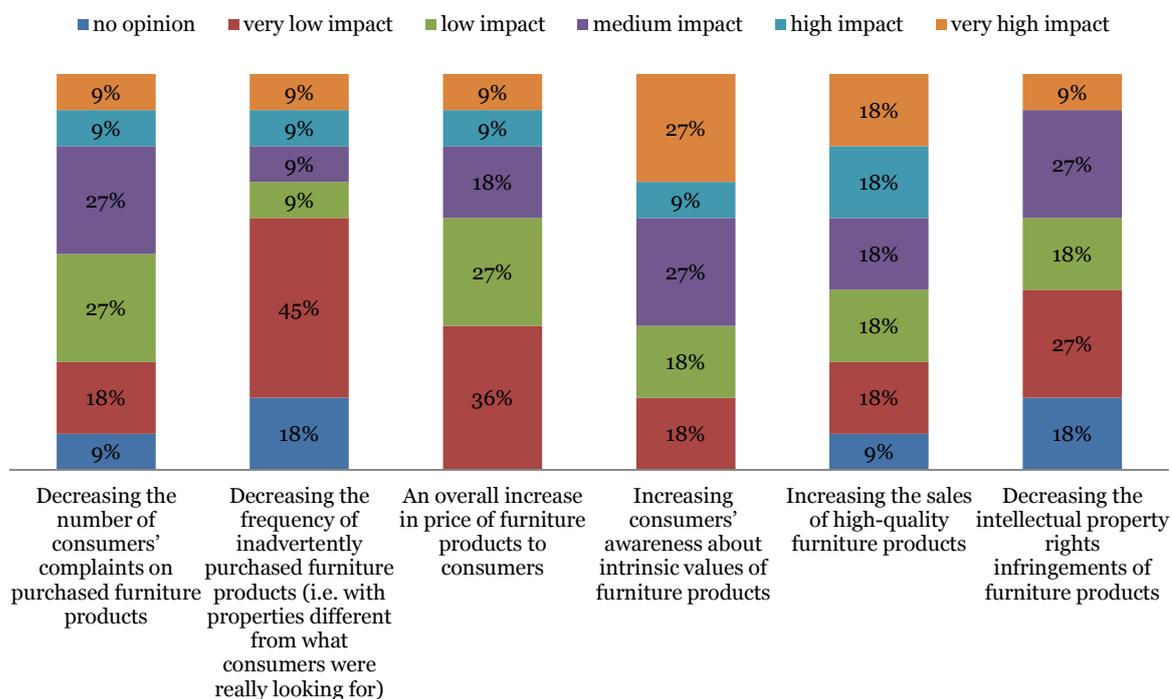
**Figure 63 Information asymmetries in the furniture market according to enterprises headquartered in the EU except in Italy**



Source: Authors' own elaboration

For this group of respondents displaying information has a low impact on the increase in price of furniture products (bottom two boxes, 64%) and on decreasing inadvertent purchases (bottom two boxes, 55%), the number of consumers' complaints (bottom two boxes, 45%), and IPRs infringements (bottom two boxes, 45%, see Figure 64). Conversely, declared impacts of information displayed in shops are more ambiguous as regards increasing consumers' awareness about intrinsic values of furniture products (same value for top two boxes and bottom two boxes, 36%) and as regards increasing the sales of high-quality furniture products (same value for top two boxes and bottom two boxes, 36%).

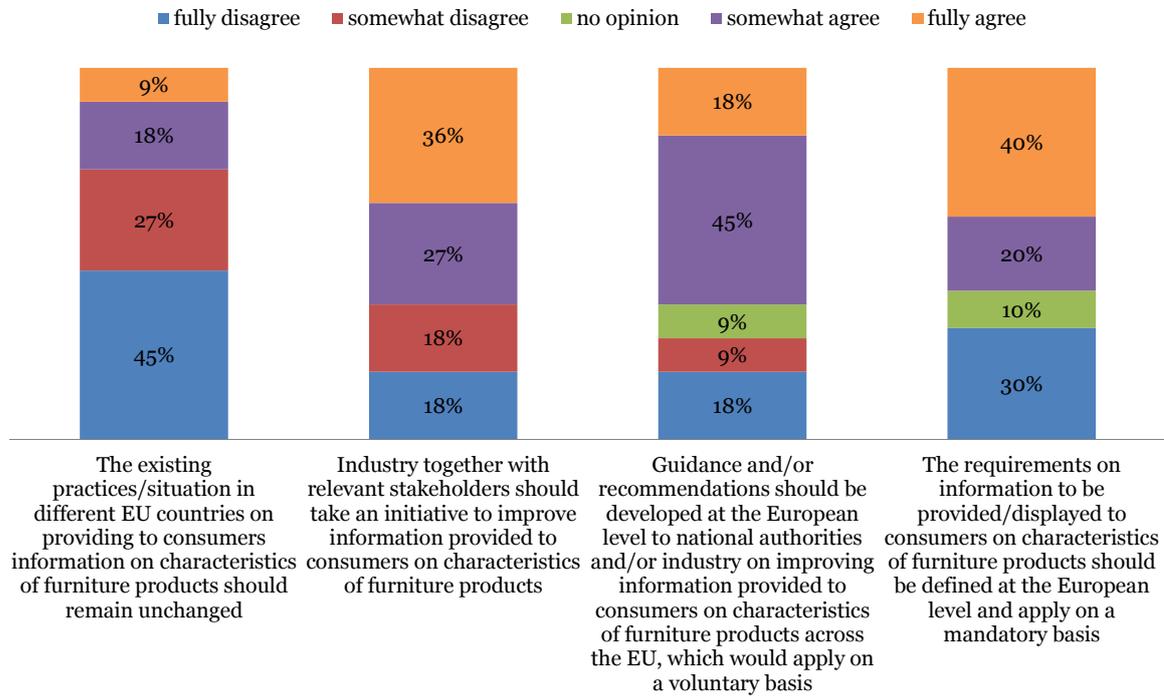
**Figure 64 Impact on consumers of information displayed in shops about furniture characteristics according to enterprises headquartered in the EU except in Italy**



Source: Authors' own elaboration

Whereas companies incorporated in this sub-group do not agree with the option of preserving the *status quo* (bottom two boxes, 73%), their policy preferences are almost equally split among the remaining options, namely: an industry-led initiative; provision of guidance/recommendations at the EU level; and mandatory requirements developed at the EU level (top two boxes always higher than 60%; see Figure 65). To change the current situation, one company suggested the introduction of a mandatory product card at the EU level including also performance indicators similar to the ones adopted on energy labels, thus increasing market transparency and product comparability. Other players stressed the role of the Internet and new technologies (such as Quick Response codes) to empower consumers.

**Figure 65 Need for action according to enterprises headquartered in the EU except in Italy**

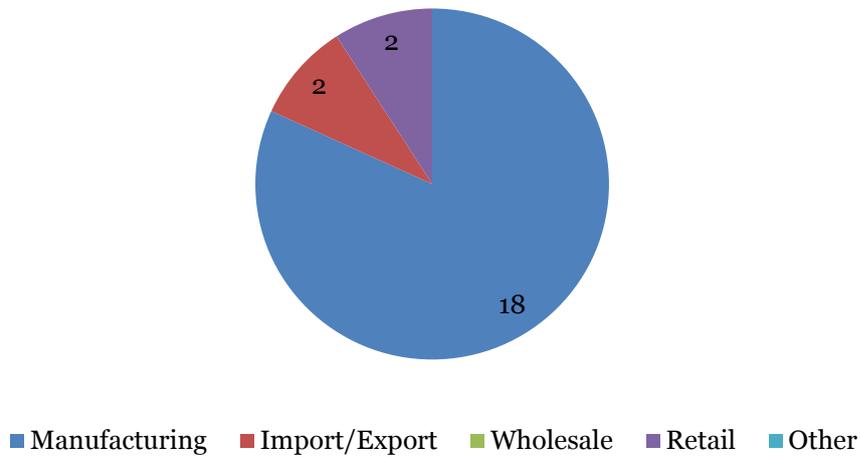


Source: Authors' own elaboration

### 7.2.1.2 Business - enterprises headquartered in Italy

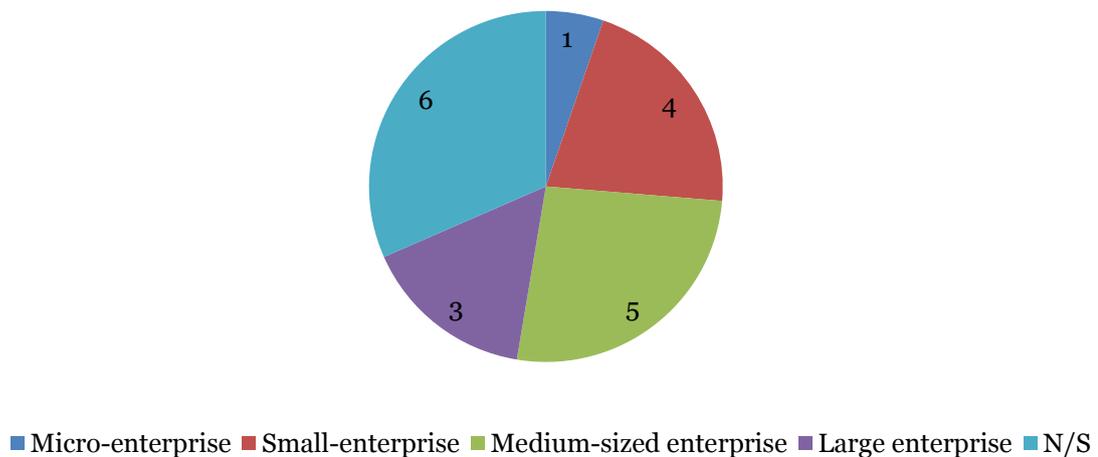
Sixteen out of 19 companies based in Italy are involved only in manufacturing activities, two are active in more than one segment of the furniture supply chain and only one player exclusively operates in retailing (see Figure 66). Among respondents specifying the size of their business, there were 10 SMEs and, in particular, one micro-enterprise (i.e., the respondent operating exclusively in the retail segment; see Figure 67). This stakeholder sub-group covers all types of furniture products and only one manufacturer is responding as an actor outside the furniture supply chain, namely a machine manufacturer.

**Figure 66 Enterprises headquartered in Italy by segment**



Source: Authors' own elaboration

**Figure 67 Enterprises headquartered in Italy by company size**



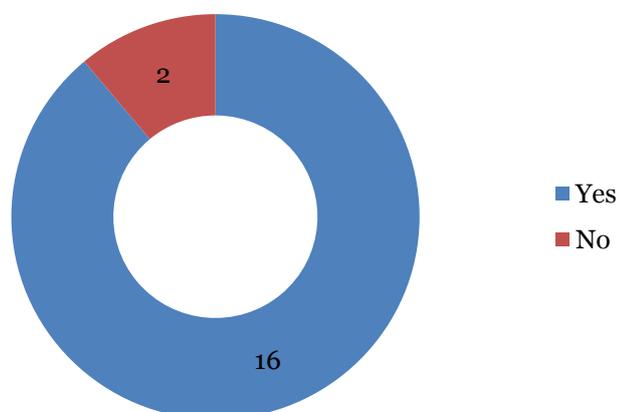
Notes: N/S stands for "Not specified".

Source: Authors' own elaboration

When asked whether they were aware of specific measures requiring the provision of product information to consumers, the majority of the Italian companies (89%) replied positively<sup>155</sup> (see Figure 68). Those who responded positively were also asked to declare whether they had experienced any advantage thanks to these measures and, where possible, to quantify such benefits as percentage of their annual turnover. Most of them (94%) reported experiencing an advantage over the last five years in terms of better reputation for products/services and lower litigation costs (see Figure 69 and Figure 70). Accrued benefits were estimated only by a small share of stakeholders and generally range between 2 and 4% of their annual turnover.

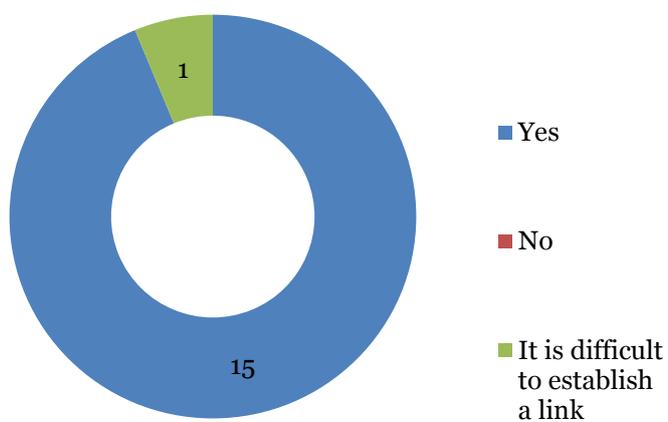
<sup>155</sup> One company out of 19 skipped several questions. On this point see Note 149.

**Figure 68 Awareness of measures requiring the provision of information about furniture products to consumers among enterprises headquartered in Italy**



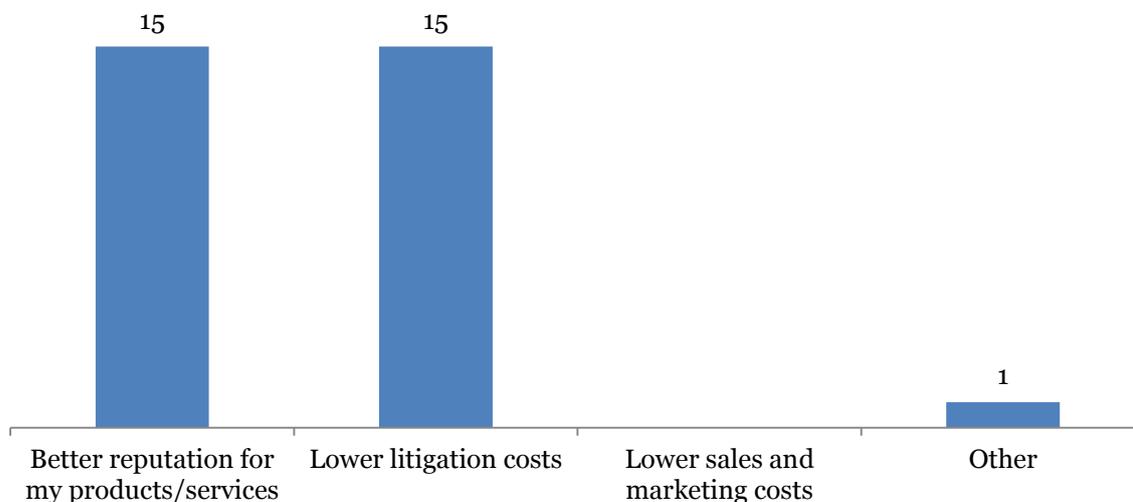
Source: Authors' own elaboration

**Figure 69 Enterprises headquartered in Italy that have experienced an advantage in the last five years due to a specific measure**



Source: Authors' own elaboration

**Figure 70 Advantages experienced in the last five years due to a specific measure by enterprises headquartered in Italy**



Source: Authors' own elaboration

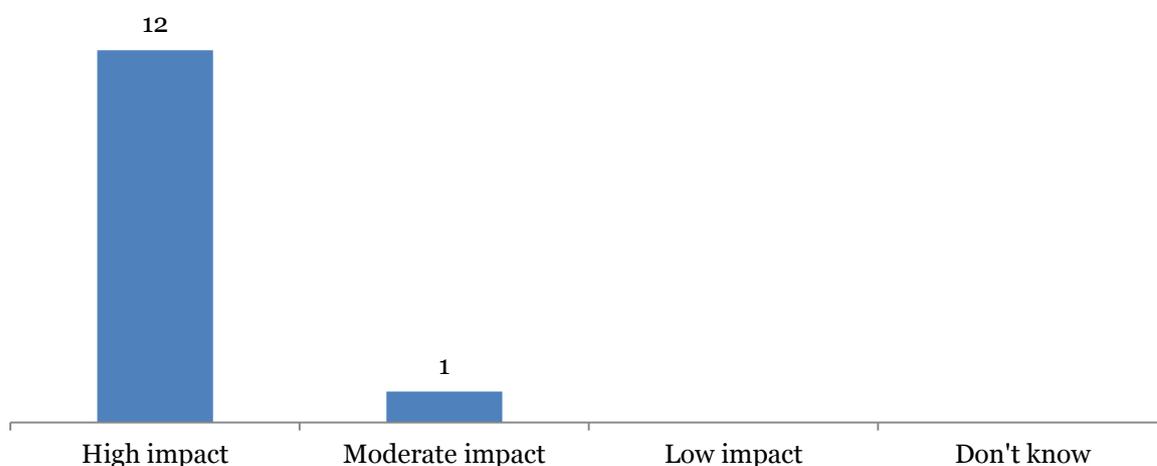
Respondents were also asked whether potential differences between mandatory schemes applied in countries they trade with and requiring the provision of information on certain characteristics of furniture products to consumers had an effect on their business. The majority (72%) of stakeholders included in this sub-group provided a positive reply (see Figure 71). Specifically, the impacts of those schemes on the willingness to trade cross-border within the EU was considered high and, in the last five years, usually led to higher administration, sale and marketing costs, estimated by some players between 2 and 4% of the annual turnover (see Figure 72 and Figure 73).

**Figure 71 Enterprises headquartered in Italy that are impacted by differences in mandatory schemes in country they trade with**



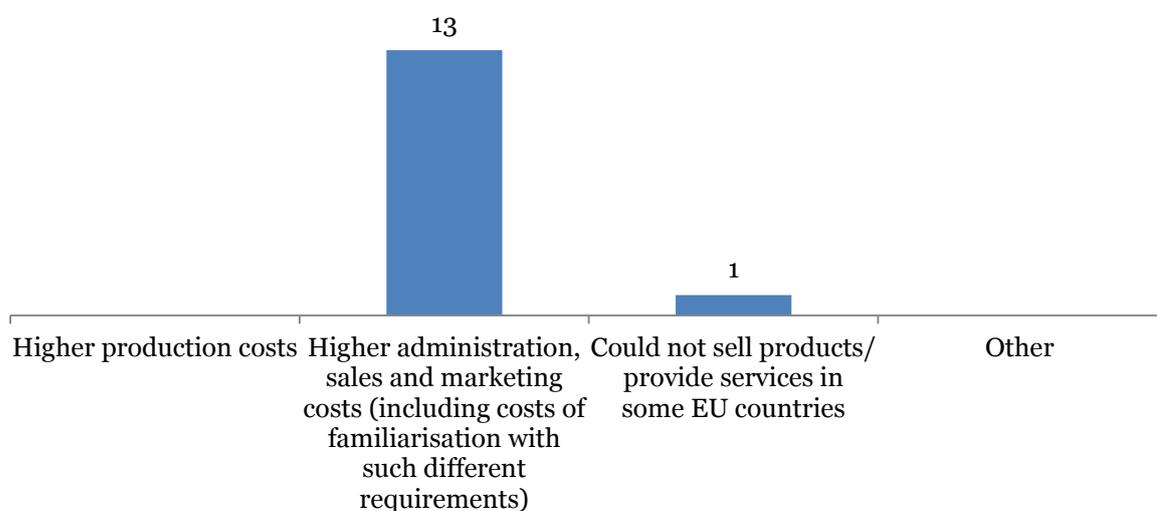
Source: Authors' own elaboration

**Figure 72 Impacts of different mandatory schemes on the willingness to trade cross-border within the EU of enterprises headquartered in Italy**



Source: Authors' own elaboration

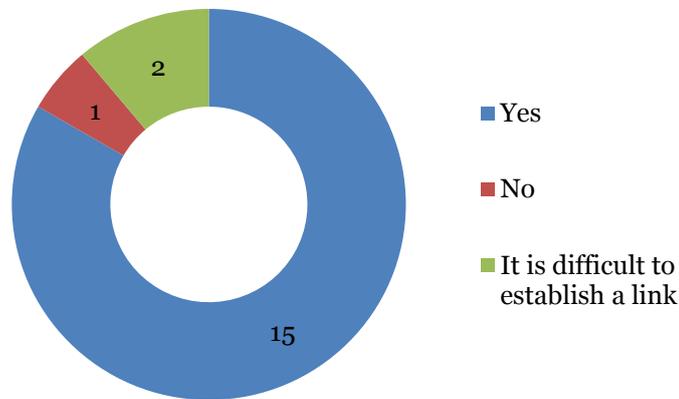
**Figure 73 Problems experienced due to different mandatory schemes by enterprises headquartered in Italy**



Source: Authors' own elaboration

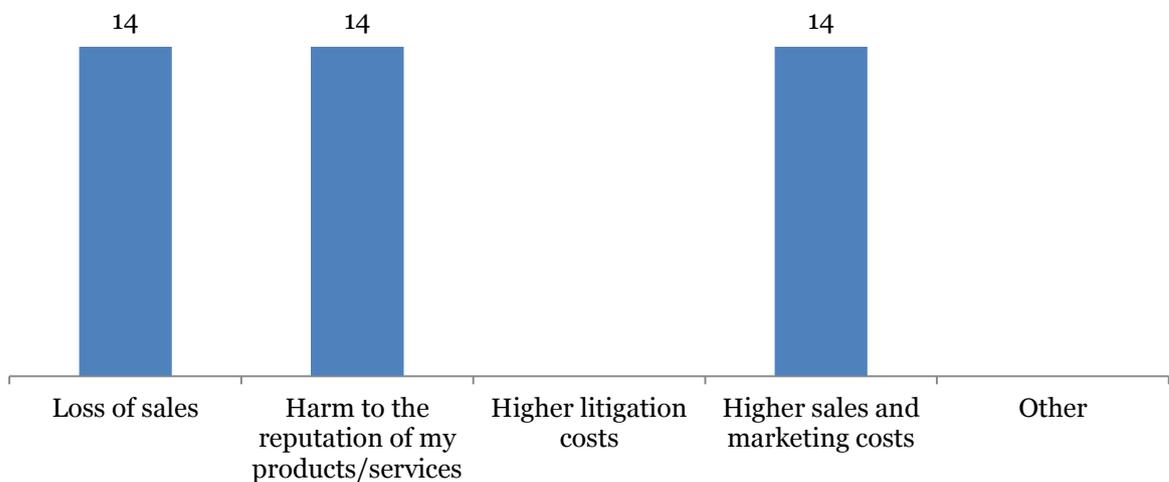
Another question asked whether respondents had experienced any negative effect over the same time frame because of competitors not complying with national requirements on the provision of information to consumers of furniture products. Eighty-three percent of companies headquartered in Italy declared that their performance had been negatively affected (see Figure 74 and Figure 75). As a result of this “unfair” competition, these companies lost sales, incurred in higher sale and marketing costs, and saw their reputation harmed. Again, according to some stakeholders these negative outcomes cost some 2-4% of the annual turnover.

**Figure 74 Enterprises headquartered in Italy that are impacted by competitors' non-compliance with national requirements on consumer information obligations**



Source: Authors' own elaboration

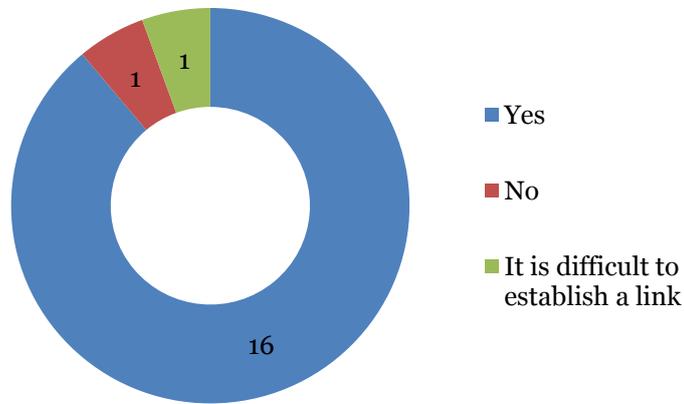
**Figure 75 Problems experienced by enterprises headquartered in Italy due to competitors' non-compliance with national requirements on consumer information obligations**



Source: Authors' own elaboration

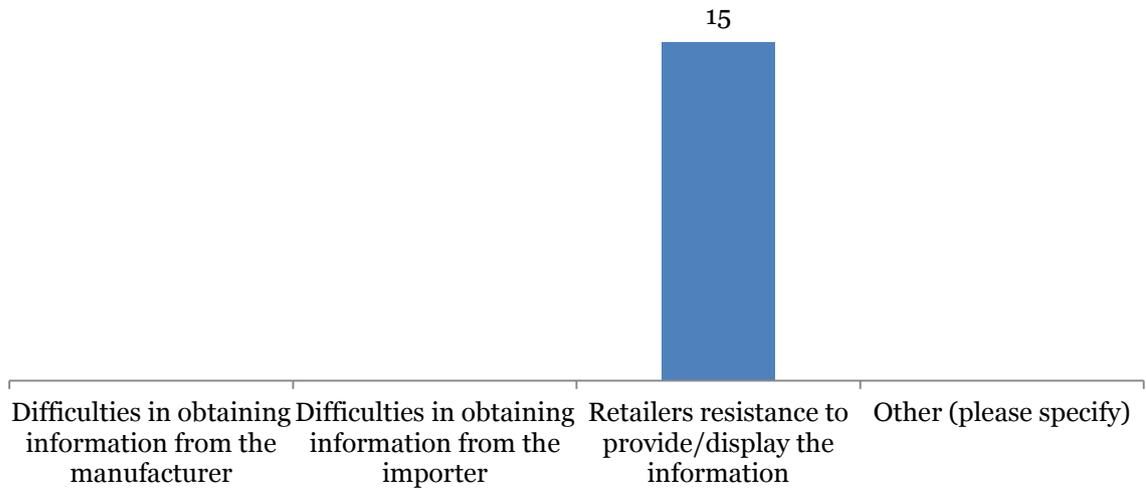
In the last five years, the lion's share of respondents (89%) included in this stakeholder sub-group was also affected by problems with other actors within their supply chain when providing information to consumers on furniture products characteristics (Figure 76). Fifteen companies pinpointed retailers' resistance to provide/display information as the main source of intra-chain problems (see Figure 77). As a result, in the recent past these respondents have not been able to deliver information to consumers as they would have liked and, some of them, also incurred higher administration, sale, and marketing costs (see Figure 78).

**Figure 76 Enterprises headquartered in Italy that have experienced problems with other actors in their supply chain when providing information to consumers**



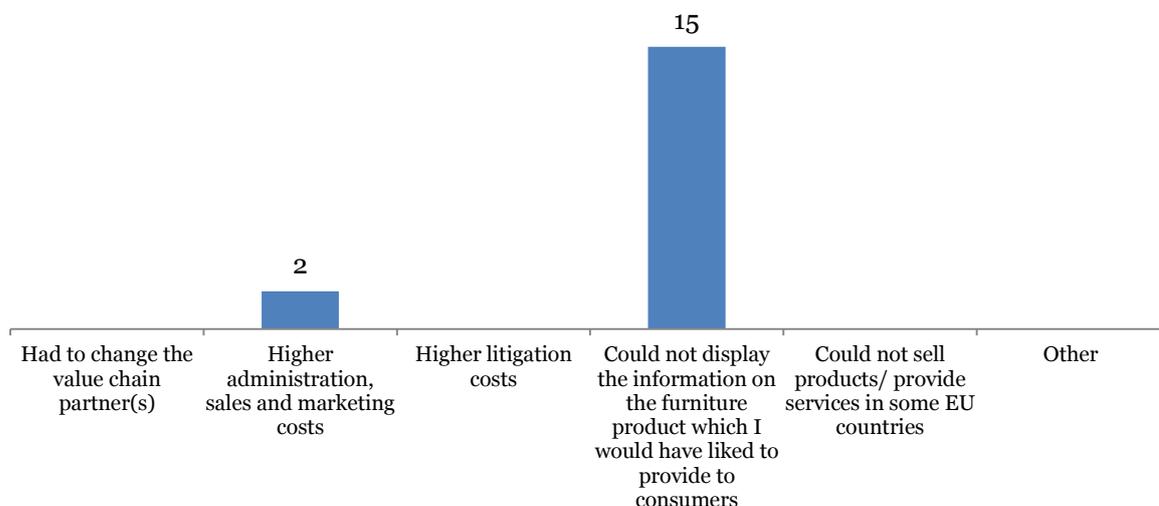
Source: Authors' own elaboration.

**Figure 77 Problems experienced by enterprises headquartered in Italy due to other actors in their supply chain**



Source: Authors' own elaboration

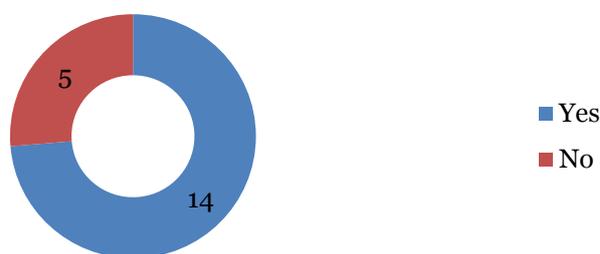
**Figure 78 Consequences of the problems experienced by enterprises headquartered in Italy due to other actors in their supply chain**



Source: Authors' own elaboration

The survey allowed distinguishing between respondents that already provide specific product information to consumers from those who don't or that do not directly sell furniture items to consumers (see Figure 79). Fourteen respondents out 19 confirmed that they already display information to consumers on certain furniture product characteristics and nine also specified which type of information they provide.<sup>156</sup> The origin of the product, followed by the material used, instructions on cleaning and maintenance, and dimensions are the most common pieces of information already provided to consumers (Figure 80). Thanks to the disclosure of this information, these companies usually experience better reputation (reported by eight out of nine), lower litigation costs (six) and increase in sales (four, see Figure 81), against related costs that are estimated lower than 1% of the annual turnover by some stakeholders.

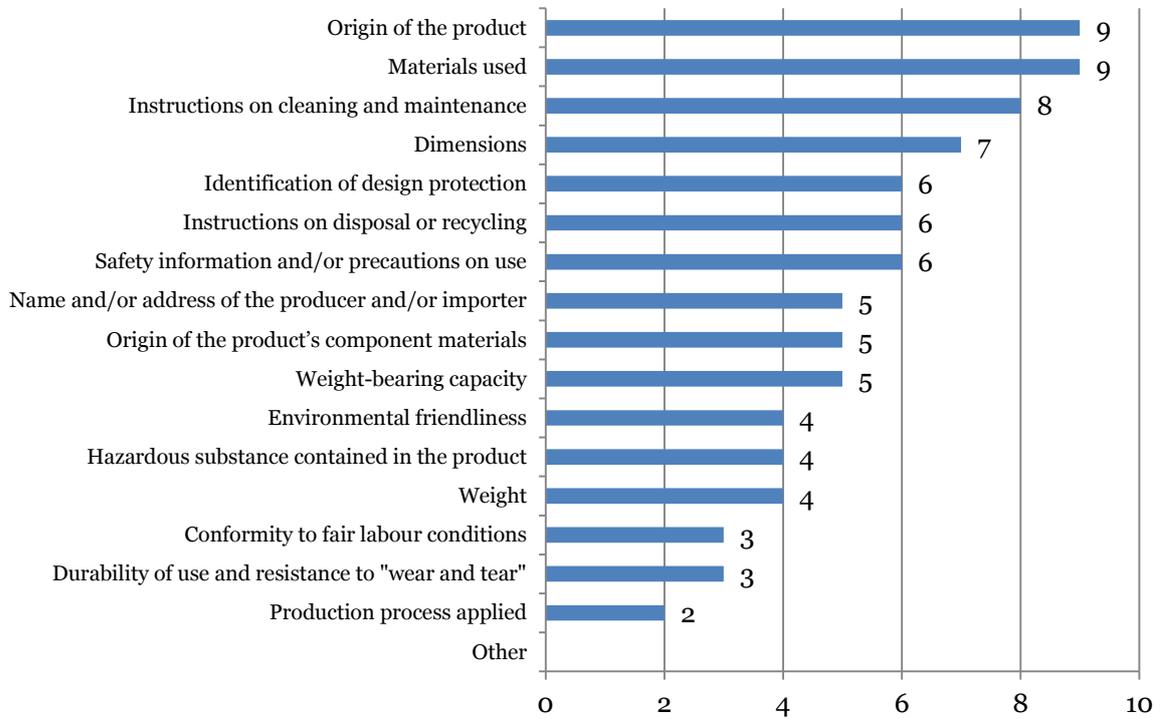
**Figure 79 Enterprises headquartered in Italy and displaying information on certain furniture product characteristics to consumers**



Source: Authors' own elaboration

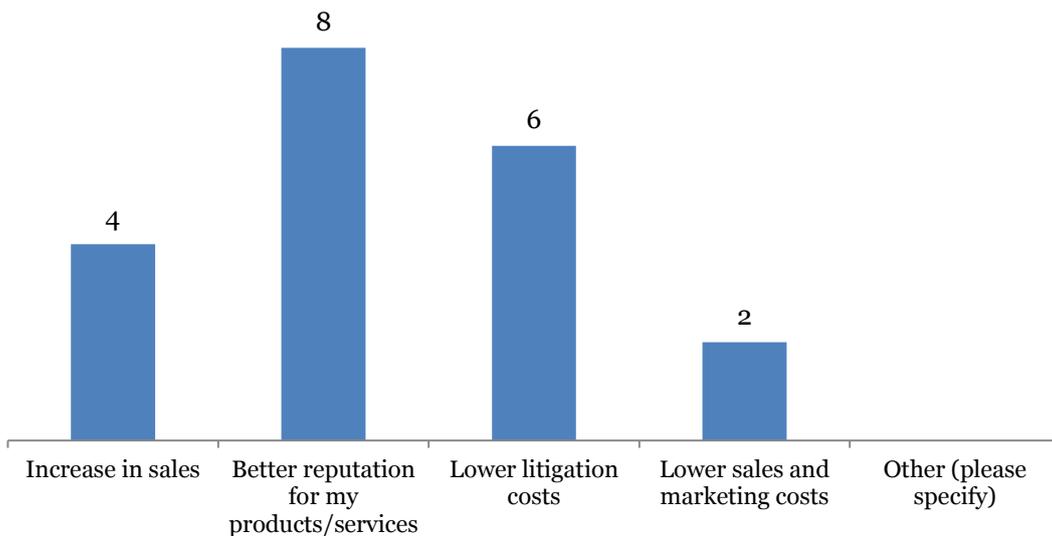
<sup>156</sup> Note that the remaining five companies reported displaying information to consumers, but did not provide any additional detail on the type of information displayed and on advantages stemming from displaying such information.

**Figure 80 Attributes displayed by enterprises headquartered in Italy and displaying information on certain furniture product characteristics to consumers**



Source: Authors' own elaboration

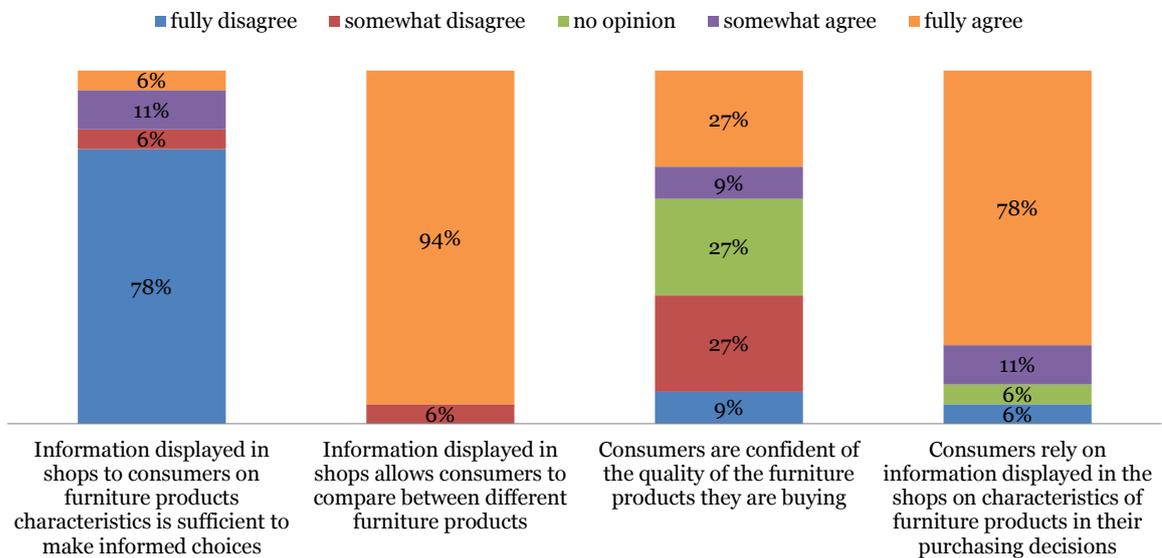
**Figure 81 Advantages for enterprises headquartered in Italy stemming from information displayed to consumers about furniture product characteristics**



Source: Authors' own elaboration

Focusing on information asymmetries in the furniture market, companies headquartered in Italy believe that information displayed in shops to consumers is not sufficient to make informed choices (bottom two boxes, 83%). Conversely and surprisingly, these companies fully agree (94%) on the fact that consumers are able to successfully compare products on the basis of the information displayed. As regards consumer confidence in the quality of furniture products they are buying, there is no agreement among stakeholders included in this sub-group (top and bottom two boxes, 36% respectively). The vast majority (top two boxes, 89%) of companies based in Italy argue that consumers rely on information displayed in shops to make their purchasing decisions for furniture products (see Figure 82).

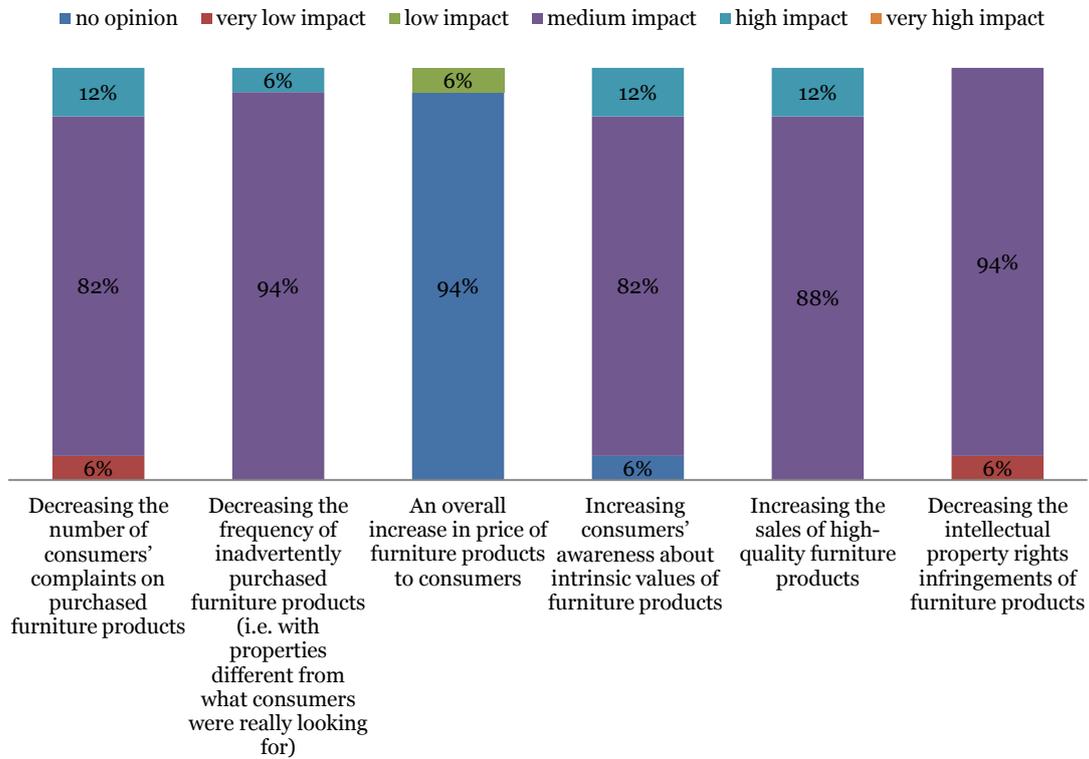
**Figure 82 Information asymmetries in the furniture market according to enterprises headquartered in Italy**



Source: Authors' own elaboration

When shifting attention to impacts of the displayed information, these stakeholders estimated a medium impact for all the dimensions included in Figure 83 (i.e. decreasing the number of consumer complaints, advertently purchased products and IPR infringements and increasing sales of high-quality products and consumer awareness of intrinsic values of products), with the exception of the price of furniture products on which they have no opinion.

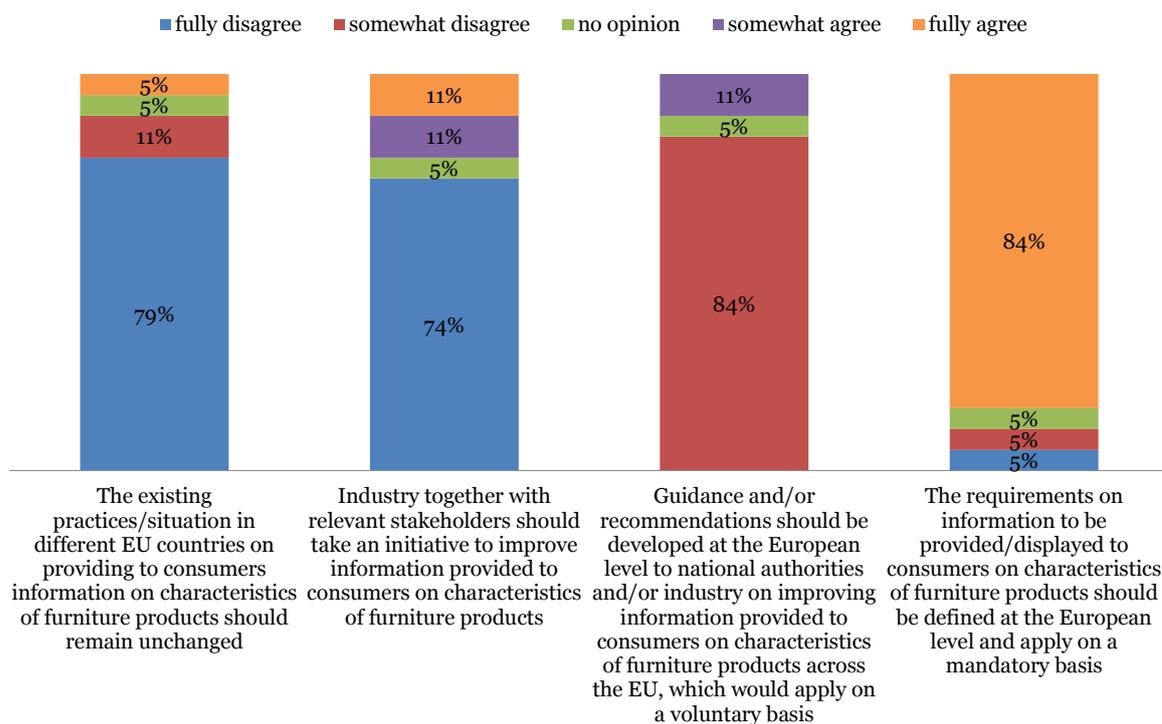
**Figure 83 Impact on consumers of information displayed in shops about furniture characteristics according to enterprises headquartered in Italy**



Source: Authors' own elaboration

A general disagreement is expressed with regard to maintaining the *status quo* in terms of information provided to consumers in the furniture market (see Figure 84). This disagreement also applies to options to provide product information to consumers on the basis of an industry-led initiative or guidance/recommendation developed at the EU level and applied nationally on a voluntary basis. The vast majority of respondents (84%) are in favour of binding EU rules setting information requirements to be provided/displayed to consumers about characteristics of furniture products.

**Figure 84 Need for action according to enterprises headquartered in Italy**



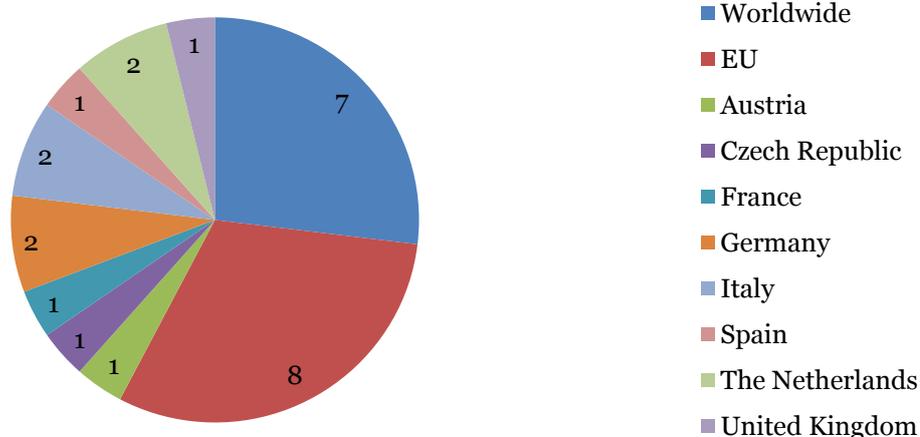
Source: Authors' own elaboration

### 7.2.2 Industry federations - associations

The majority of industry associations (15 out of 26) that submitted their contributions to the public online consultation operate at supranational level (30% at the EU level and 26% worldwide). The remaining associations (11 out of 26) are national and cover 8 EU Member States (see Figure 85). Focusing on different segments of the furniture supply chain, it is worth stressing that five associations out of 26 represent only retailers/wholesalers. The remaining 21 respondents always include also manufacturers among their members (see Figure 86). Sharp divergences emerged between the view of retailers and the views of other actors of the supply chain. In order to highlight these diverging perspectives, we present a distinct analysis for two sub-groups: i) industry associations representing retailers/wholesalers; ii) industry associations representing manufacturers<sup>157</sup>.

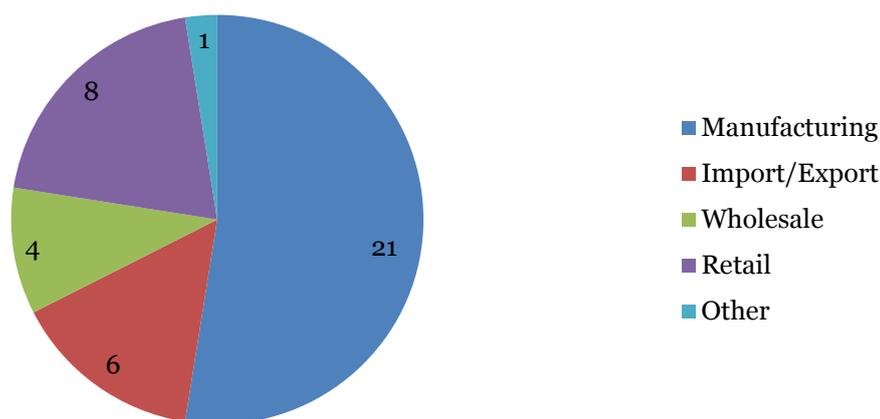
<sup>157</sup> Please note that six associations included in this sub-group represent not only manufacturers, but also other players (importers/exporters, wholesalers, and retailers) of the furniture supply chain.

**Figure 85 Industry associations by country of operation**



Source: Authors' own elaboration

**Figure 86 Industry associations by segment**



Source: Authors' own elaboration

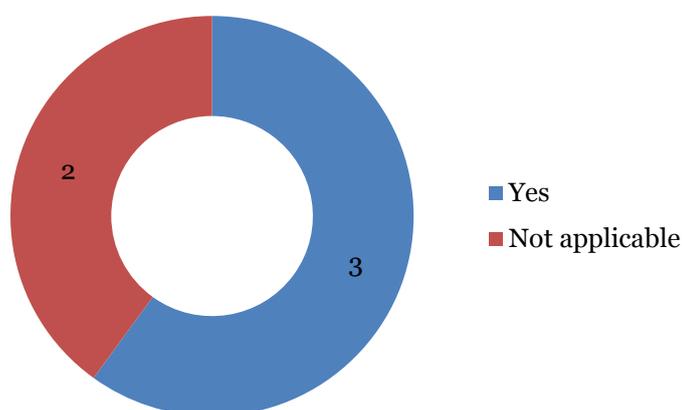
#### 7.2.2.1 Industry federations - associations representing wholesalers/retailers

Out of five industry associations representing solely wholesalers/retailers, two associations operate in Germany, two in the Netherlands, and one at the EU level. Their members cover all type of furniture products and all the range of company sizes. Only two of the associations included in this sub-group were aware of measures aiming at informing consumers of furniture products. These two stakeholders argued that their members had not experienced any advantage due to these measures. Only one of these two associations reported being impacted by differences in mandatory schemes applicable in countries its members trade with. This stakeholder specifically referred to the need to adapt catalogues to the French market where mandatory rules are very strict and detailed. Nonetheless, the impact of this measure on the willingness to trade

is relatively low. No stakeholder included in this sub-group experienced any problems with competitors not respecting mandatory information requirements for furniture products. As regards problems with the actors within the supply chain, one stakeholder identified difficulties in obtaining information from the manufacturers and from importers and suggested building better relationships among players operating at different levels of the supply chain to solve this issue.

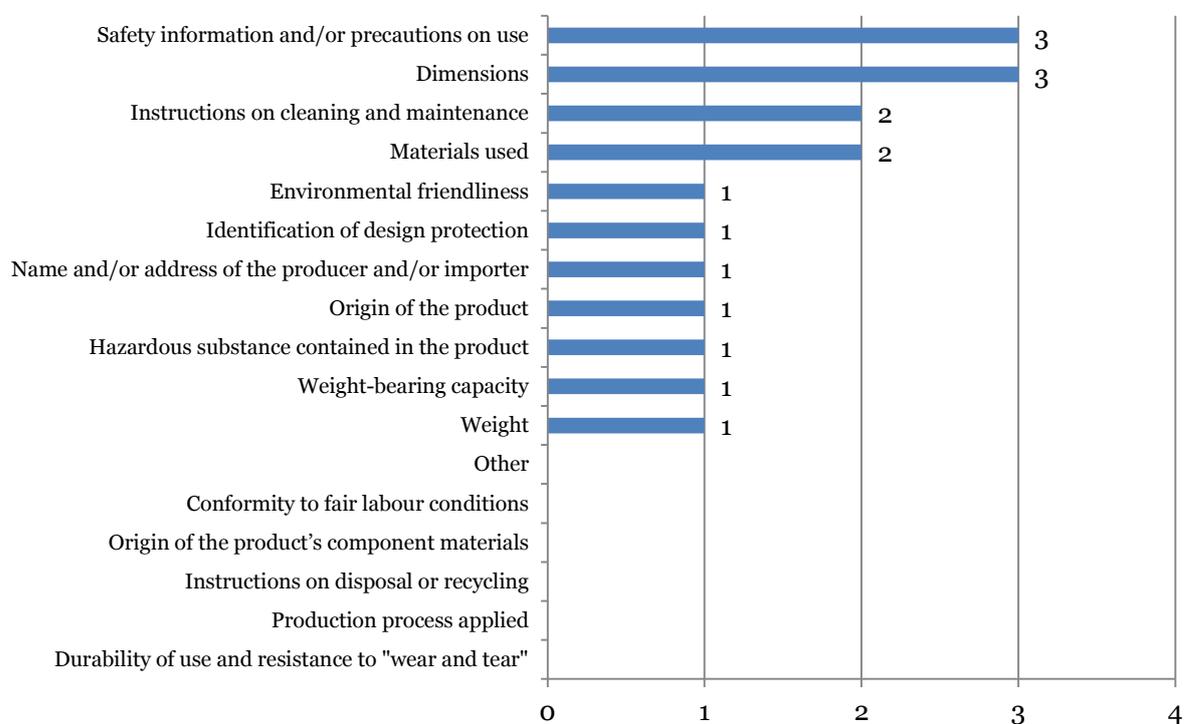
In this sub-group, three stakeholders out of five explained that their members usually display information to consumers (see Figure 87). Among the associations of retailers whose members display information to consumers, safety information and precaution on use, dimensions, material used, and instruction on cleaning and maintenance are the most common attributes (see Figure 88).

**Figure 87 Industry associations/federations representing retailers/wholesalers whose members display information on certain furniture product characteristics to consumers**



*Source: Authors' own elaboration*

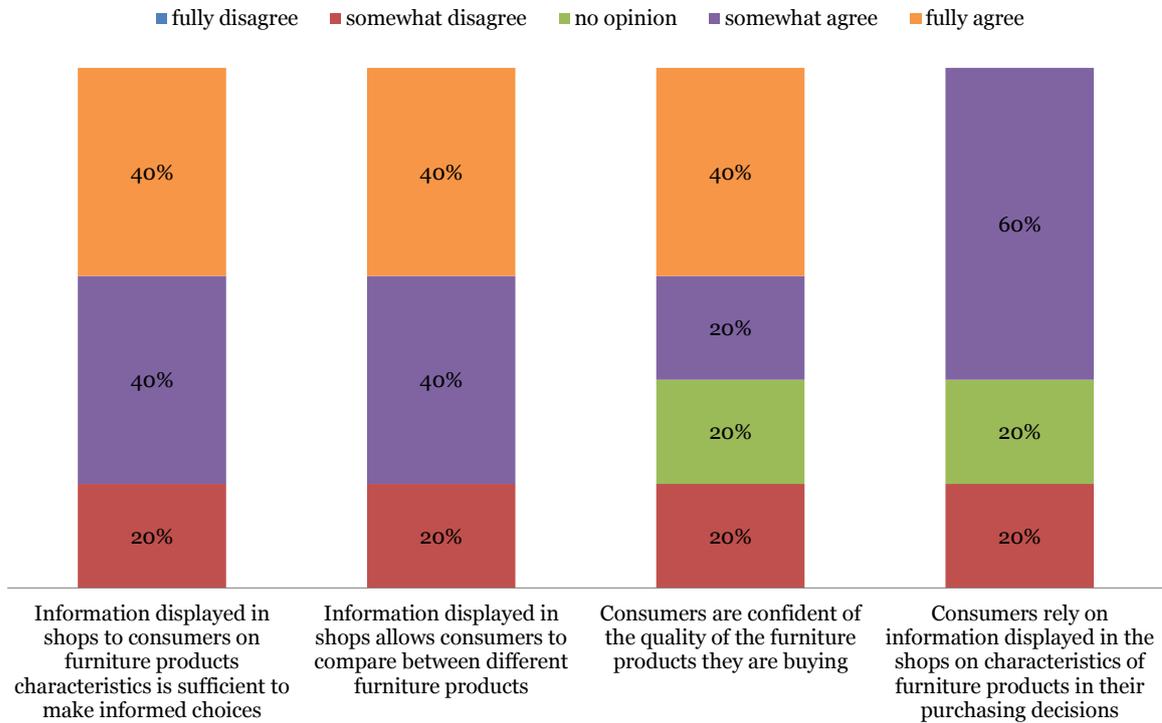
**Figure 88 Attributes displayed by members of EU industry associations representing retailers/wholesalers and displaying information on certain furniture product characteristics to consumers**



Source: Authors' own elaboration

To summarize, EU industry associations representing retailers/wholesalers argue that the furniture market works smoothly and that there is no room for information asymmetries. They believe that information displayed in shops to consumers is sufficient to make informed choices (top two boxes, 80%) and to compare between furniture products (top two boxes, 80%; see Figure 89). These respondents also point out that consumers are confident of the quality of furniture products they are buying (top two boxes, 60%) and, to a lesser extent, that they rely on displayed information when formulating purchasing decisions (top two boxes, 60%).

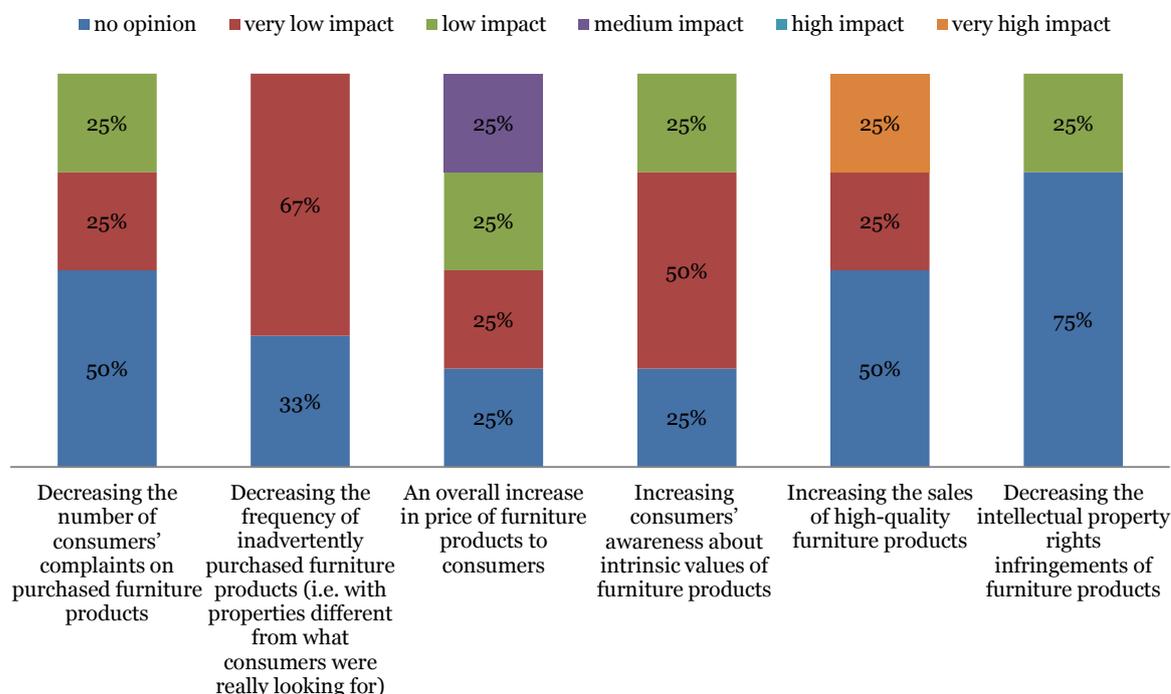
**Figure 89 Information asymmetries in the furniture market according to EU industry associations representing retailers/wholesalers**



Source: Authors' own elaboration

For all the dimensions listed in Figure 90 but one, the impacts on consumers of information displayed in the shop was deemed very low or no opinion was expressed on this point. As regards the impact of information on the sale of high quality furniture products, respondents' views were mixed (25% pointing to very high impact, 25% to very low impact, and 50% with no opinion).

**Figure 90 Impact on consumers of information displayed in shops about furniture characteristics according to EU industry associations representing retailers/wholesalers**

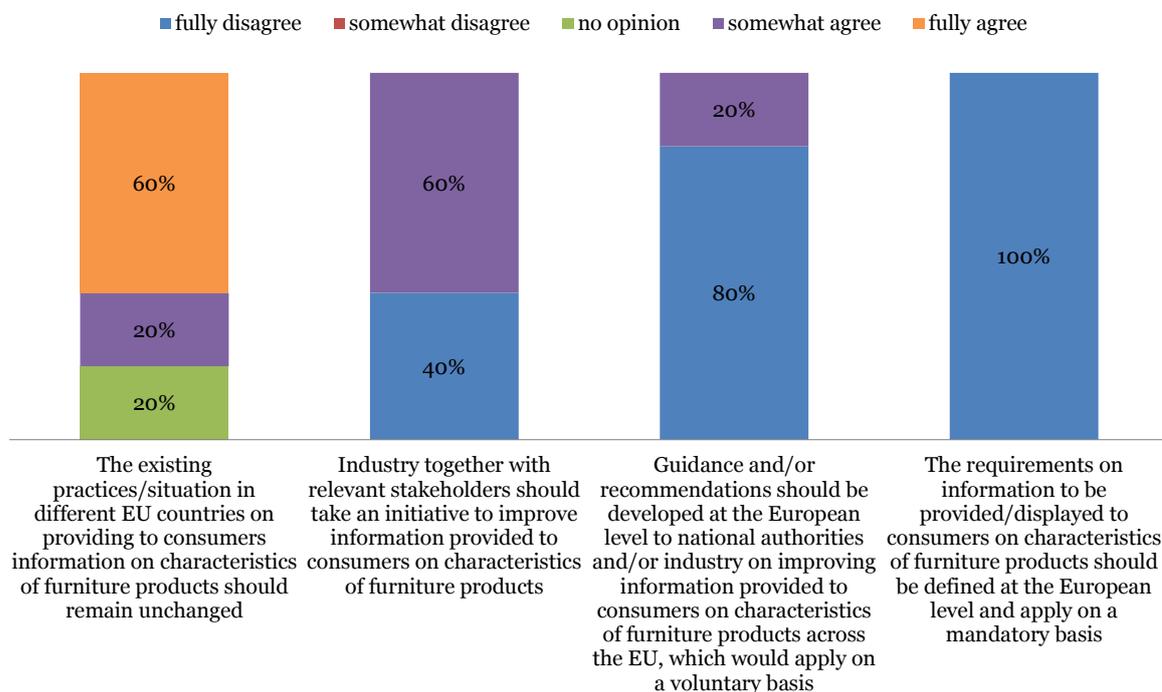


Source: Authors' own elaboration

This stakeholder sub-group unanimously rejected an EU intervention to change the existing situation/practices in different EU countries by setting mandatory requirements to provide consumers with information about furniture product characteristics (see Figure 91). While one respondent suggested guidelines and recommendations developed at the EU level to improve the provision of information to consumer on a voluntary basis, three associations somewhat agree to an industry-driven initiative.

The majority of respondents pointed out that labels are only one among several means to inform consumers. Some stakeholder stressed the crucial role played by the Internet as a very flexible tool to improve consumer information. Other associations reported that consumers of furniture products need tailor-made information based on their personal interests, the type of furniture items they are buying, and the kind of shop they choose. In particular, according to some stakeholders, any mandatory information scheme might harm the flexibility required when informing consumers and would increase administrative burdens. Reportedly, labelling requirements should always be accompanied by a clear identification of parties responsible for the correctness of information provided to consumers.

**Figure 91 Need for actions according to EU industry associations representing retailers/wholesalers**



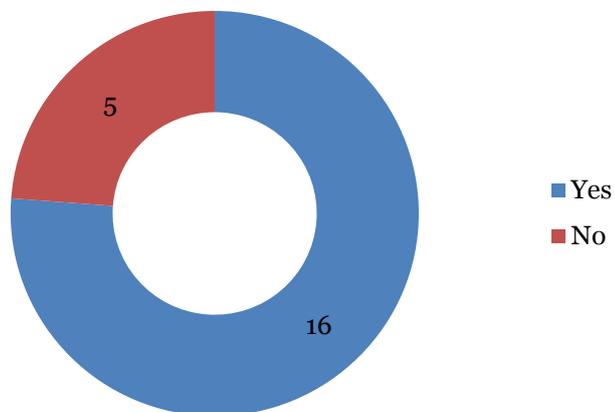
Source: Authors' own elaboration

### 7.2.2.2 Industry federations - associations representing manufacturers

The majority (66%) of the 21 industry associations representing manufactures operate either at EU or global level. The remainders have a national scope of operation and cover six EU countries, i.e. Austria, Czech Republic, France, Italy, Spain, and UK. Moreover, this stakeholder sub-group covers all types of furniture and represents micro, small, medium, and large companies. Six associations out of 21 (29%) represent not only manufacturers, but also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain. One respondent is a broader/general industry association representing SMEs.

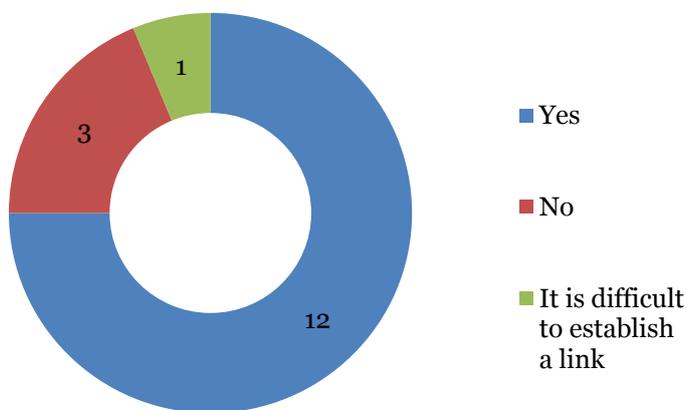
Most respondents in this sub-group (76%) were aware of measures requiring the provision of information about furniture product characteristics to consumers (see Figure 92). Reportedly, the members of 75% of these associations have experienced advantages in the last five years due to specific information measures, especially in terms of better reputation for their products/services and lower litigation costs (see Figure 93 and Figure 94).

**Figure 92 Awareness of measures requiring the provision of information about furniture products to consumers among industry associations representing manufacturers**



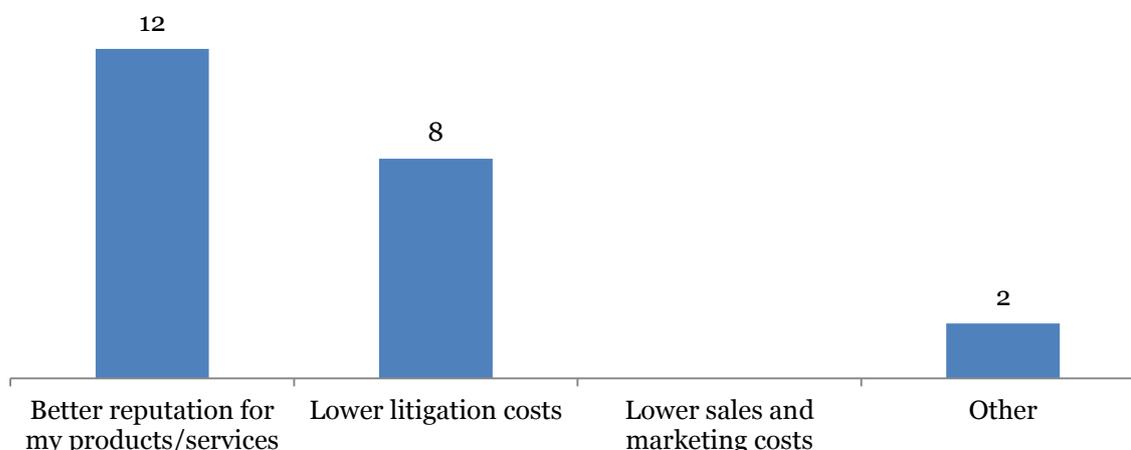
Source: Authors' own elaboration

**Figure 93 Industry associations representing manufacturers whose members have experienced an advantage in the last five years due to a specific measure**



Source: Authors' own elaboration

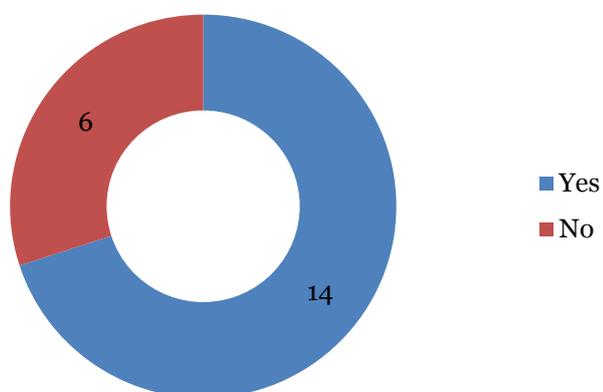
**Figure 94 Advantages experienced in the last five years due to a specific measure by members of industry associations representing manufacturers**



Source: Authors' own elaboration

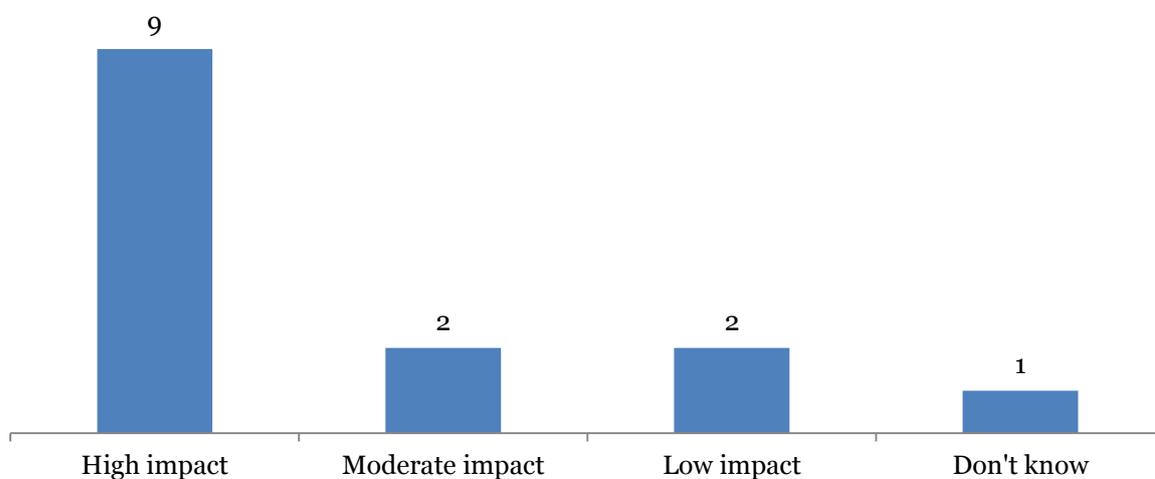
Fourteen out of 20 associations pointed out that their members are negatively affected by differences in mandatory schemes in countries they trade with, thus experiencing high impacts in terms of larger administration, sales, and marketing costs (see Figure 95, Figure 96, and Figure 97) as a result of a need to comply with different requirements. One stakeholder pointed out that trade is affected not only by adjustments to product labels, but also by the underlying technical changes in products and processes required by diverging national rules (e.g., this is the case for labels for flammable products and the underlying requirements). Another stakeholder reported also problems in labelling specific parts and components of furniture products, such as leather. Another one was worried by the proposed implementation of mandatory environmental schemes related to the implementation of the *Grenelle de l'environnement* in France; reportedly the proposed schemes could harm the level playing field in the EU market.

**Figure 95 Industry associations representing manufacturers whose members are impacted by differences in mandatory schemes in countries they trade with**



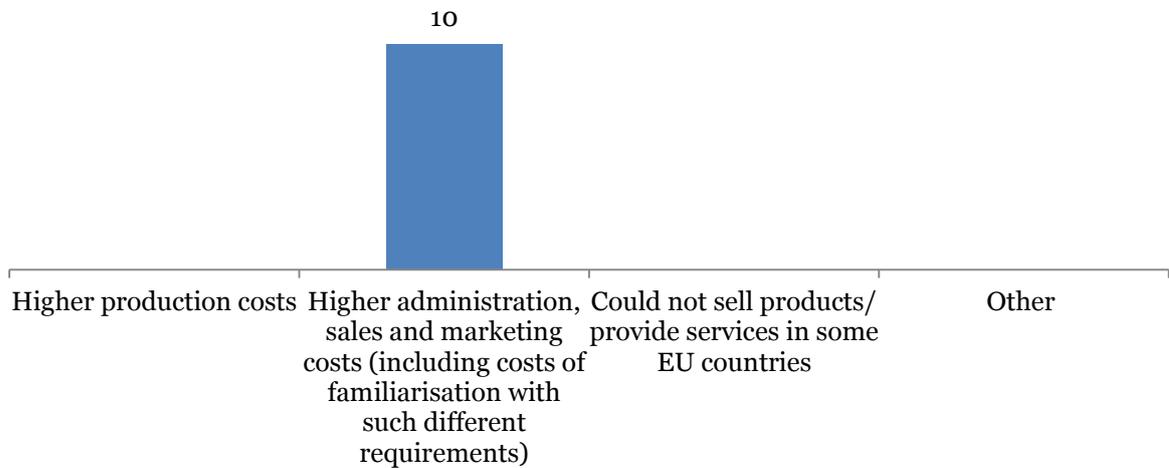
Source: Authors' own elaboration

**Figure 96 Impacts of different mandatory schemes on the willingness to trade intra-EU of members of industry associations representing manufacturers**



Source: Authors' own elaboration

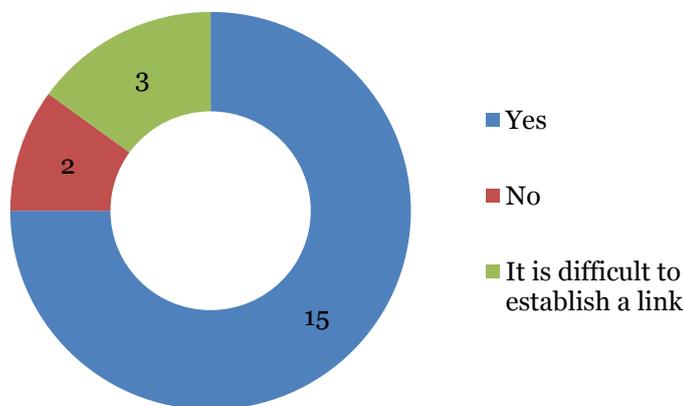
**Figure 97 Problems experienced due to different mandatory schemes by members of industry associations representing manufacturers**



Source: Authors' own elaboration

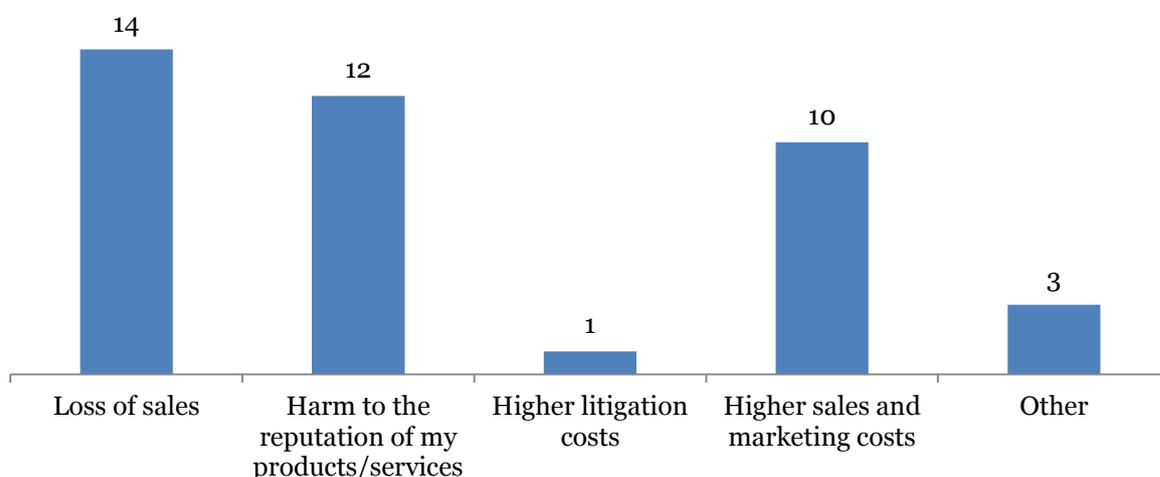
In the last five years, the members of 15 associations experienced problems due to competitors' non-compliance with national requirements for consumer information obligations (see Figure 98). In this regard, loss of sales, harm to the reputation of products and services, and higher sales and marketing costs were considered as the most significant issues (see Figure 99). While some stakeholders pointed to problems of unfair competition and related decline of business margins, SMEs asked for more accessible, quicker and cheaper complaints/reporting regimes at both national and EU level.

**Figure 98 Industry associations representing manufacturers whose members are impacted by competitors' non-compliance with national requirements for consumer information obligations**



Source: Authors' own elaboration

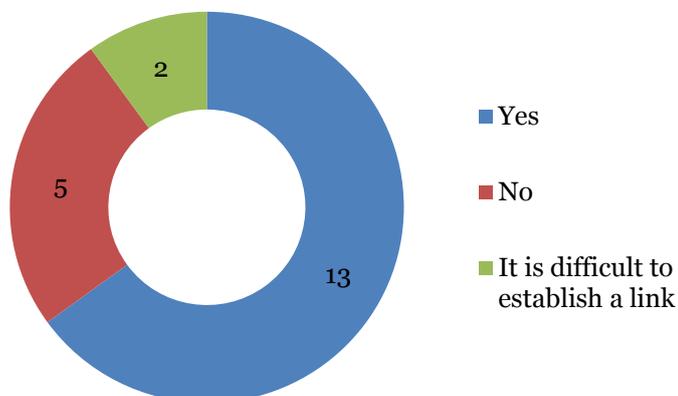
**Figure 99 Problems experienced by members of industry associations representing manufacturers arising from competitors' non-compliance with national requirements for consumer information obligations**



*Source: Authors' own elaboration*

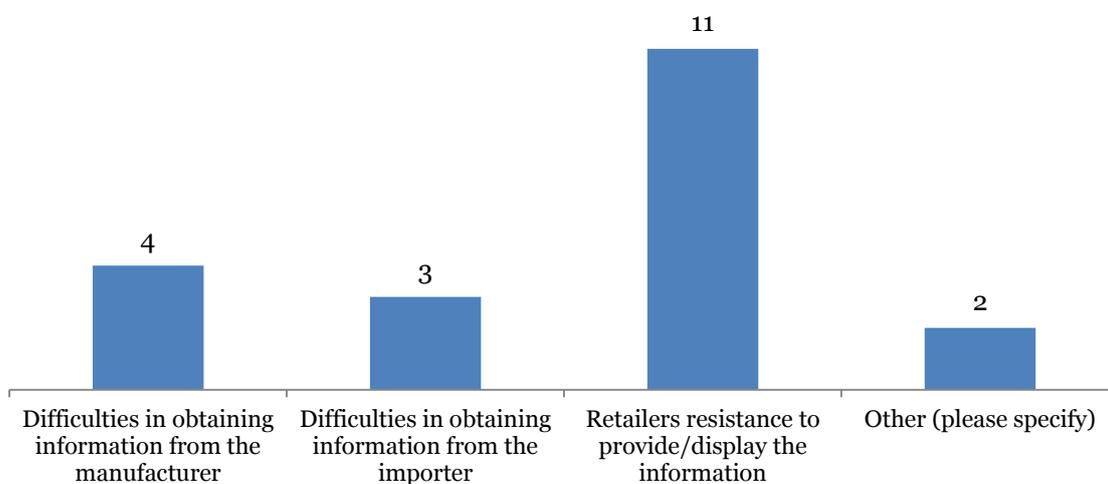
The majority of industry associations representing manufacturers (13 out of 20 respondents to this question) argued that their members have experienced problems with other actors in their supply chain when trying to provide consumers with information on furniture products (see Figure 100). Retailers' resistance to display/provide information is the most reported problem, followed by difficulties in obtaining information from manufacturers and importers. As a consequence of these frictions, consumers can benefit from an amount of information that is relatively lower (see Figure 101 and Figure 102).

**Figure 100 Industry associations representing manufacturers whose members have experienced problems with other actors in their supply chain to provide information to consumers**



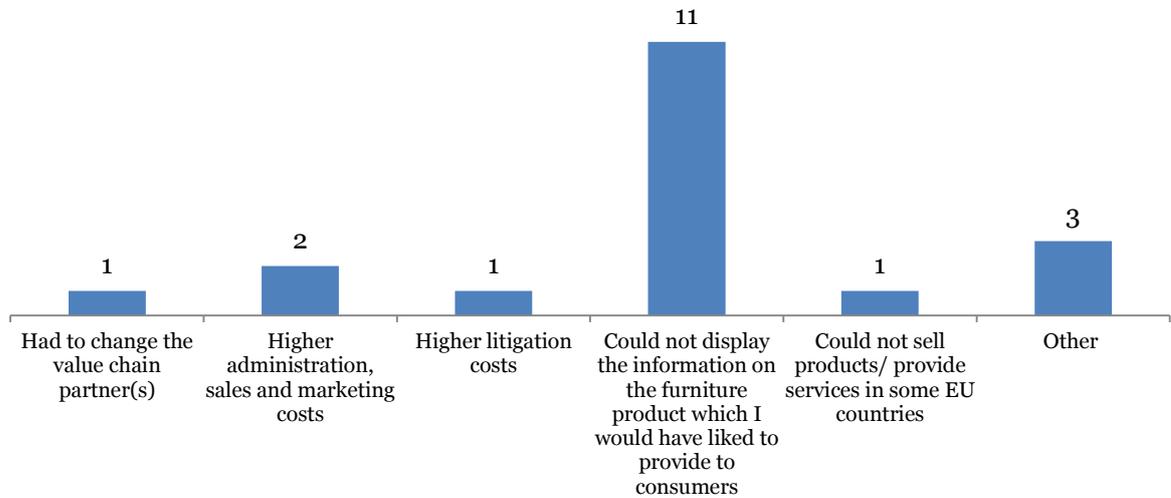
Source: Authors' own elaboration

**Figure 101 Problems experienced by members of industry associations representing manufacturers due to other actors in their supply chain**



Source: Authors' own elaboration

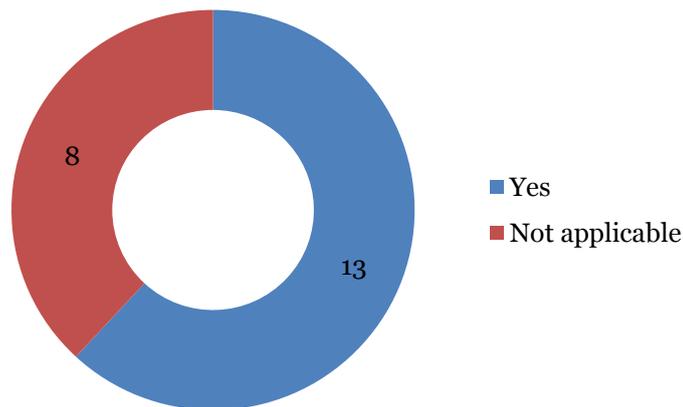
**Figure 102 Consequences of the problems experienced by members of industry associations representing manufacturers due to other actors in their supply chain**



Source: Authors' own elaboration

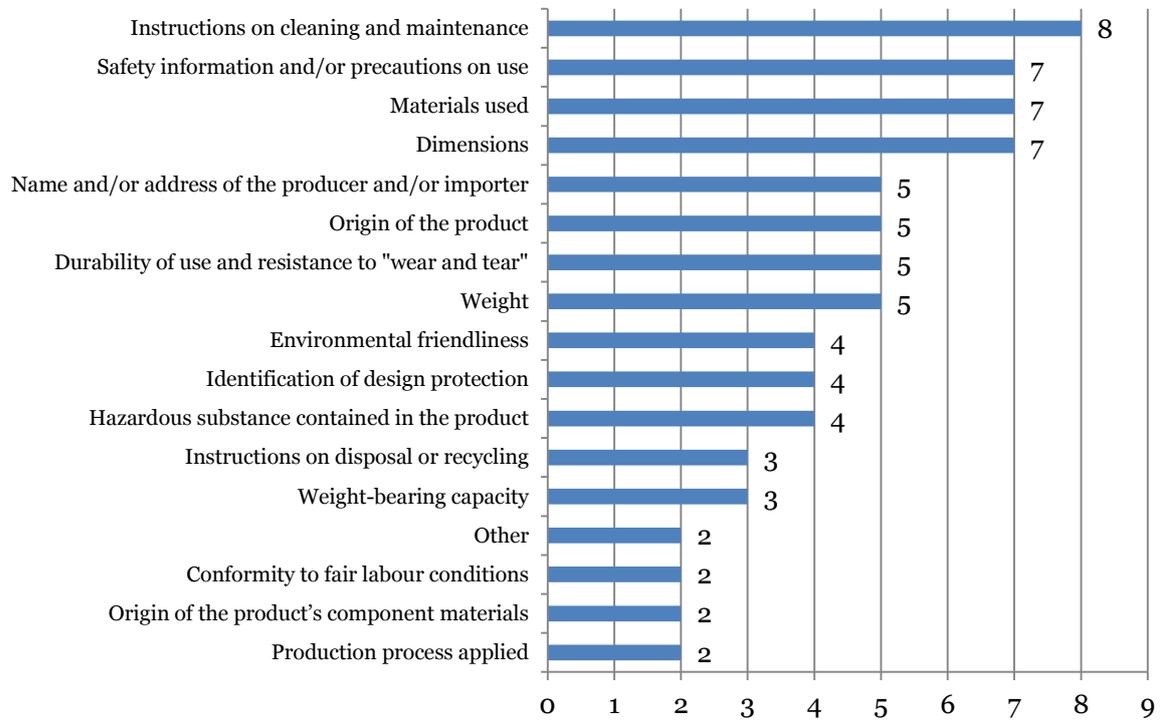
Thirteen associations responded that their member companies usually display information on certain furniture product characteristics to consumers (see Figure 103). The attributes shown by the majority of their members are instructions on cleaning and maintenance, safety information and/or precautions on use, material used, and dimensions (see Figure 104). By displaying such information, companies reportedly enjoyed better reputation for their products/services (see Figure 105).

**Figure 103 Industry associations representing manufacturers whose members display information on certain furniture product characteristics to consumers**



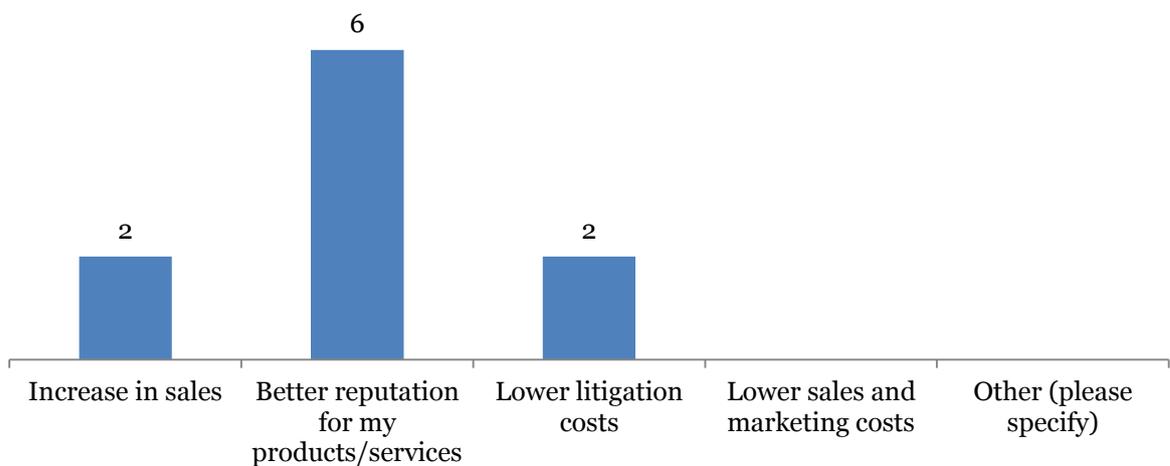
Source: Authors' own elaboration

**Figure 104 Attributes displayed by members of industry associations representing manufacturers that display information on certain furniture product characteristics to consumers**



Source: Authors' own elaboration

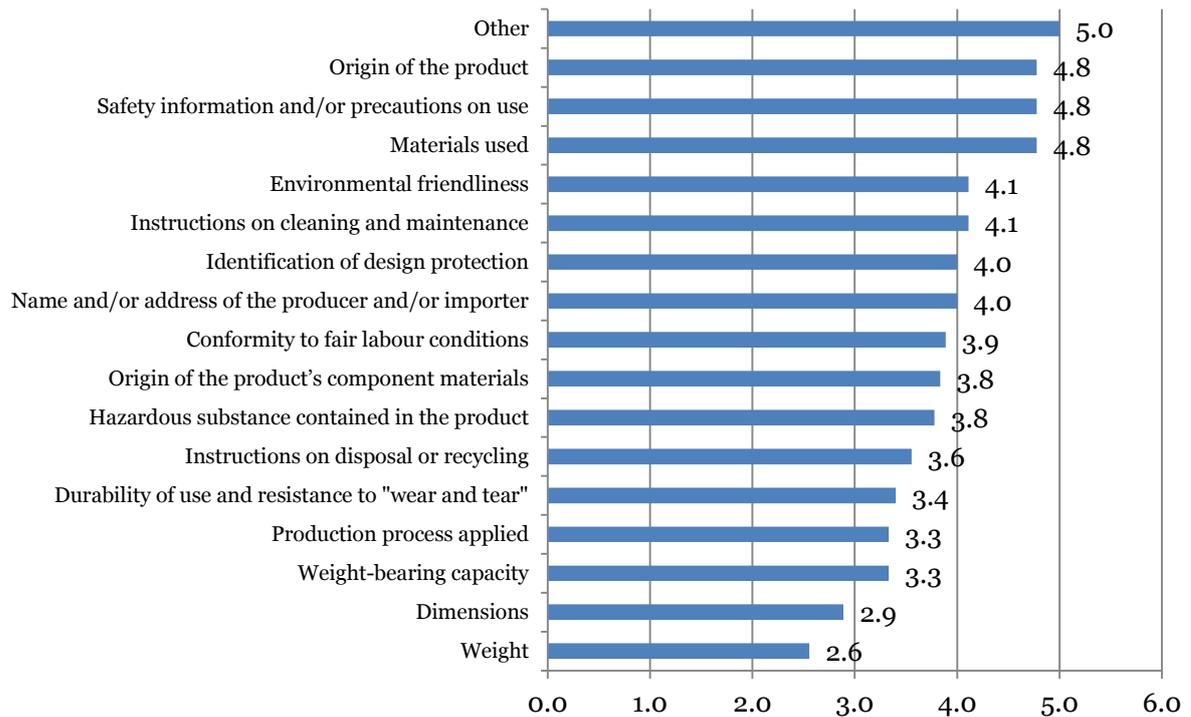
**Figure 105 Advantages for members of industry associations representing manufacturers stemming from information displayed to consumers about furniture product characteristics**



Source: Authors' own elaboration

According to those associations that responded to the question illustrated in Figure 106 as “not applicable”, they considered that consumers are mainly interested in the origin of the product, safety information and/or precautions on use, and material used and, of course, in price (that is included in the residual category “other”; see Figure 107).

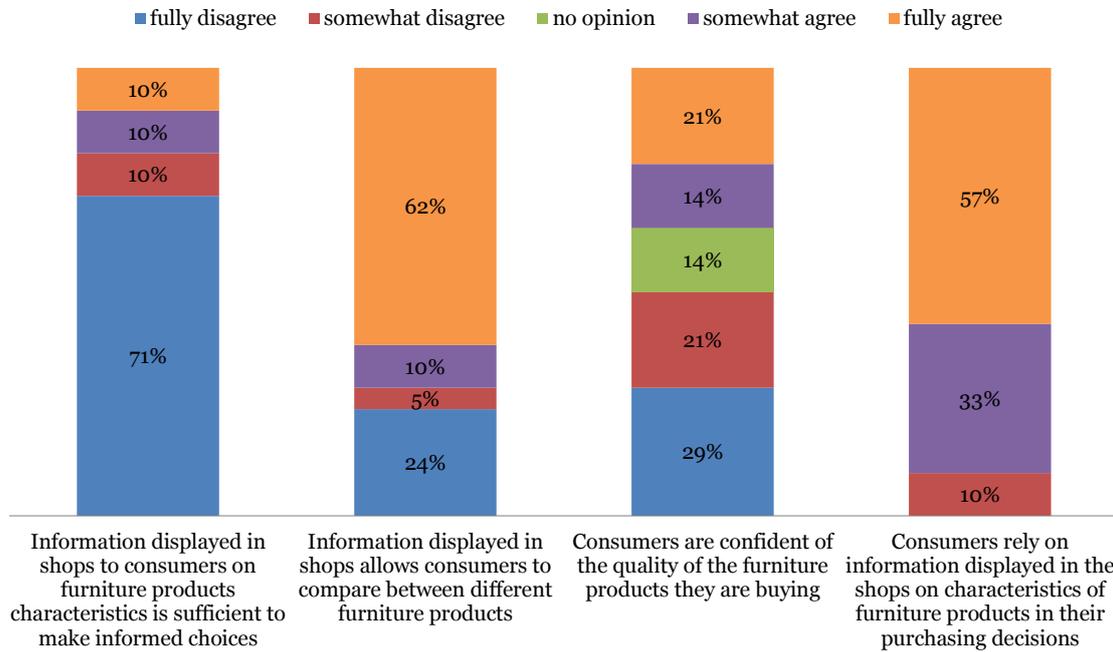
**Figure 106 Attributes that are considered important by industry associations representing manufacturers (from 1-not important to 5-very important)**



Notes: replies provided only by associations that considered the question illustrated in Figure 104 as “not applicable”.  
 Source: Authors' own elaboration

Industry /associations representing manufacturers identified a problem of information asymmetry in the furniture market. The vast majority of them (bottom two boxes, 81%) in fact argue that consumers do not have enough information to make informed choices. A large share (bottom two boxes, 50%) of respondents also claimed that consumers are not confident of the quality of furniture they are buying. Nevertheless, 71% (top two boxes) of the stakeholders included in this sub-group deem consumers able to compare between different furniture products given the information displayed in shops. The lion's share (top two boxes, 90%) believes that consumers rely on displayed information to make their purchasing decisions (see Figure 107).

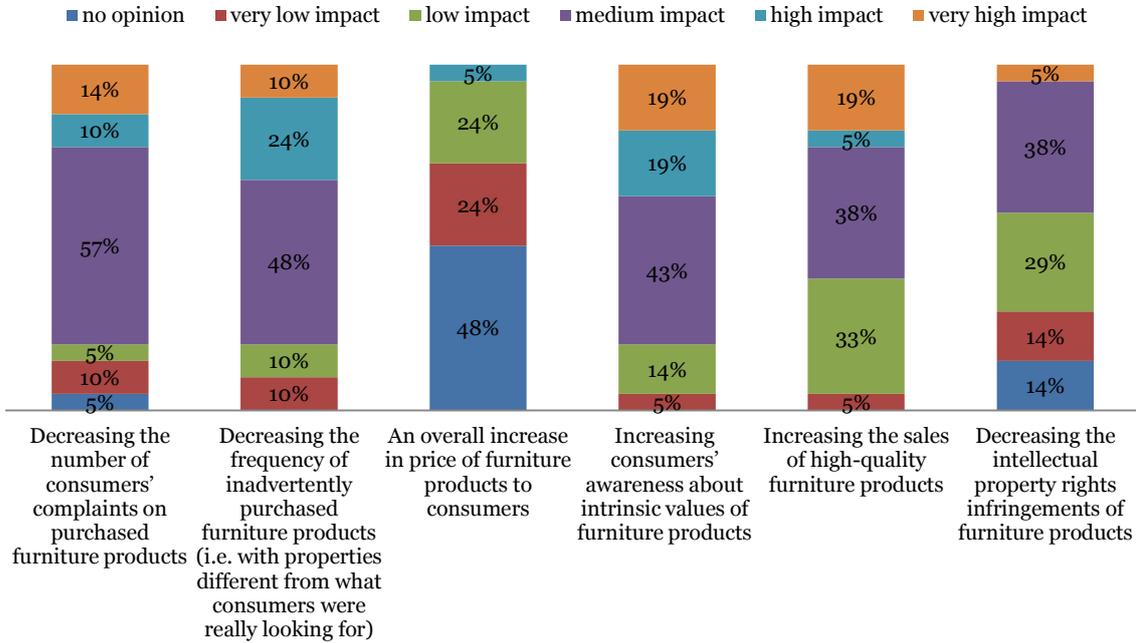
**Figure 107 Information asymmetries in the furniture market according to industry associations representing manufacturers**



Source: Authors' own elaboration

Respondents assessed that displaying this kind of information has a medium to high impact in terms of reduction of consumers' complaints (top two boxes, 24%; medium impact, 57%) and inadvertent purchases (top two boxes, 33%; medium impact, 48%) as well as of increase in consumers' awareness (top two boxes, 38%; medium impact, 43%). Impacts are relatively lower as regards price increase (bottom two boxes, 48%), additional sales of high quality products (bottom two boxes, 38%), and prevention of IPR infringements (bottom two boxes, 43%; see Figure 108).

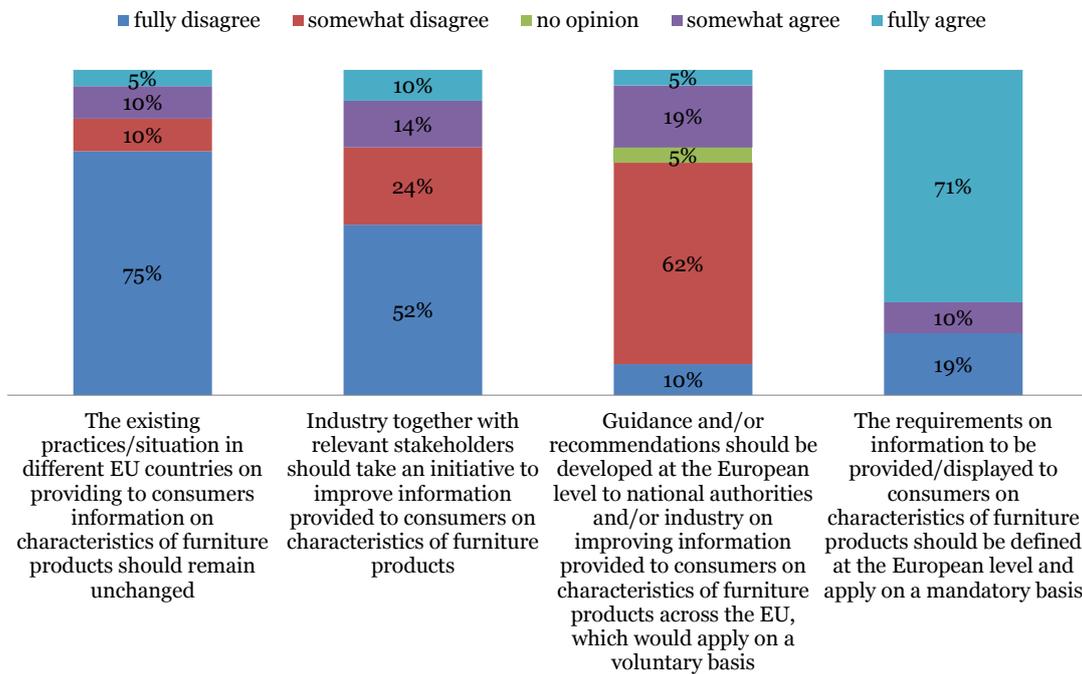
**Figure 108 Impact on consumers of information displayed in shops about furniture characteristics according to industry associations representing manufacturers**



Source: Authors' own elaboration

According to 81% (top two boxes) of industry associations representing manufacturers, a strong EU intervention is required to tackle the asymmetric information issue by setting out requirements on information to be provided/displayed to consumers at the EU level (see Figure 109).

**Figure 109 Need for action according to industry associations representing manufacturers**

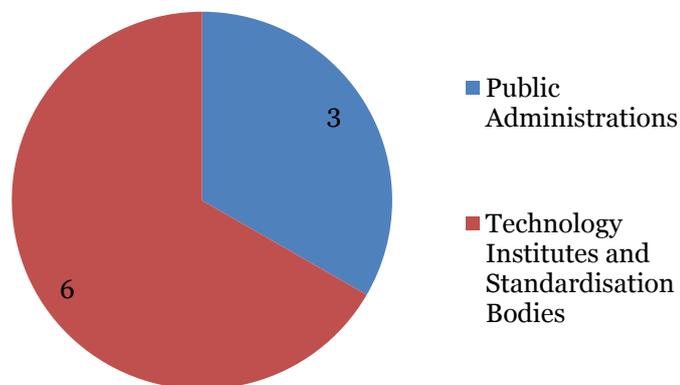


Source: Authors' own elaboration

### 7.2.3 Public administrations, technology institutes and standardization bodies

This stakeholder group comprises three public administrations (based in Czech Republic, Estonia, and France) and six technology institutes or standardization bodies (based in Austria, Belgium, France, Italy, Spain, and UK, see Figure 110).

**Figure 110 Public administrations, technology institutes and standardization bodies**

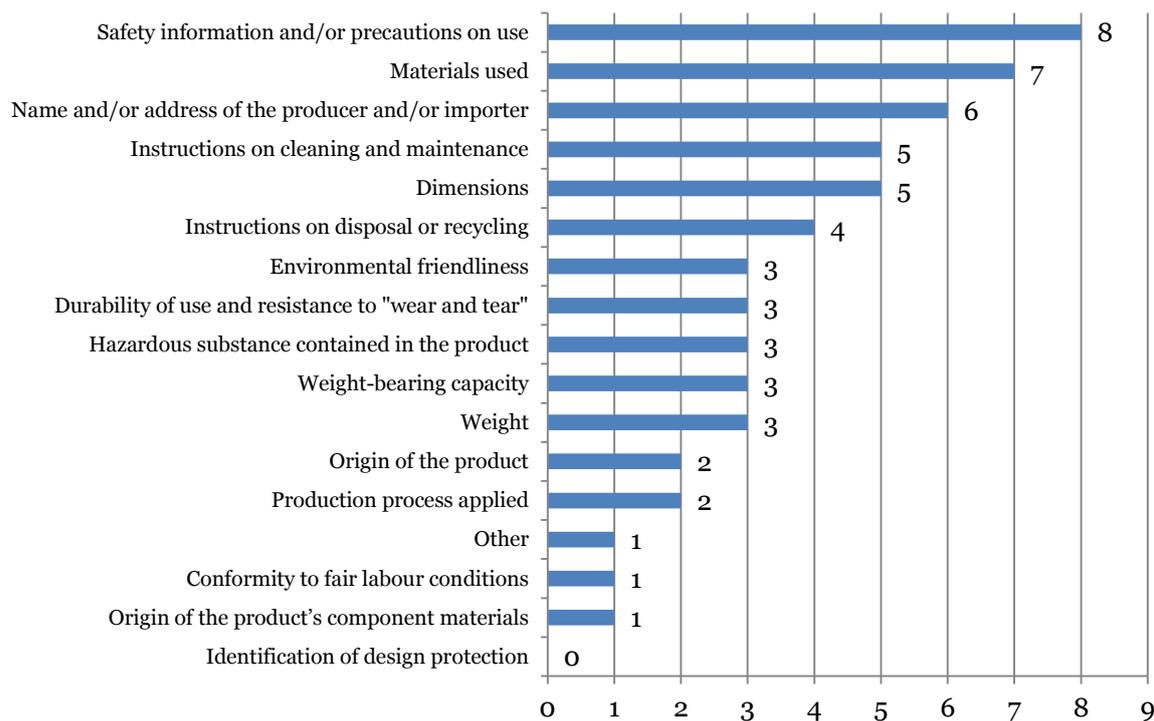


Source: Authors' own elaboration

All respondents but one are aware of measures requiring the provision of information to consumers about furniture products characteristics. Safety information and/or precautions on use is the attribute required by the majority of identified measures, followed by material used, name and/or address of the producers/importer, and dimensions of the piece of furniture (see Figure 111). Information has to be displayed in a standardized format according to only two relevant measures.

Seven respondents usually deal with policy or technical aspects of furniture products. In the last five years, the majority of them (some 70%) were directly involved in the development of measures on the provision of information on furniture products. Over the same period, only one respondent out of nine reported to have dealt with a problem stemming from different measures applied across the EU countries, mainly due to technical specifications in force only in a given country and not in others. Three stakeholders have also dealt with complaints about misleading information provided in the furniture market. In particular, non-compliance with mandatory consumer information obligations as well as, to some extent, false or concealed information were recurrent issues for these three respondents.

**Figure 111 Information required by measures as identified by public administrations, technology institutes and standardization bodies**

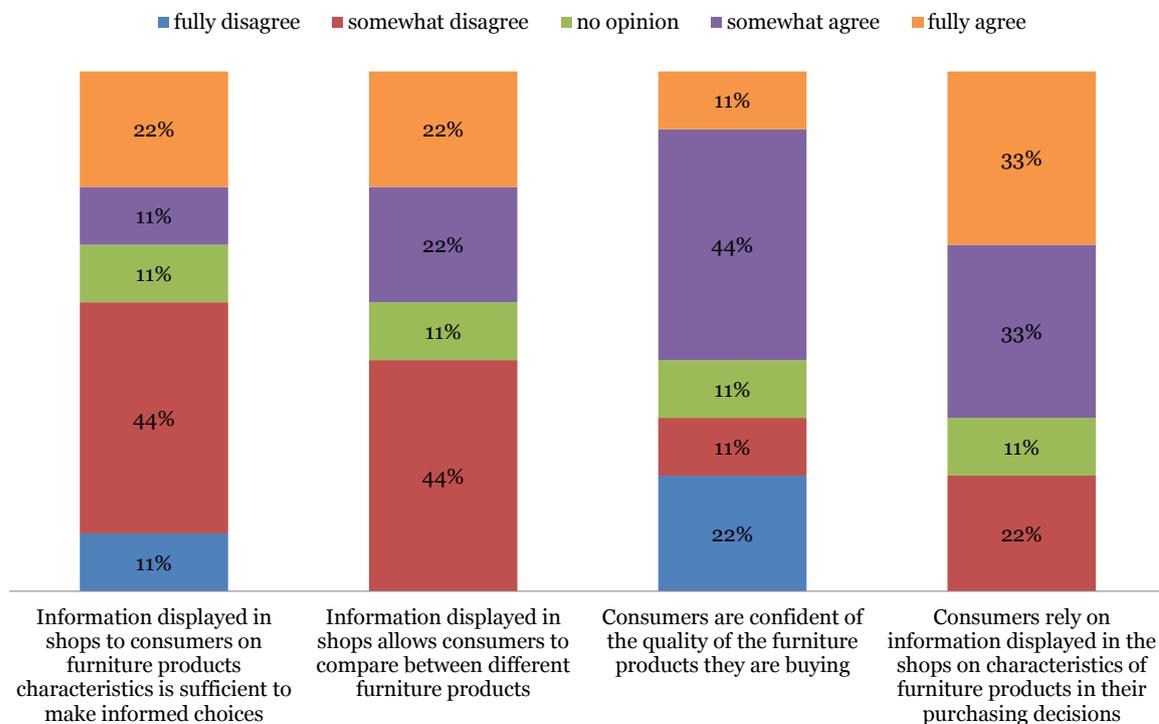


Source: Authors' own elaboration

More than half (bottom two boxes, 56%) of the stakeholders included in this group believe that consumers do not have enough information to make informed choices when buying furniture (see Figure 112). While there is no agreement on the ability of consumers to compare between different furniture products on the basis of the information displayed (top two boxes, 44% and bottom two boxes, 55%), the majority of respondents argued that consumers are confident of the quality of furniture products

they are buying (top two boxes, 56%) and rely on information displayed in shops to make their purchasing decisions (top two boxes, 67%).

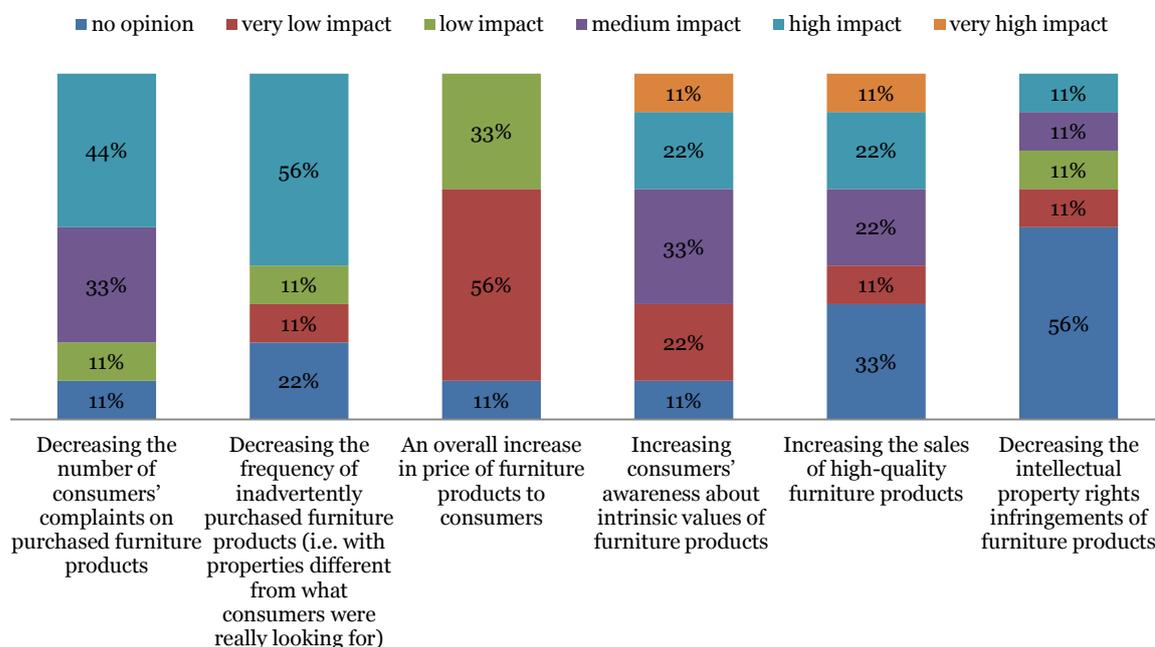
**Figure 112 Information asymmetries in the furniture market according to public administrations, technology institutes and standardization bodies**



Source: Authors' own elaboration

Displaying information is estimated to have a medium/high impact on decreasing the number of consumers' complaints and inadvertent purchases as well as on increasing consumers' awareness and sales of high quality products. Whereas the price of furniture products should be impacted to a very small extent by displaying information, the majority of stakeholders had no opinion as regards the role of information in fighting intellectual property rights (IPRs) infringements in the furniture market (see Figure 113).

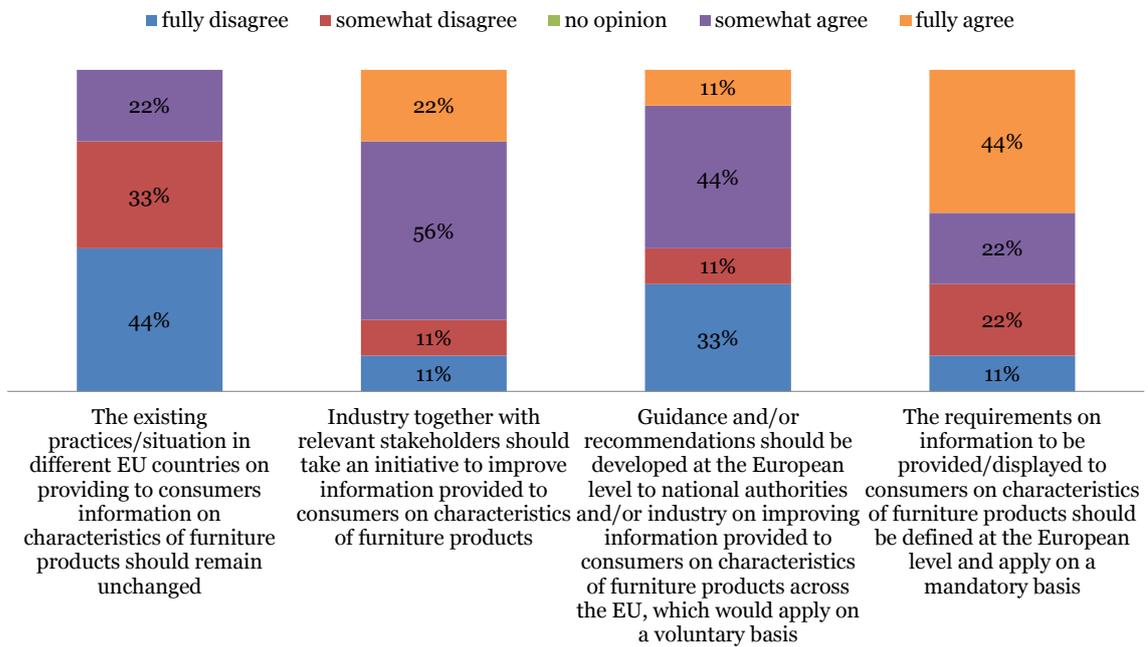
**Figure 113 Impact on consumers of information displayed in shops about furniture characteristics according to public administrations, technology institutes and standardization bodies**



Source: Authors' own elaboration

As regards potential policy options, a large share of this group of respondents (bottom two boxes, 77%) considers that the current situation should be changed. Industry-led initiatives are the preferred option to tackle the information asymmetry problem (top two boxes, 78%), followed by mandatory requirements defined at the EU level (top two boxes, 66%). Finally, 55% (top two boxes) of the stakeholders included in this group agree with issuing EU guidance/recommendations (see Figure 114).

**Figure 114 Need for action according to public administrations, technology institutes and standardization bodies**

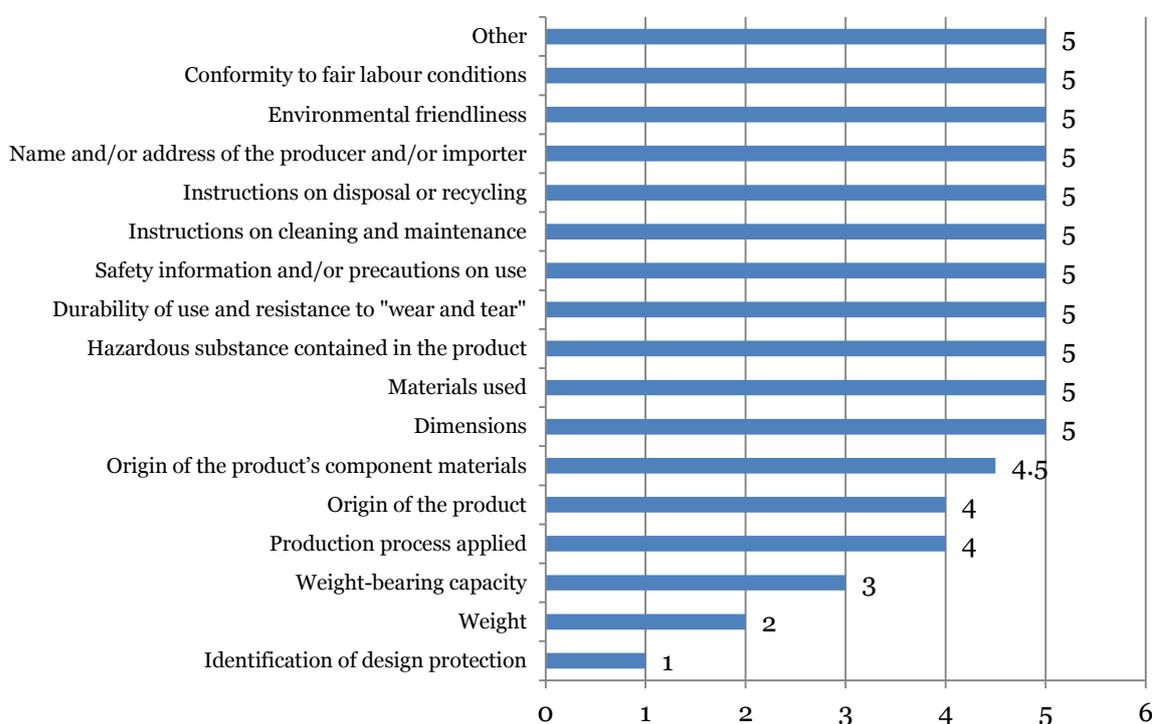


Source: Authors' own elaboration

#### 7.2.4 Consumer organisations

Two consumer organisations contributed to the public consultation, one operating at global level and the other representing German consumers. Both organisations were aware of measures requiring the provision of information to consumers in the furniture market. This group of stakeholders considered it crucial to display information at the point of sale in a standardized format. All the attributes listed in Figure 115 were deemed very important for consumers to make informed choices, except for weight, weight bearing capacity and identification of design protection. Also additional comfort criteria (e.g., type and density of upholstery) and performance criteria (e.g., resistance to fading) were indicated (in the residual category “other”) as very important pieces of information for consumers.

**Figure 115 Attributes that are considered important by consumer organisations  
(from 1-not important to 5-very important)**



Source: Authors' own elaboration

Consumer organisations unanimously believe that information displayed in shops is not sufficient for consumers to make informed choices and that consumers are unable to compare between furniture products. Nonetheless consumers are confident of the quality of furniture products they are buying and they rely on information displayed to make purchasing decisions. Displaying information was estimated to have a high impact in decreasing consumers' complaints and a very high impact in decreasing inadvertent purchases and increasing consumers' awareness about the intrinsic value of furniture products. While impacts on sales of high quality furniture are considered to be medium, impacts in terms of on price increase should be very low. Consumer organisations had no opinion as regards relations between displayed information and IPRs infringement. Again unanimously, they considered binding EU rules on information requirements as the only viable solution to effectively meet consumer information needs.

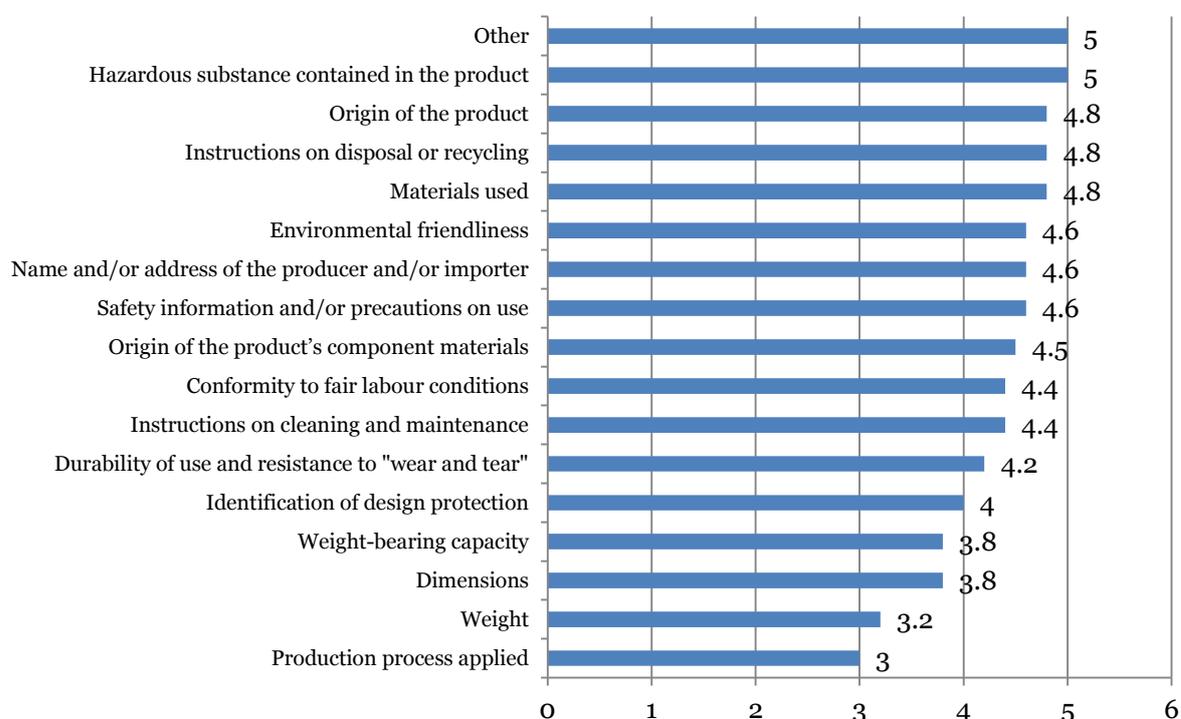
### 7.2.5 Other stakeholders

The residual category of stakeholders comprises five respondents: a non-profit association from Belgium, a Swedish researcher, an Austrian researcher, a Polish university, and a consultant that operates at the EU level. Three of these respondents were aware of measures requiring the provision of information to consumers about furniture characteristics. They believed that the most important information items for consumers are hazardous substances contained in the product, origin of the production, instruction on disposal or recycling, and material used. Also assembly

instructions (included in the residual category “other”) are considered as very important by one respondent. On the opposite end of the ranking, these respondents put production process applied, weight, and product dimensions. This information should be presented in a standardized format (see Figure 116).

One respondent stressed the risk posed by flammability of upholstered furniture and argued that consumers all over Europe are largely unaware of such a risk (except in the UK and Ireland where relevant legislation is into force). As a result, fire safety information should be part of the product information provided to consumers, both in the shops and on the label of the products themselves. Reportedly, in the interest of general consumer safety, this kind of information should be harmonised and mandatory at European level.

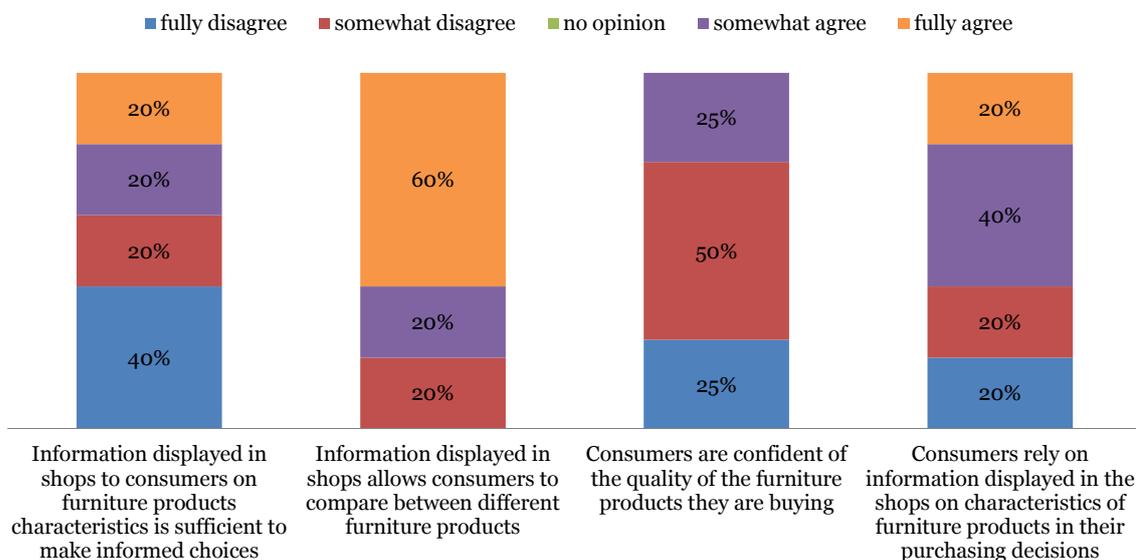
**Figure 116 Attributes that are considered important by other stakeholders (from 1-not important to 5-very important)**



Source: Authors' own elaboration

Most of stakeholders in this group argued that information displayed in shops is not sufficient for consumers to make informed choices (bottom two boxes, 60%; see Figure 117). Nonetheless, displayed information allows consumers to compare between different furniture products (top two boxes, 80%). While consumers rely on this information when making purchasing decisions (top two boxes, 60%), they are not confident of the quality of furniture products (bottom two boxes, 75%).

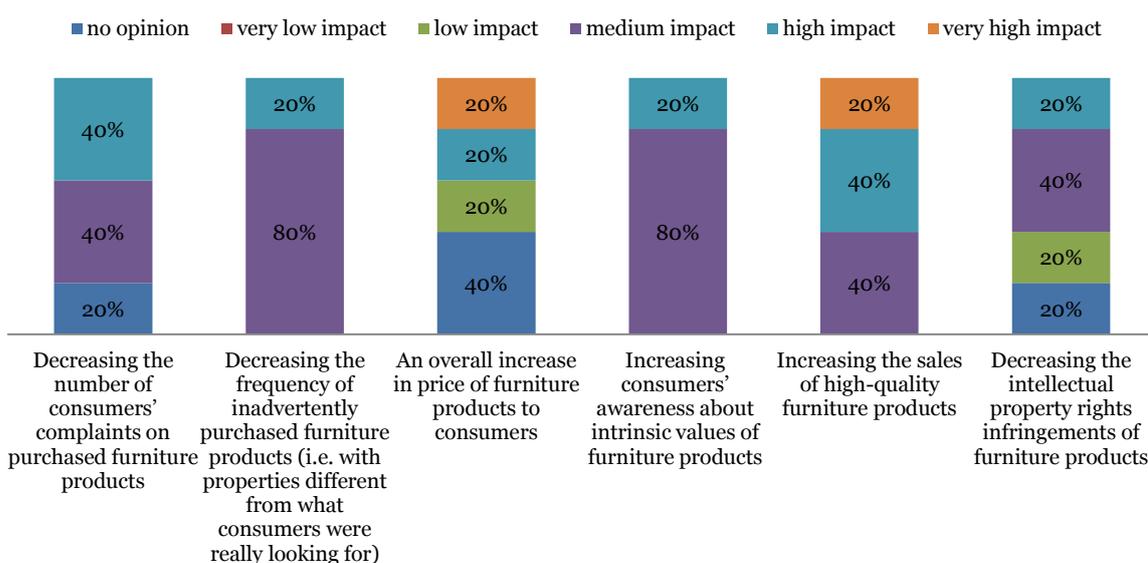
**Figure 117 Information asymmetries in the furniture market according to other stakeholders**



Source: Authors' own elaboration

The impact of displayed information on the number of consumers' complaints, the frequency of inadvertent purchases, consumer's awareness about intrinsic values of furniture products, sales of high-quality furniture, and IPR infringements was generally medium to high. The only exception concerns the expected price increase, where 40% of respondents had no opinion at all and another 40% estimated a high impact (see Figure 118).

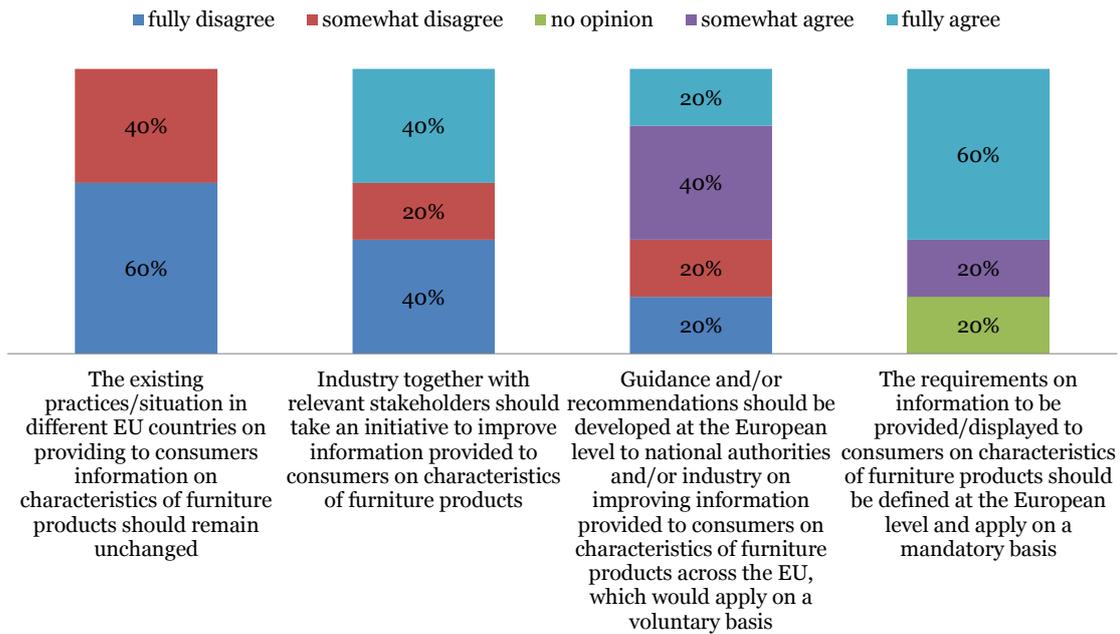
**Figure 118 Impact on consumers of information displayed in shops about furniture characteristics according to other stakeholders**



Source: Authors' own elaboration

Stakeholders included in this residual group unanimously disagree with maintaining the *status quo* in terms of information provided to consumers in the furniture market. While the majority of respondents do not believe that industry-led initiatives could be effective (bottom two boxes, 60%), they deem that either EU guidance/recommendations (top two boxes, 60%) or mandatory EU rules on information requirements (top two boxes, 80%) might successfully tackle existing asymmetric information issues (see Figure 119).

**Figure 119 Need for action according to other stakeholders**



Source: Authors' own elaboration

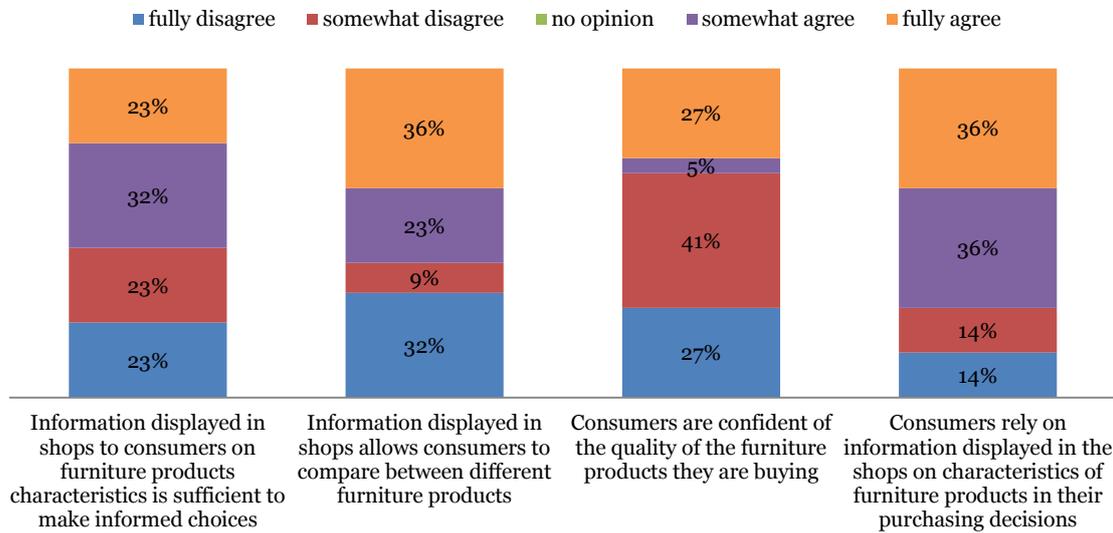
### 7.2.6 Individuals

The set of questions tailored for individuals and included in part one of the online questionnaire collects the same information that was already investigated during the Consumer Survey carried out for the present study. The views of the very limited number of individuals (22) that submitted their contributions cannot be put on the same level with the results of a Consumer Survey based on a sample of 5,072 consumers across ten EU countries. Hence, analysing in this Chapter the responses provided by individuals to the first part of the online consultation would be not only irrelevant but also highly misleading. Conversely, part two on the impact assessment and policy options adds valuable information, even if it is far from being representative of the view of EU consumers. The latter is better captured by the contributions of the consumer organisations presented above.

A slight majority of respondents (top two boxes, 55%) argued that information displayed in shops is sufficient to make informed choices and enables comparison between different furniture products (top two boxes, 59%). While 68% of this group of individuals believed that consumers are not confident of the quality of furniture they

are buying, 72% stated that consumers rely on displayed information when making purchasing decisions (see Figure 120).

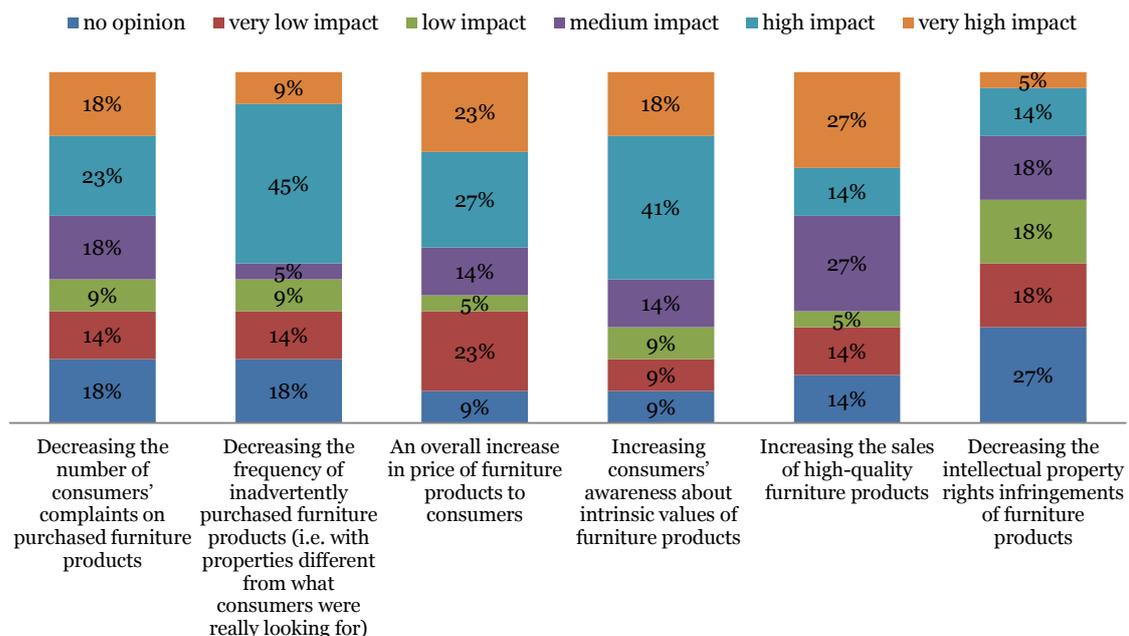
**Figure 120 Information asymmetries in the furniture market according to individuals**



Source: Authors' own elaboration

Impacts on all the dimensions included in Figure 121 are expected to be medium to high, with stronger effects on decreasing the frequency of inadvertently purchased furniture, increasing the price of furniture products, and increasing consumer's awareness about the intrinsic value of the items they are about to purchase.

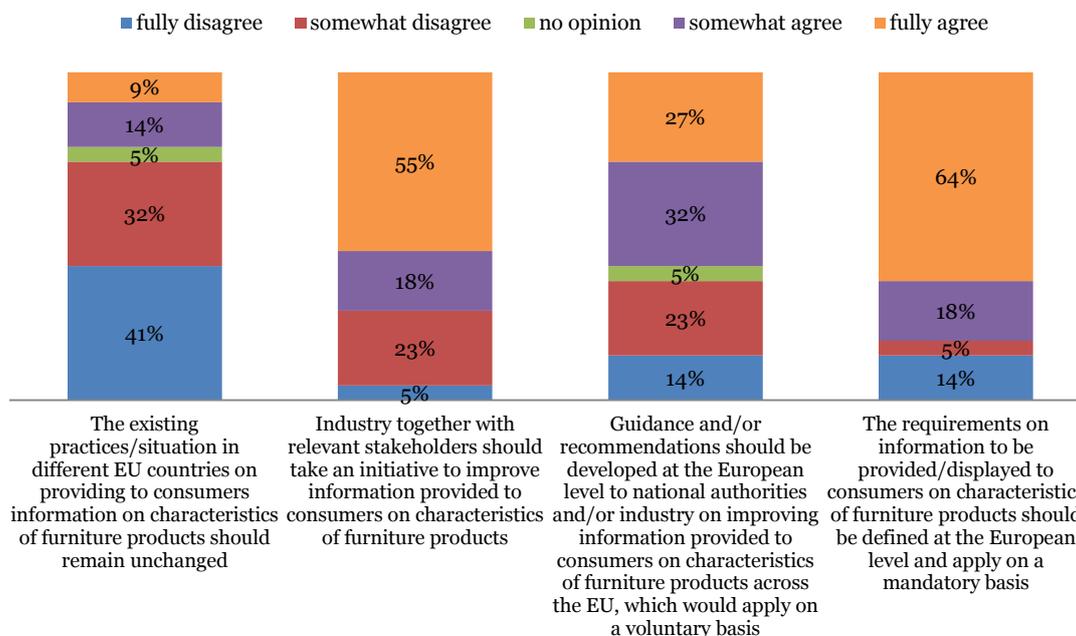
**Figure 121 Impact on consumers of information displayed in shops about furniture characteristics according to individuals**



Source: Authors' own elaboration

The majority of respondents (bottom two boxes, 73%) agreed with the option of changing the current situation (see Figure 122). While they prefer binding information requirements defined at the EU level (top two boxes, 82%), they also supported industry-led initiatives (top two boxes, 73%) and guidance/recommendations issued by EU institutions and applied nationally on a voluntary basis (top two boxes, 59%).

**Figure 122 Need for action according to individuals**

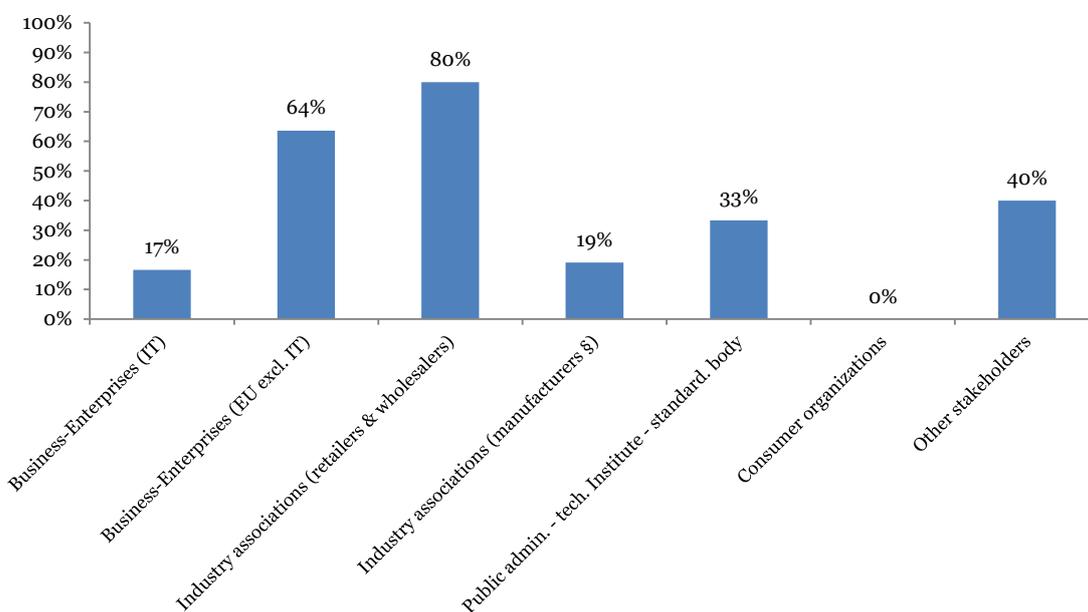


Source: Authors' own elaboration

### 7.3 Concluding remarks

This section briefly recalls the responses provided by different groups of stakeholders on key aspects that are further analysed in the Study. In particular, the following figures summarize stakeholder's feedback on the existence of information asymmetries in the furniture market. Industry associations representing retailers and wholesalers and business enterprises headquartered in EU countries other than Italy largely agree that information displayed in shops to consumers of furniture products is enough to make informed choices. Conversely, the remaining stakeholders groups are dominated by respondents that report problems of insufficient information to make purchasing decisions (see Figure 123). Nonetheless, all stakeholders with the exception of consumer organizations and public administrations/technology institutes/standardization bodies argue that information displayed in shops allows consumers to compare between different furniture products (see Figure 124). The majority of respondents in all stakeholder groups believe that consumers rely on information displayed in the shops on characteristics of furniture products in their purchasing decisions (see Figure 125). Finally, as regards consumer confidence in the quality of the furniture products they are buying, the most positive feedback was provided by respondents from consumer organizations, retailer associations, and public administrations (Figure 126).

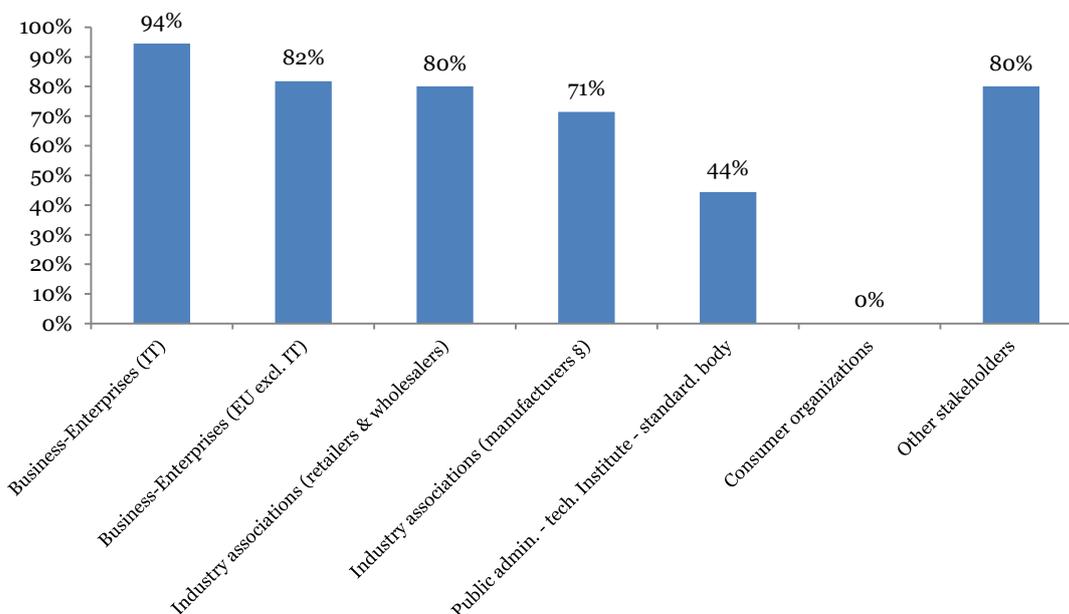
**Figure 123 Percentage of respondents that fully agree or somewhat agree (top two boxes) with the following statement “Information displayed in shops to consumers on furniture products characteristics is sufficient to make informed choices”**



*Note:* § This stakeholder group includes industry associations that represent the interests of manufacturers. Please note that one third of these associations represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

*Source:* Authors' own elaboration

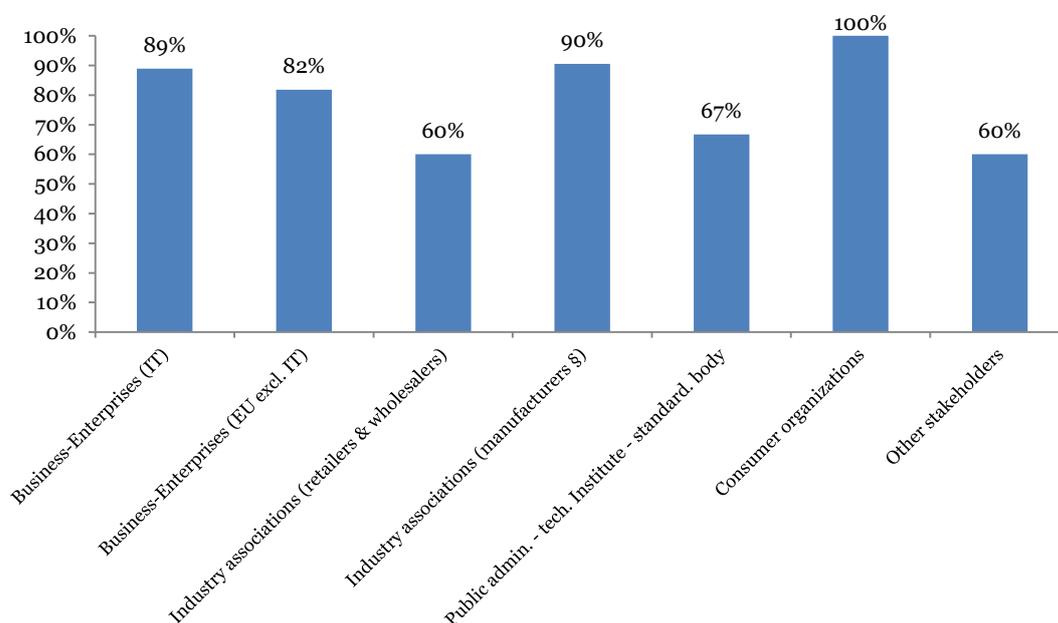
**Figure 124 Percentage of respondents that fully agree or somewhat agree (top two boxes) with the following statement “Information displayed in shops allows consumers to compare between different furniture products”**



*Note:* § This stakeholder group includes industry associations that represent the interests of manufacturers. Please note that one third of these associations represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

*Source:* Authors' own elaboration

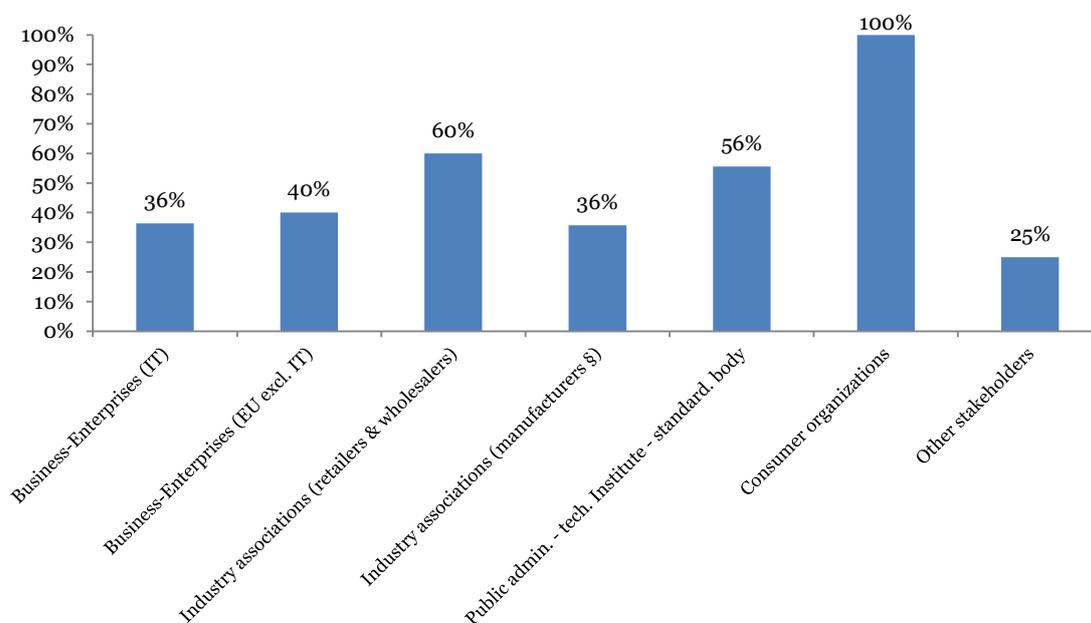
**Figure 125 Percentage of respondents that fully agree or somewhat agree (top two boxes) with the following statement “Consumers rely on information displayed in the shops on characteristics of furniture products in their purchasing decisions”**



*Note:* § This stakeholder group includes industry associations that represent the interests of manufacturers. Please note that one third of these associations represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

*Source:* Authors' own elaboration

**Figure 126 Percentage of respondents that fully agree or somewhat agree (top two boxes) with the following statement “Consumers are confident of the quality of the furniture products they are buying”**



*Note:* § This stakeholder group includes industry associations that represent the interests of manufacturers. Please note that one third of these associations represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

*Source:* Authors' own elaboration

Table 72 shows how different stakeholder groups evaluated the impact on consumers of information displayed in shops about furniture characteristics. In particular, the table shows for each group the difference between the percentage of respondents estimating that the information displayed generates a high or very high impact and the percentage that estimate a low or very low impact. In other words, positive values are proxies for considerable impacts; conversely, negative percentages represent impacts that are deemed negligible.

**Table 72 Difference between the percentage of respondents that estimate a high or very high impact and those that estimate a low or very low impact (top two boxes – bottom two boxes) on consumer of information displayed in shops about furniture characteristics per group of stakeholders and per type of impact**

	Business-Enterprises (IT)	Business-Enterprises (EU excl. IT)	Industry associations (retailers/wholesalers)	Industry associations (manufacturers §)	Public admin. - tech. Institute - standard. body	Consumer organizations	Other stakeholders
Decrease in the number of consumers' complaints on purchased furniture products	6%	-27%	-50%	10%	33%	100%	40%
Decrease in the frequency of inadvertently purchased furniture products	6%	-36%	-67%	14%	33%	100%	20%
An overall increase in price of furniture products to consumers	-6%	-45%	-50%	-43%	-89%	-100%	20%
Increase in consumer awareness about intrinsic values of furniture products (e.g. not visible at purchase but apparent during use)	12%	0%	-75%	19%	11%	100%	20%
Increase in sales of high-quality furniture products	12%	0%	0%	-14%	22%	0%	60%
Decrease in intellectual property rights infringements	-6%	-36%	-25%	-38%	-11%	0%	0%

*Note:* § This stakeholder group includes industry associations that represent the interests of manufacturers. Please note that one third of these associations represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

*Source:* Authors' own elaboration

In general, the majority of stakeholders do not expect price-increases stemming from the display of additional product information in shops; they are also sceptical about impacts in decreasing IPRs infringements.

Companies based in Italy, associations representing manufacturers, consumer organizations, public administrations/technology institutes/standardization bodies and some other stakeholders expect positive impacts in terms of reduction in the number of consumer complaints on purchased items and in the frequency of inadvertent purchases as well as an increase in consumers' awareness of the intrinsic value of furniture products. Conversely, businesses based in other EU Member States and associations of retailers and wholesalers argue that the impact on these two dimensions is more limited. With regard to the effects on the sales of high quality furniture products, only Italian companies, public administrations/technology institutes/standardization bodies and the residual category including other stakeholders expect a positive impact.

To better understand which problems may currently affect the EU furniture sector, Table 73 summarizes the responses given by a selection of stakeholders on the following points:<sup>158</sup> the level of awareness of existing measures aimed at providing information on furniture products to consumers; whether such measures have generated an advantage for the respondents; whether these measures create cross-border barriers to intra-EU trade; and whether the respondents have experienced any unfair competition from competitors that do not comply with the measures identified. The table also covers answers to questions on problems experienced by respondents along the value chain, as well as questions on the costs and benefits reported by those who already display certain product information to consumers.<sup>159</sup>

All stakeholder groups included in the table report some degree of awareness of existing measures, with a peak among businesses (essentially manufacturers) located in Italy (89%). Businesses headquartered in other EU Member States and active both in manufacturing and other segments of the value chain display a lower level of awareness (54%). The lowest level is found among associations representing retailers (40%).

In terms of the benefits generated by the schemes identified by the respondents, businesses located in Italy and national and EU associations representing players other than retailers voice the most positive feedback (94% and 75% of respondents in each group experienced some form of advantage from existing schemes). The feedback is more modest among businesses headquartered in other EU Member States (16% of respondents report benefits). Conversely, associations representing retailers did not report any benefit from existing schemes. As regards the impact of identified schemes on cross-border barriers to intra-EU trade, both businesses headquartered in Italy and associations representing players other than retailers voiced some concerns and qualitatively estimated these barriers as high. On the other hand, the other two groups of respondents (business based in other EU Member States and associations of retailers) appear less concerned and estimate these barriers as low.

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<sup>158</sup> Some categories of respondents (e.g. public administrations, consumer organisations) are not included in this summary table, as the selected questions were not seen as relevant and hence not included in the questionnaire addressed to these stakeholders

<sup>159</sup> Unless otherwise specified, percentages are computed over total number of respondents to each question.

**Table 73 Summary of responses to selected questions of the public online consultation**

Type of respondent	Awareness of mandatory schemes?	Advantage?	Cross border barrier?	Unfair competition from non complying competitors?	Problems in value chain?	Main problem in the value chain	Displaying information?	Estimated cost of displaying information	Main advantages from displaying information
<b>Businesses (rest of EU)</b>	Yes (55%)	Yes (17%, of those aware; i.e., only 1 company)  Estimated benefits: not reported	Yes (33% of those aware of schemes)  Estimated costs: Low	Yes (83% of those aware of schemes)  Estimated costs: 0-4% annual turnover	Yes (64%)	Retailers non displaying  (57% of those reporting a problem)  Difficulty obtaining info from manufacturer/importer  (43% or those reporting a problem)	Yes (82%)	Less than 1% of annual turnover	Better reputation (78% of those displaying)  Increase in sales (44% of those displaying)
<b>Businesses (IT)</b>	Yes (89%)	Yes (94% of those aware of schemes)  Estimated benefits: 2-4% annual turnover	Yes (81% of those aware of schemes)  Estimated impact: High	Yes (94% of those aware of schemes)  Estimated costs: 2-4% annual turnover	Yes (89%)	Retailers non displaying  (94% of those reporting a problem)	Yes (74%)	1% of annual turnover	Better reputation (57% of those displaying)  Lower litigation costs (42% of those displaying)
<b>Associations (retailers)</b>	Yes (40%)	No	Yes (50% of those aware of schemes i.e., only 1 association)  Estimated impact: Low	No	Yes (25%; i.e., only 1 association)	Problems in obtaining info from manufacturer/importer  (100% of or those reporting a problem; i.e., only 1 association)	Yes vs. not applicable (60%)	Between 2-4% of the annual turnover (only one respondent)	Better reputation for my products/services  (33% of those displaying; not reported by others)

Type of respondent	Awareness of mandatory schemes?	Advantage?	Cross border barrier?	Unfair competition from non complying competitors?	Problems in value chain?	Main problem in the value chain	Displaying information?	Estimated cost of displaying information	Main advantages from displaying information
<b>Associations (manufacturers §)</b>	Yes (76%)	Yes (75% or those aware of schemes)	Yes (88% of those aware of schemes) Estimated impact: High	Yes (93% of those aware) No reliable quantification	Yes (62%)	Retailers non displaying (85% of those reporting a problem) Difficulty of obtaining information from manufacturer/importer (31% those reporting a problem)	Yes vs. not applicable (62%)	Between less than 1% and up to 4% of the annual turnover	Better reputation for my products/services (46% of those displaying)

Note: § This stakeholder group includes industry associations that represent the interests of manufacturers. Please note that one third of these associations represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

Source: Authors' own elaboration

With the exception of the associations representing retailers, the majority of stakeholders in the other three groups confirmed having experienced unfair competition from competitors that do not comply with measures in force as well as problems in the value chain when it comes to product-related information. As regards vertical relations, the resistance of retailers to display product information to consumers tops the list of complaints in these three groups, followed by the difficulty in obtaining product information from the manufacturer/importer. The latter is the only problem reported by the associations representing retailers, although this concern was voiced only by one respondent in this group.

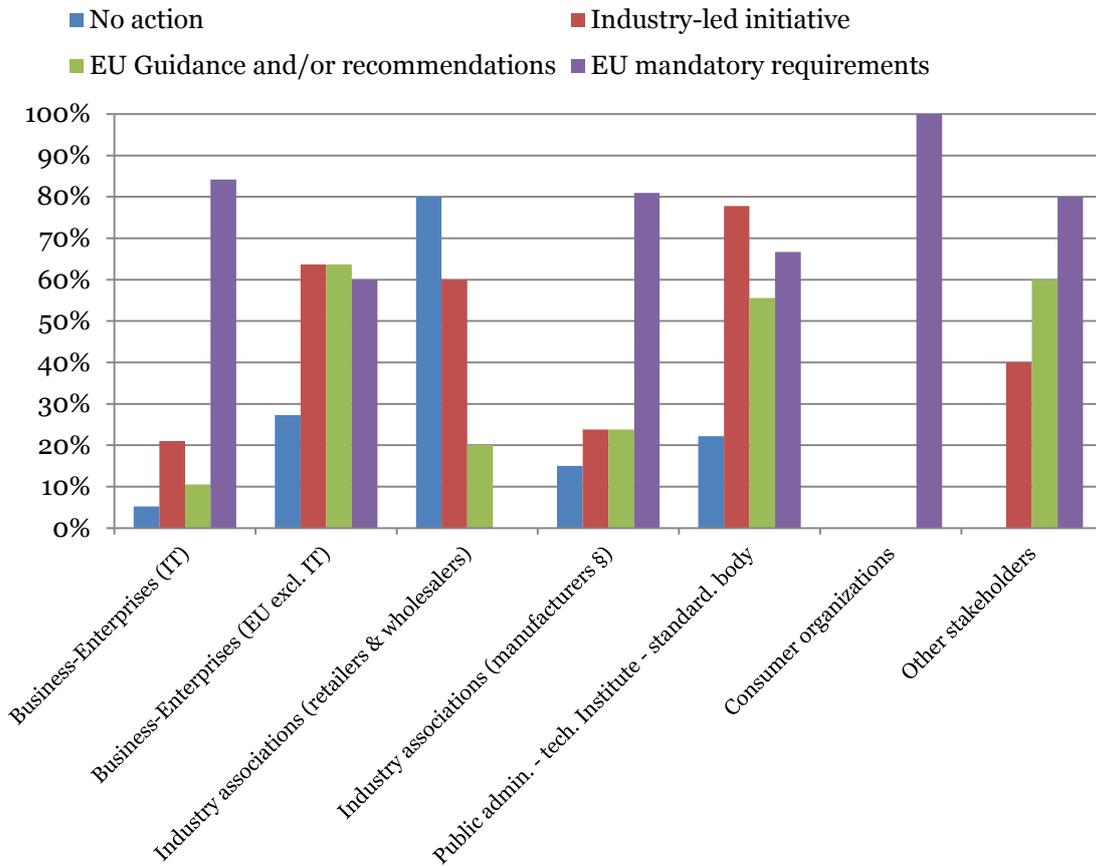
Finally, the majority of respondents in each group confirmed that they already display certain product information to consumers.<sup>160</sup> The cost of displaying such information ranges from less than 1% to a maximum of 4% of annual turnover among those who provided some quantification. Better reputation for products and services is the first benefit generated by displaying certain product information among all stakeholder groups, and is highest (reported by 78% of respondents displaying information) among businesses headquartered in Member States other than Italy, that also mention an increase in sales (45%) as another benefit.

To conclude, Figure 127 recaps stakeholders' views on different policy options to address potential problems emerging from the online consultation. The large majority of companies based in Italy, industry associations representing manufacturers, and consumer organizations advocated a strong intervention of the EU, via the introduction of mandatory requirements on information to be provided to consumers on characteristics of furniture products. Public administrations/technology institutes/standardization bodies and other stakeholders supported a number of policy actions, although without an absolute preference identified, including industry led initiatives, EU guidance and/or recommendations developed at the EU level and applied on a voluntary basis, as well as the adoption of EU mandatory requirements. Companies headquartered in EU Member States other than Italy were also in this position. Finally, industry associations representing retailers and wholesalers responded that no EU action is required, even though the majority of respondents included in this group expressed some support for an industry-led initiative (self-regulation).

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<sup>160</sup> For specific details on which information is displayed in each case, see the individual Sections of this Chapter.

**Figure 127 Percentage of respondents that fully agree or somewhat agree (top two boxes) with the following policy options per group of stakeholders**



*Note:* § This stakeholder group includes industry associations that represent the interests of manufacturers. Please note that one third of these associations represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

*Source:* Authors' own elaboration

# **PART III**

## **IMPACT ASSESSMENT**

## 8 INTRODUCTION TO THE IMPACT ASSESSMENT

This Chapter introduces the reader to the impact assessment by briefly summarizing the key elements of Parts I and II of the Study, which set the background for a description of the problems identified in the EU furniture market and the definition of the policy objectives of a possible furniture products initiative. In light of the comparative analysis of existing schemes in the EU and of the results of the Consumer Survey, this Chapter contains an analysis of a selection of product information requirements, aimed at assessing their potential impacts in terms of increased consumer welfare and additional competitiveness of the EU furniture industry. Finally, the Chapter concludes with an analysis and comparison of alternative policy options that could be envisaged to address the problems currently affecting the EU furniture industry.

### 8.1 The EU furniture industry at a glance

#### 8.1.1 Outline of latest market trends

In 2007 the EU furniture industry<sup>161</sup> accounted for about 1.1 million jobs and for some €38 billion added value (roughly 1.5% of the EU manufacturing GDP). Total sector production before the recent crisis reached €100 billion (see Annex 2). The furniture industry has been one of the most severely hit by the recent economic downturn and has experienced a significant reduction in employment and production volumes. Since the 2007 peak, total industry production has decreased by more than 14%. This has accelerated an ongoing general restructuring process common to other low-tech industries, such as clothing and textiles. In fact, between 2007 and 2011, total sector employment has decreased by around 20%. With a total of about 130,000 companies, furniture remains one of the most fragmented manufacturing sectors in Europe and SMEs account for over 70% of total added value, of which a sizeable share is represented by small companies and micro-enterprises.<sup>162</sup>

Europe accounts for about 20% of total world furniture production, which makes it the second world production region after Asia Pacific and before North America. The role of Western Europe<sup>163</sup> in the global context further increases when its position in the international trade of furniture is considered. One of the peculiar features of the European furniture market is that it still remains a major hub of world trade in terms of market size. According to the different estimates and sources available, the EU accounts for about 40-45% of world furniture imports and for around

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<sup>161</sup> The furniture industry is an assembling industry of various raw materials to manufacture its products. These can range from wood and wood based panels to metals, plastics, textile, leather and glass. There are many different types of furniture (e.g. chairs, sofas, tables, wardrobes, kitchens, mattresses) with very different uses (e.g. households, schools, offices). Wooden furniture used in bedrooms, dining rooms, living rooms and other spaces together with plastic and metal furniture are the dominant manufactured products in the EU (38% of total furniture production value). Other important production subsectors are seats and office furniture (29% and 17% respectively) as well as kitchen furniture (12%). For further details, see Part I of the Study, and Joint Research Centre (2013), Revision of Ecolabel and Green Public Procurement criteria for the product group wooden furniture, at:

[http://susproc.jrc.ec.europa.eu/furniture/docs/Background\\_report\\_Furniture\\_September\\_2013.pdf](http://susproc.jrc.ec.europa.eu/furniture/docs/Background_report_Furniture_September_2013.pdf)

<sup>162</sup> See European Commission, DG Enterprise and Industry, EU Industrial Structure Report 2013 - Competing in Global Value Chains, p. 28.

<sup>163</sup> Western Europe includes Austria, Belgium, Denmark, Finland, France, Germany, Italy, Norway, Spain, Sweden, Switzerland, The Netherlands, and the UK.

30-35% of world furniture exports, and accounts for about 45% of total world trade. The majority of this (about 85%) is represented by intra-EU trade. In fact, the European Single Market has resulted in a very high degree of business-to-business (B2B) trade integration across the Member States both in terms of firm specialization and product differentiation. At present, the EU furniture industry remains one of the most integrated and of the best differentiated in terms of product variety in the world.

In terms of market structure, the production and the distribution of furniture were traditionally carried out by separate firms. Things have been evolving rapidly, however. Although some large manufacturers are increasingly developing their own distribution networks or selling directly to customers, distribution and retail have become comparatively more concentrated than manufacturing due to a growing number of strategic partnerships among major retailers and the increasing relevance of buying groups.<sup>164</sup> The degree of concentration among retailers varies between Member States and market segments. Large-scale retail trade is more prominent in countries like Germany, France and the UK while it was - until recently - more limited in Spain and Italy. This situation, however, keeps changing rapidly, particularly in the middle and lower segments of the markets, as the development of logistics and overseas networks to source products from price-competitive suppliers, coupled with the possibility of exploiting economies of scale in terms of marketing, advertising and communication, have gradually provided some retailers with greater contractual power towards other domestic actors in the value chain.

With over 500 million inhabitants, the EU accounts for roughly one quarter of the global world furniture consumption market, worth around €80 billion at producer prices. Per capita furniture consumption levels remain on average the highest in the world (together with North America) and over four times higher than those registered by middle and low income countries. Depending on the economic cycle and on increases in the housing stock, per capita furniture consumption in the EU can be as high as 1.5-2% of total household purchasing power domestically.<sup>165</sup> The furniture market has traditionally been very cyclical and is sensitive to the economic conjuncture. Since 2007 it has experienced one of the highest reductions in consumer expenditure among all EU markets for industrial products.

Commitment to open trade and globalization has impacted the EU furniture market in a notable way over the last decade. Since 2000, the EU has substantially increased its extra-EU imports of furniture from €5 billion to €10 billion.<sup>166</sup> Most of the growing extra-EU imports are based on price competition and come from low-labour cost countries. China alone accounts for about 60% of extra-EU imports.<sup>167</sup> These cheap imports have been comparatively less hit by the slump in domestic consumption than the EU production.

Against this background, the competitive response of the European furniture industry has revolved around further quality upgrading, although this has occurred at different strengths/levels across the various segments of the industry. In particular, the EU furniture industry has heavily invested in machinery and product development. This has reduced the relative contribution of labour to overall costs and placed a premium on technical, design and local knowledge.<sup>168</sup> Yet, and despite the strong reduction in workforce experienced over the last few years, furniture remains by all

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<sup>164</sup> For further details on this point, see Part I, Section 4.2.3.

<sup>165</sup> See note 162.

<sup>166</sup> For further details see Annex 2.

<sup>167</sup> For further details see Part I of this Study.

<sup>168</sup> For further details, see International Tropical Timber Organization ITTO - Annual Review and Assessment of the World Timber Situation 2012.

standards a labour-intensive sector. Indeed, the industry is one of the largest providers of low and medium skilled jobs across the EU, respectively accounting for some 33% and 53% of total employment in the furniture sector.<sup>169</sup>

In 2011, the product competitiveness of EU furniture manufacturers, measured in terms of unit values of exports, was approximately 40% higher than the extra-European competitors' average. It is currently estimated that for every three high-end furniture products traded internationally, two are of EU origin. However, EU competitiveness does not only concern the upper-medium range of the market. Indeed, despite sharply declining domestic sales in 2012, Italy maintained its position as the world's second largest exporter of wooden furniture and parts, mainly thanks to its medium to large enterprises engaged in lower to medium-priced furniture manufacture.<sup>170</sup> This has allowed the EU furniture industry – in contrast to other low-tech industries - to score relatively high (1.15) in terms of revealed comparative advantage, a figure second only to China globally speaking.<sup>171</sup> At Member State level, Table 74 shows that nine countries (namely, Denmark, Estonia, Italy, Latvia, Lithuania, Poland, Portugal, Romania and Slovenia) still ranked above China in 2011 in terms of revealed comparative advantage. All these Member States are expected to be particularly affected – as highly specialised producers - by any EU policy in the field of furniture. Other large producers also likely to be substantially affected are Germany, France, Spain and the UK.

**Table 74 Revealed Competitive Advantage (RCA) Index in Manufacturing Industries in 2011**

Country	RCA	Country	RCA
Austria	1.19	<b>Latvia</b>	<b>2.31</b>
Belgium	0.49	<b>Lithuania</b>	<b>5.67</b>
Bulgaria	1.31	Luxembourg	0.12
Cyprus	0.47	Malta	0.08
Czech Republic	1.52	Netherlands	0.40
<b>Denmark</b>	<b>2.51</b>	<b>Poland</b>	<b>5.03</b>
<b>Estonia</b>	<b>2.74</b>	<b>Portugal</b>	<b>2.80</b>
Finland	0.23	<b>Romania</b>	<b>3.61</b>
France	0.52	Slovakia	1.52
Germany	0.85	<b>Slovenia</b>	<b>2.78</b>
Greece	0.31	Spain	0.73
Hungary	1.00	Sweden	1.55
Ireland	0.09	UK	0.42
<b>Italy</b>	<b>2.38</b>	<b>EU 27</b>	<b>1.15</b>
		<i>USA</i>	<i>0.48</i>
		<b>China</b>	<b>2.12</b>

<sup>169</sup> For further details, see Visionary Analytics and ETUC (2013), *Ibid.*, available at [http://www.etuc.org/sites/www.etuc.org/files/Furniture\\_12-08\\_fin.pdf](http://www.etuc.org/sites/www.etuc.org/files/Furniture_12-08_fin.pdf)

<sup>170</sup> For further details, see EUWID Wood Products and Panels Report 2012 quoted in International Tropical Timber Organization ITTO - Annual Review and Assessment of the World Timber Situation 2012.

<sup>171</sup> The revealed comparative advantage is an index used in international economics to calculate the relative advantage or disadvantage of a certain country in a given class of goods or services as evidenced by trade flows. It is based on the Ricardian comparative advantage concept. It most commonly refers to an index introduced by Béla Balassa:  $RCA = (E_{ij}/E_{it}) / (E_{nj}/E_{nt})$  where: E Exports; i Country index; n Set of countries; j Commodity index; t Set of commodities. That is, the RCA is equal to the proportion of the country's exports that are of the class under consideration ( $E_{ij}/E_{it}$ ) divided by the proportion of world exports that are of that class ( $E_{nj}/E_{nt}$ ). A comparative advantage is “revealed” if  $RCA > 1$ . If RCA is below 1, the country is said to have a comparative disadvantage in the commodity or industry.

### 8.1.2 Main competitiveness factors

In competitiveness terms, the main strengths of the EU furniture industry can be summarised as follows:<sup>173</sup>

- *All sections of the furniture production value chain are present in the EU.* As a result, EU furniture manufacturers can count on a variety of inputs and on a wide network of companies and qualified staff. This enables manufacturers to adapt production and to differentiate and customize products.
- *The furniture sector can count on high quality raw materials and components suppliers.* In particular, EU manufacturers of wood based panels are large, competitive and innovative. Special leather and textiles for upholstery and high performance metal hardware for furniture are other examples.
- *EU furniture production technology is advanced.* Companies operating in the woodworking machinery industry are global leaders. This technology leadership is essential both to increase productivity and in terms of product differentiation.
- *EU furniture products have managed to incorporate values other than price.* Furniture manufacturing has a long history in Europe. This, together with cultural heritage, gives European manufacturers a competitive edge and favours the development of creative competences recognized worldwide.
- *Leading design and research centres are located in the EU.* EU furniture manufacturers are trendsetters at the global level. Many EU manufacturers are also perceived as prestigious and high quality by designers, media and consumers.
- *The furniture market in the EU remains very large by world standards.* The EU furniture market is mature and dynamic. The sector still accounts for around one quarter of global furniture consumption.
- *Readiness to embrace principles of sustainability and environmental performance.* Several EU furniture manufacturers have signalled their commitment to sustainability by joining voluntary schemes at the national and EU level. This gives them a potential comparative advantage in understanding and managing related market requirements.
- *Cluster cooperation and interaction.* Cluster cooperation and repeated interaction between different actors has a positive impact on innovation and R&D.

In the current international competitive environment, the weaknesses of the EU furniture industry are mainly related to:

- *High labour cost.* The sector remains labour intensive by all standards and is thus subject to competition from low-cost labour countries.
- *Ageing workforce.* An ageing workforce leads to a shortage of skilled workers that becomes particularly problematic when coupled with outdated training infrastructure.

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<sup>172</sup> For further details, see European Commission, DG Enterprise and Industry, European Competitiveness Report 2013 – Towards Knowledge Driven Reindustrialisation.

<sup>173</sup> For further details, see also the SWOT analysis at the end of Part I of the Study and Figure 27.

- *The main furniture demand determinants in the domestic market are weak.* Investments in residential construction are lower than in the past and income availability of consumers has diminished. Reduced levels of public spending further contribute to this trend.
- *Dominance of SMEs with limited access to financial resources.* This partly discourages investments in innovation or in a stable commercial presence (e.g. showroom, warehouses) in distant emerging markets.
- *Protectionist measures in export markets.* While the EU is the most open market globally, protectionist measures exist in other international markets, with tariffs on EU furniture exports.

The main opportunities for sector growth and development are generally considered as being related to the following factors:

- *New markets opportunities arising in the global context.* Russia, China, and the Gulf area are fast expanding markets, with an increasing demand in the high-end segment and with relatively low competition.
- *EU furniture exports are increasing.* Exports flows mainly relate to the activities of large internationalized firms or companies operating in niches and/or under strong brands. Other companies could participate in regional and global value chains, also by exporting intermediate products.
- *Opportunities arising from the construction and renovation sector.* Sustainable construction and eco-approaches in renovation stress the importance of raw materials from sustainable sources and of high performing materials. This trend could lead to an increasing number of environmentally concerned end-users. To fully tap this potential however, consumer awareness should be further increased.
- *Changing patterns of furniture consumptions generating “new” demand.* At present, buying responds also to other needs than durability (e.g. adaptability to small spaces). Changing demographic trends (e.g. ageing of the population) also generate specific demand in terms of targeted products.
- *Exploiting comparative advantages to enhance the overall level of EU furniture quality.* Additional integration of productive systems within the EU could further increase sectoral competitiveness.
- *Skills improvement.* Research in advanced manufacturing technologies can result in the creation of high-technology and knowledge-intensive jobs.

Conversely, the main threats to the industry’s profitability are represented by:

- *Fierce competition from Asia,* particularly in the low and mid-range price segment, with the recent crisis further accelerating this process.
- *Cost and availability of raw materials.* Fluctuations in raw material prices and problems relating to availability of products respecting environmental, sustainability and technical standards and regulations are factors, upstream in the value chain, which could negatively impact furniture production.
- *Insufficient protection of IPRs.* The furniture industry is increasingly reliant on products with high intangible contents (brand, design). Its competitiveness will strongly depend on the protection of these contents in the context of global competition.

- *The evolution of retail markets could further push the demand for overseas supplies.* Several large scale distributors are investing resources both in logistics and in creating overseas networks in order to be competitive on prices, particularly in the middle/low end of the market.
- *Increasing foreign products quality.* The constant progress in the quality of products from foreign countries could eventually lead competition out of a pure price matter. Moreover, the fact that the EU exports high quality components and machinery may accelerate this trend in the medium term.
- *Strict(er) product, environmental and health & safety regulation.* Existing rules applicable in the EU are comparatively stricter (and more costly to comply with) than those found in emerging markets.
- *Uncertain demand for sustainability features in products.* There could be a gap, in the short run, between the expectations of EU furniture manufacturing companies embracing the principles of sustainability (and related costs) and a concrete response from the retailers/consumer side. This could discourage initiatives in this direction.

## 8.2 The nature of the problem and its underlying drivers

### 8.2.1 Difficulties in signalling product quality and sustainability

While the EU furniture industry has so far successfully struggled to remain competitive worldwide, it has increasingly faced problems in signalling the quality and sustainability of its products in its own domestic market and in using these features as a competitive advantage vis-à-vis foreign competitors. As mentioned before, EU furniture products still represent a considerable share of the high-end furniture market worldwide. Thanks to the long-standing tradition of furniture manufacturing in Europe, the leading role of EU furniture production technology, and investments in research and development to offset a comparatively higher cost of labour, EU furniture products can remain on average competitive and of comparatively better quality than those from low cost countries also in the medium and lower segments of the market. In addition, the comparatively stricter EU regulatory framework<sup>174</sup> ensures that furniture products manufactured in the EU are

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<sup>174</sup> EU furniture manufacturers have to comply i.a. with the following EU rules aiming at ensuring a high level of social and environmental sustainability: Directive 2006/11/EC of the European Parliament and of the Council on pollution caused by certain dangerous substances discharged into the aquatic environment of the Community; Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (integrated pollution prevention and control); Directive 2008/98/EC of the European Parliament and of the Council on waste and repealing certain Directives; Directive 94/62/EC of the European Parliament and the Council on packaging and packaging waste; Council Directive 1999/31/EC on the landfill of waste; Council Directive 89/654/EEC concerning the minimum safety and health requirements for the workplace (first individual directive within the meaning of Article 16 (1) of Directive 89/391/EEC); Council Directive 89/656/EEC on the minimum health and safety requirements for the use by workers of personal protective equipment at the workplace (third individual directive within the meaning of Article 16 (1) of Directive 89/391/EEC); Council Directive 90/270/EEC on the minimum safety and health requirements for work with display screen equipment (fifth individual Directive within the meaning of Article 16 (1) of Directive 87/391/EEC); Council Directive 92/58/EEC on the minimum requirements for the provision of safety and/or health signs at work (ninth individual Directive within the meaning of Article 16 (1) of Directive 89/391/EEC); Council Directive 92/85/EEC on the introduction of measures to encourage improvements in the safety and health at work of pregnant workers and workers who have recently given birth or are breastfeeding (tenth individual Directive within the meaning of

top performers in terms of environmental and social sustainability. Yet, these features are not always easily or consistently communicated to the final consumers and thus turned into drivers of competitiveness for EU producers. In addition, growing pressure on the lower segments of the market from cheaper products from other areas of the world does not always allow incorporating/reflecting those quality and sustainability features in the final price of products. In the long run, this shortcoming has the potential to erode some of the industry's factors of strength. It also prevents EU producers to operate on a level-playing field with competitors from low-cost countries. In addition the EU consumer, that historically used to be one of the most quality-sensitive worldwide and thus keener to pay premium prices for quality, is often no longer in a position to recognise quality adequately. This development stems, among others, from the use of new retailing formats (see Section 4.2.3), with furniture chains and large-scale specialist channels becoming more important and catering (all channels considered) for more than 55% of furniture sales in Western Europe.<sup>175</sup> These players have developed specific marketing and communication strategies which do not necessarily make information on product quality which consumers can recognize and react upon easy to find and compare.<sup>176</sup> Moreover and as explained in greater detail in the next Section, retailers might not always have incentives to display the same product information that manufacturers would like to communicate to consumers, particularly for product attributes that cannot be easily verified or understood by consumers (see Box 15 for further details), as this can go against their marketing strategies.

#### **Box 15 Search, credence and experience attributes in the market for furniture**

Competition in the furniture industry is certainly multidimensional and several attributes other than price are able to influence consumers' choices. According to the main literature on the economics of information, quality attributes can be classified in three main categories: i) search, comprising those qualities that can be inspected by the consumer and are ascertained prior to purchasing the good<sup>177</sup>; ii) experience, namely the

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Article 16 (1) of Directive 89/391/EEC); Council Directive 94/33/EC on the protection of young people at work; Council Directive 98/24/EEC on the protection of the health and safety of workers from the risks related to chemical agents at work (fourteenth individual Directive within the meaning of Article 16(1) of Directive 89/391/EEC); Directive 1999/92/EC of the European Parliament and of the Council on minimum requirements for improving the safety and health protection of workers potentially at risk from explosive atmospheres (15th individual Directive within the meaning of Article 16(1) of Directive 89/391/EEC); Directive 2002/44/EC of the European Parliament and of the Council on the minimum health and safety requirements regarding the exposure of workers to the risks arising from physical agents (vibration) (sixteenth individual Directive within the meaning of Article 16(1) of Directive 89/391/EEC); Directive 2003/10/EC of the European Parliament and of the Council on the minimum health and safety requirements regarding the exposure of workers to the risks arising from physical agents (noise) (Seventeenth individual Directive within the meaning of Article 16(1) of Directive 89/391/EEC); Directive 2004/137/EC of the European Parliament and of the Council of 29 April 2004 on the protection of workers from the risks related to exposure to carcinogens or mutagens at work (Sixth individual Directive within the meaning of Article 16(1) of Council Directive 89/391/EEC); Regulation (EC) No 1907/2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and establishing a European Chemicals Agency.

<sup>175</sup> In Central and Eastern Europe data from 2008 indicates that large specialist retail trade accounted for over 30% and that the presence of international names in distribution was intensifying. No updates figures were available at the time of writing for this geographic area.

<sup>176</sup> By way of example, a retailer may refer to the general company's policy towards the environment to signal a product's environmental friendliness, however the policy naturally varies between companies.

<sup>177</sup> For a definition of search attributes see Stigler, G.J. (1961), The Economics of Information, *Journal of Political Economy*, 69(3): 213-225.

qualities that can be inspected and ascertained only by using the good after purchasing it<sup>178</sup>; iii) credence, including qualities that cannot be inspected nor ascertained by the consumer in normal use.<sup>179</sup> The dividing line among search, experience, and credence qualities is not always sharp and there is no definite agreement on which product attributes should be included in each category.<sup>180</sup>

Drawing on the literature, it is possible to build a classification that is relevant for the present study on the basis of three dimensions: i) cost of determining quality; ii) method of determining quality; iii) timing of quality determination (i.e., before or after the purchase).<sup>181</sup> This approach leads to the following observations: for search attributes, the benefit of collecting information outweighs the collection cost (cost dimension), the quality is ascertained by examining or researching the good (method) before purchasing it (timing). For experience attributes instead, the cost incurred to search information is higher than the accruing benefit (cost), the quality is therefore ascertained by using or experiencing the product (method) and only after purchasing (timing). Finally, the cost associated with ascertaining a credence attribute is excessively high for consumers (cost) and the quality cannot be verified without the support of an expert or is even impossible to ascertain (method), even after purchasing and using the good (timing). This three-dimensional approach represents an effective rule of thumb to classify furniture product attributes on the basis of the three main categories defined above. Hence, in Table 75, the attributes contained in the informational requirements selected to build the scoreboard for the comparative analysis of information schemes other than eco-labels (see Chapter 5) have been classified as search, experience, or credence.

It is worth stressing that information provision, due to either voluntary or mandatory disclosure or standards, tends to reduce the uncertainty surrounding credence and experience attributes, thus raising trust among consumers. Nonetheless, the classification provided in Table 75 assumes that these transparency/signalling mechanisms are absent and consumers can rely only on what they can directly inspect or experience.

For some furniture qualities the classification is straightforward. Typical examples of search attributes are price and dimensions which can be inspected before purchasing a piece of furniture at a very low cost. Some other qualities (e.g. as durability of use and resistance to "wear and tear") cannot be tested by consumers before purchasing, but are certainly ascertained by consumers during the normal use of the product, thus falling in the experience category. Other qualities however cannot be assessed even while using the good. This is the case of conformity to fair labour conditions or environmental sustainability, which are typically credence attributes. Nonetheless several furniture attributes cannot be easily categorized and their allocation may vary based on the specific type of product under consideration.<sup>182</sup>

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<sup>178</sup> For a definition of search and experience attributes see Nelson, P. (1970), Information and Consumer Behavior, *Journal of Political Economy*, 78(2): 311-329 and Nelson, P. (1974), Advertising as Information, *Journal of Political Economy*, 82(4): 729-754.

<sup>179</sup> For a definition of credence attributes see Darby, M.R., Karni, E. (1973), Free Competition and the Optimal Amount of Fraud, *Journal of Law and Economics*, 16: 67-88.

<sup>180</sup> See Ekelund, R.B., Mixon, F.G., Ressler, R.W. (1995), Advertising and Information: an Empirical Study of Search, Experience, and Credence Goods, *Journal of Economic studies*, 22: 33-43.

<sup>181</sup> See Comyns, B., Figge, F., Hahn, T., Barkemeyer, R. (2013), Sustainability Reporting: The Role of "Search", "Experience" and "Credence" information, *Accounting Forum*, 37: 231-243

<sup>182</sup> For instance, the component materials of a furniture item can be search attributes whenever they are clearly visible and thus the cost of inspection before purchasing is low. They remain search attributes also when consumers are interested in a general definition of material that is easily ascertained by non-expert purchasers (e.g., metal, plastic, wood, or wood-based panels). Component materials are experience attributes to the extent that materials can be discovered while using the products (e.g., stainless steel, rather than steel, will not rust away when placed outdoor). Yet in many circumstances, materials are credence attributes, both when they are invisible (e.g., fillings in upholstered furniture cannot be inspected even while using the good, unless one incurs the high cost of spoiling the item itself) or not distinguishable by non-experts (e.g., a particular species of wood or kind of fillings even when inspected).

Classifying furniture product attributes is very important as far as informational failure is concerned. In fact, each of the three attribute categories defined above leads to different levels of informational asymmetry between consumers and manufacturers/retailers, thus posing different problems for market players and/or regulators. In particular, for search attributes, asymmetric information is not an issue and the relevant markets generally work efficiently. In other words, consumers can normally access information easily and at a reasonable cost. This gives manufacturers the right incentive to provide goods at the quality level that adequately reflects the consumers' willingness to pay.

Experience attributes are a strange animal in terms of information failure. On the one hand, in markets characterized by repeat purchases and where consumer choice is based on prior experience with product quality, market equilibrium can still be efficient. On the other hand, asymmetric information problems become more severe in markets where purchase is occasional and experiential learning mechanisms do not work smoothly, as is the case for the majority of furniture items. Furthermore, when quality can be determined by using the products, but only after the lapse of a certain period of time, experience attributes pose the same informational problems generated by credence ones<sup>183</sup>. As regards credence attributes, information asymmetry reaches its peak, as the consumer generally lacks viable options to ascertain this type of qualities. Based on this theoretical framework, the functioning of the market for furniture is certainly affected by informational failure.<sup>184</sup>

**Table 75 Search, experience, and credence attributes of furniture products\***

Search	Experience	Credence
Dimensions	Cleaning of the product	Compliance with safety requirements
Flammability	Compliance with safety requirements	Conformity to fair labour conditions
Home delivery included/excluded	Disposal or recycling	Date of importation
Identification of design protection	Durability of use and resistance to "wear and tear"	Date of manufacturing
Items included (if they can be sold separately)	Flammability	Environmental friendliness
Material imitated (see material used)	Maintenance	Hazardous substances contained in the product
Materials used	Material imitated (see material used)	Identification of design protection
Name and/or address of the retailer	Materials used	Material imitated (see material used)
New/second-hand/antique	Use of the product	Materials used
Price	Weight-bearing capacity	Name and/or address of the importer
Self-assembly/assembled		Name and/or address of the manufacturer
Style imitated		Name and/or address of the wholesaler
Use of the product		New/second-hand/antique
Weight		Origin of the product
Weight-bearing capacity		Origin of the product's component materials
		Production process applied

*Note:* \*Some attributes are included in more than one category, considering that their allocation may vary based on the particular kind of furniture under consideration.

*Source:* Authors' own elaboration

As mentioned elsewhere in this Study (see Chapter 5), in some cases, self-regulatory initiatives (i.e., voluntary schemes) have been set up to counter the issue of informational asymmetry between manufacturers/retailers and consumers. Yet, the uptake and success of these schemes remain limited for several reasons that range from the cost of setting up and promoting such schemes to the problem of the failure of retailers to display at the point of sale the information provided by

<sup>183</sup> Note that this phenomenon can be mitigated via other means such as information search on the Internet, word-of-mouth, trust in established brands, and so on.

<sup>184</sup> For further details on the link between the ability to compare products and the level of trust in a given market, see The Consumer Market Scoreboard- 4th Edition (2010) at [http://ec.europa.eu/consumers/consumer\\_research/editions/cms9\\_en.htm](http://ec.europa.eu/consumers/consumer_research/editions/cms9_en.htm)

manufacturers. In the mystery shopping exercise undertaken for this Study we also found that several of the product information items deemed relevant by the respondents to the Consumer Survey (see Chapter 6) are not regularly or consistently displayed on websites. For instance, information on product durability and on resistance to “wear and tear” was never found on the surveyed websites. In the same vein, the Consumer Council of the German Institute for Standardization (DIN) recently undertook a study on upholstered furniture drawing on field work and a comparative analysis of information displayed in furniture shops, discount and cash-and-carry markets as well as on the Internet.<sup>185</sup> The study focuses in particular on product attributes that are deemed of relevance to consumers such as durability, friendliness to human-health, usability of the product, and environmental sustainability. DIN found that the information provided at the point of sale is seldom of any use to the consumer to make informed choices, as information items are not consistently reported and are poorly comparable. As a result, consumers are not put in a position to become aware of and potentially react to some specific product quality and sustainability features for which they could be willing to pay, if only more adequately informed.

This has led to a situation whereby, while importers and retailers of furniture can legitimately pursue a price-based competition and cater to those households that - under budget constraints - are unwilling to recognize any "premium-price" to products with additional quality and/or sustainability feature, (some) market operators may also be able to extract extra-rents from cheap and low quality products that the final consumer is unable to identify as such because of limited product information. This could translate into a direct loss of consumer welfare, particularly when it comes to product durability and related quality features such as the materials and the production process used. Moreover, within this competitive framework, information on product environmental and social sustainability is scantily provided and, when it is, it remains fragmented and poorly comparable. For instance, the mystery shopping exercise showed that some retailers cover the social and environmental features of furniture products by referring to company-specific environmental and social sustainability standards and codes of conduct. These are not entirely or automatically comparable and would in any event require additional search costs for the consumer (i.e. reading the policy applied by each company; this however would not address the impossibility for the consumer to verify the truthfulness of such claims unless they are certified in some form). In addition, this type of information may be more general or different from what the product manufacturer would like to communicate to consumers, thus potentially hindering manufacturers from fully pursuing their quality and sustainability-based competitive strategies. As explained in greater detail below, this situation is rather the result of misaligned incentives between players along the value chain that leads to an issue of information asymmetries towards consumers. This point was reflected in the public online consultation by responses to questions on the quality and quantity of product information provided to consumers in shops. In particular, retailers do not perceive any systematic problem with the information made available to consumers and maintain information is always provided upon request or delivered together with the product, although not necessarily displayed in the showrooms or on retailers' websites as this choice pertains to their marketing strategies. In the few cases where problems with information requested by consumers do arise, these are reported mainly due to poorly informed salespersons. Conversely, manufacturer associations and, to a lesser extent, individual companies indicated that there is an informational failure damaging consumers (a view strongly supported also by consumer associations). Yet, a

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<sup>185</sup> Verbraucherrat des DIN (2013), *Kennzeichnung von Möbeln (Beispielhaft für die Produktgruppe Polstermöbel)*, summary available at:

[http://www.verbraucherrat.din.de/sixcms\\_upload/media/2933/Kennzeichnung%20von%20Moebeln.pdf](http://www.verbraucherrat.din.de/sixcms_upload/media/2933/Kennzeichnung%20von%20Moebeln.pdf)

closer examination of the responses shows that individual businesses appear less convinced of a lack of information *per se*, while their views converge on the fact that this information does not trickle down to the consumers because of a lack of convergence between manufacturers and retailers on which pieces of information should be given to consumers. It is to this issue that we now turn.

### 8.2.2 Problems along the value chain

As explained elsewhere in the Study and in Box 15, competition in the furniture market is not only based on price but revolves also around other attributes linked to the quality of the finished product (e.g., durability, design) and/or to its production process (e.g., handmade, environmentally friendly, socially sustainable). In turn, this opens different opportunities for market segmentation and communication and marketing strategies tailored to different types of consumers. Competition in the non-price sensitive segment of the market also tends to increase between the different players involved, with each of them pushing to emphasize certain product features according to their own criteria and to the detriment of other players, in order to focus consumers' attention where perceived competitive advantage lies. Retailers have increasingly entered this competitive game themselves. Indeed, the changes in the retailing format and the increasing involvement of retailers in the supply chain, together with imbalances in market power<sup>186</sup> - particularly in the largest markets - have strengthened their role in the competition game. It has thus become more difficult for manufacturers and retailers to agree on comparable and recognizable "quality signalling" standards because of coordination problems and diverging incentives along the value chain. It is also in general more difficult for manufacturers who are comparatively more fragmented to impose their communication and marketing preferences on those that will be distributing/selling their products. By way of example, retailers may choose to play on the fact that an average consumer is not in a position to distinguish and thus adequately price two very similarly looking products which underwent two different production processes, one embedding e.g. higher environmental sustainability features and another coming from an emerging country with limited regulation in this area. As a result, the retailer can focus communication and marketing efforts on price and "touch and feel" attributes and extract a higher margin from the non-environmentally friendly item (for further details on this point, see Box 15). The misalignment of incentives to display certain product information may also simply derive from the fact that retailers and manufacturers do not necessarily agree that providing a certain piece of product information will eventually impact on consumers' purchasing behaviour. During the public online consultation and some *ad hoc* interviews some retailers also stressed that a major problem when providing product information to consumers is the attribution of legal responsibility to them for the information provided to the final consumers according to the provisions of the Unfair Commercial Practices Directive. While there is a general manufacturer or importer's responsibility on product safety aspects, in other cases however (e.g. claims of durability that go beyond the normal guarantee, claims on social or environmental sustainability not based on existing standards) the attribution of responsibility lies primarily with the retailers and they have a right to sue their suppliers in second instance.

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<sup>186</sup> As mentioned, EU furniture manufacturers are fairly fragmented and face a more concentrated distribution sector; hence it usually happens that they end in the losing side of the segmentation game. While the top 20 EU companies provide 60% of kitchen, 53% of office furniture, 31% of upholstery, and 32% of furniture, generally speaking distribution is more concentrated in furniture manufacturing and the trend is upward (according to CSIL estimates, the top 15 retailers accounted for 30% of the EU15 market in 2010 compared to 24% in 2007).

This misalignment emerged during the Stakeholder Workshop but was also empirically confirmed by the results of the public online consultation. Specifically, there appears to be a clear discrepancy in accounts of potential problems along the value chain between respondents representing manufacturers and those representing retailers. For instance in the sub-group of Italian businesses (for further details, see Chapter 7), nearly 90% of respondents declared having experienced problems along the value chain and 94% of those explicitly mentioned retailers' resistance in displaying product information that manufacturers would have liked to provide consumers with as the main issue. This problem was also reported as the main one by businesses located in other Member States, although to a lower extent (57%).<sup>187</sup> A similar view was also reported by associations (national and EU) representing market players that operate in several segments of the value chain.

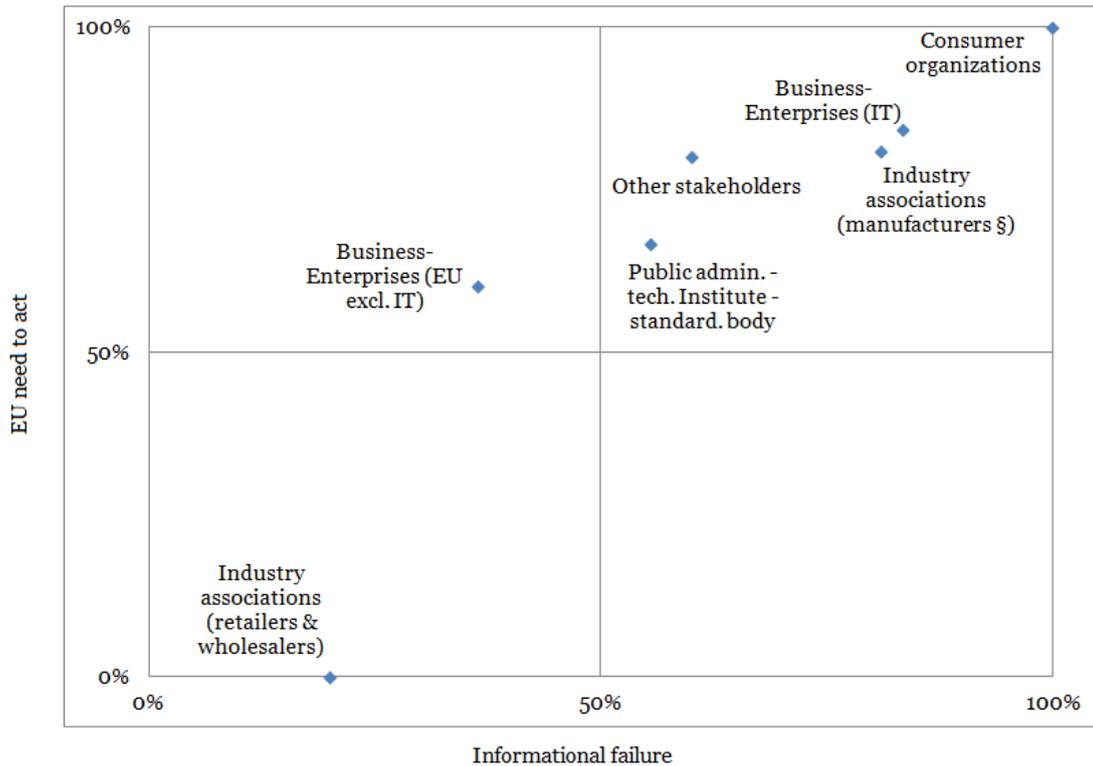
To counter this problem, several voluntary schemes and labels (i.e. self-regulatory initiatives) have been developed by manufacturers, however, as explained in Chapter 5, the level of success and uptake of these initiatives remains limited in many instances. One of the reasons often cited by individual companies and their sectoral associations to explain the limited success and attractiveness of these self-regulatory approaches is the fact that manufacturers may no longer achieve the critical mass to invest in information campaigns and logos on quality to be forced down the value chain, while retailers tend to use their own proprietary standards for certain quality features standards as part of their marketing strategies. Eventually, manufacturers believe that their competitiveness is hampered by the inability to consistently signal the superior quality of their product and production processes when relevant. At the same time, this misalignment of incentives along the value chain has also direct repercussion on consumers, who receive confusing messages, as a non-optimal amount of resources is invested in making consumers more informed and quality-conscious in a neutral and objectively comparable way.

The two Figures below summarize the views of the different stakeholder groups on the two problems discussed above. Specifically, Figure 128 reports the stakeholder map developed in Chapter 7. This map offers a visual summary of the results of the public online consultation and shows that various groups of stakeholders widely differ as to their degree of perception of the informational problem (horizontal axis) and the need for an EU intervention (vertical axis).

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<sup>187</sup> The difference between these two sub-groups could be explained by a series of factors including a higher incidence of the problem in Italy, or by the composition of the two sub-groups: in the case of Italian businesses most respondents (17 out 20) are exclusively manufacturers; conversely in the sub-group covering the other EU Member States, most businesses operate in several segments of the market besides manufacturing. Still, the majority of respondents in both sub-groups identified retailers' resistance as an issue. Conversely, associations representing only retailers signalled limited issues along the value chain (namely the difficulty of obtaining product information from manufacturers/importers, a problem that was reported by only one respondent in this group). It should be noted that possible diverging interests may also exist among manufacturers themselves, because of market segmentation and the coexistence of different types of consumers.

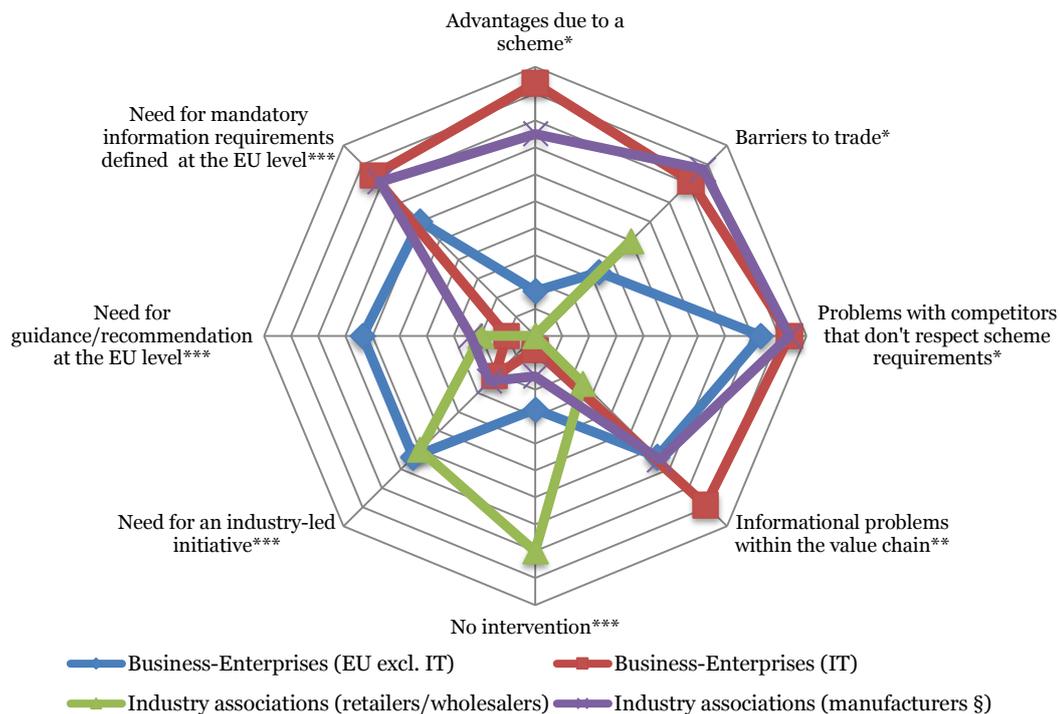
**Figure 128 Stakeholder map**



Note: § This stakeholder group includes industry associations that represent also the interests of manufacturers.  
 Source: Authors' own elaboration

Figure 129 instead focuses on companies and industry associations and shows: i) the impacts of existing schemes in terms of perceived advantages, barriers to trade, and problem with competitors that do not comply with information requirements; ii) informational problems experienced within the value chain; iii) the support for different forms of policy intervention at the EU level, ranging from no intervention to the introduction of mandatory information requirements defined at the EU level. Companies headquartered in Italy and industry associations representing also manufacturers provided comparable replies and asked for a strong EU intervention to set information requirements to be applied on a mandatory basis. Companies located in other Member States are also affected by problems with competitors that do not respect existing information requirements and by problems along the value chain; hence, they ask for changing the status quo, but they are indifferent between an industry-led initiative, guidance/recommendations at the EU level, and the introduction of mandatory requirements across the EU. Conversely, retailer associations do not report any impact due to existing schemes (only one respondent experienced obstacles to trade). As regards possible courses of action, retailer associations would like to keep the situation as it is or, to a lesser extent, would be in favour of an initiative taken by industry players together with relevant stakeholders.

**Figure 129 Impacts of existing schemes, informational problems within the value chain, and need for intervention for companies and industry associations**



Notes: The centre of the radar chart represents 0% of respondents, the chart edge represent 100% of respondents. \*Percentage out of respondents aware of informational schemes. \*\* Percentage out of total respondents. \*\*\* Top-two boxes. § This stakeholder group includes industry associations that represent the interests of manufacturers. Nonetheless, almost one third of the associations included in this group represent also other players (importer/exporters, wholesalers, retailers) of the furniture supply chain.

Source: Authors' own elaboration

### 8.2.3 Risks of market fragmentation

In connection to the issue of informational asymmetries between manufacturers/retailers and consumers of furniture products, four Member States (Italy, France, the UK, and Ireland) including three key markets (Italy, France, and the UK) corresponding respectively to 36% in terms of furniture production in the EU and to 41% in terms of overall EU consumption, introduced mandatory measures promoting quality furniture products. These measures have been more recently complemented by voluntary schemes as well as voluntary eco-labels and product environmental sustainability declarations at the national level.<sup>188</sup> As mentioned, these initiatives have been implemented with various degrees of success (see Chapter 5 for further details on the level of uptake<sup>189</sup>) and achieved different levels of recognition among consumers. Reportedly, new proposals are under discussion (one in Germany by the DIN Consumer Council and two in France to implement the so-called *Grenelle de l'environnement*) and it is possible that further additional initiatives will continue to emerge at the national level, either to address the question of informational asymmetries or signal points of excellence on specific aspects, as is the case of eco-labels or the shelved initiative “Nice to Meet You” in Italy (see Chapter 5).

The presence and potential increase of various initiatives with different scopes and implementation modalities bear the risk of fragmenting the EU Internal Market and represent an obstacle to trade

<sup>188</sup> See for instance the case of environmental footprint declarations in France, described below.

<sup>189</sup> Across the EU, voluntary schemes and eco-labels have been adopted by more than 400 companies and applied to about 5,000 products.

in general and for SMEs in particular, as the requirements of the various measures and the related self-certification or testing/certification processes are presently not harmonized. This can lead to unnecessary duplication of information and transaction costs along the value chain. As will be explained in greater detail in the Section 8.3 below, stakeholder feedback on this point seems to indicate that apart from the case of (some) SMEs exporting in neighbouring markets where different information requirements are in place (either via a mandatory scheme on furniture products or because of a more stringent consumer code), no significant barriers to trade were experienced. At the same time, some of the mandatory initiatives in the pipeline, particularly the two French ones, appeared to raise significant concerns as their potential to require additional testing and third party certification that would act as a deterrent to intra-EU trade. However, we wish to stress that the implementation of these initiatives is currently on hold. Moreover, any national initiative of this kind would also have to be notified to the European Commission and the other Member States, in line with the procedure foreseen by Directive 98/34 preventing new technical barriers to trade.<sup>190</sup>

## 8.3 The scale of the problem

### 8.3.1 Difficulties in signalling product quality and sustainability

No large scale “mystery shopping” exercises<sup>191</sup> were made available by consulted stakeholders to substantiate the actual likelihood for consumers of finding easily accessible information about furniture quality and environmental sustainability features across the EU. The research team thus decided to undertake a small scale mystery shopping exercise on a total of 19 large Internet retailers<sup>192</sup> in three Member States (Italy, France, and the UK) on four furniture items (a chair, a table, a mattress, and a bed) to have a preliminary idea of the state of play. The mystery shopping exercise focused on information that is immediately disclosed to the consumer and available upon access to the website; it does not cover data that can potentially be obtained upon request or included separately in the packaging. Results are reported in Table 76.<sup>193</sup>

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<sup>190</sup> Directive 98/34/EC of the European Parliament and of the Council of 22 June 1998 laying down a procedure for the provision of information in the field of technical standards and regulations. The Directive sets up a legal mechanism requiring Member States to notify their technical regulation at the draft stage both to the European Commission and other Member States. Standstill periods are foreseen to amend the draft regulation where necessary and before it is adopted. Specifically, it provides for two information procedures, one for standards (voluntary technical specifications) and one for technical regulations (obligatory technical specifications) on industrial, agricultural and fishing products. Directive 98/48/EC extended the notification procedure to Information Society services.

<sup>191</sup> Mystery shopping refers to the practice normally followed by market research firms or manufacturers of posing as a casual shopper and visit retail stores to gather information on the store’s prices, product display, and quality of salespersons.

<sup>192</sup> One of these retailers is active in all the three markets considered and another one operates in two out of three, so a total of 16 companies have been reviewed. The information reported is not necessarily the same and small differences could be found in the behaviour of the same company from one market to another.

<sup>193</sup> Online mystery shopping does not allow checking all the elements that can be verified in a physical mystery shopping exercise. For instance, online mystery shopping cannot provide information on the behaviour of salespersons at the retailer’s premises or on how labels are (or are not) displayed in a shop. However, due to the relatively limited cost of providing product information online and for the type of product information covered by the present Study, an online mystery shopping exercise can still provide an accurate picture of potential differences in product information given by different retailers or by the

As can be seen, no major differences were found between the prevailing practices in the different Member States<sup>194</sup> and across product groups. Information on dimensions and materials used is almost always consistently reported, but not necessarily so in price discount websites in the lower segments of the market. Basic information on weight of products was found in about half of the cases, and some instructions on cleaning, use and maintenance in one case out of five. All other pieces of information, including origin, appear to be available sporadically at the product level. Other quality features such as specific technical information on compliance with durability and resistance to “wear and tear” was never found as such, and was usually replaced by the simple commercial guarantee. Moreover, information on possible hazardous substances was never reported explicitly but eventually detailed as general negative claims in policies or standards applicable at the company level.

Information on product environmental and social sustainability was also hardly ever available. Statements of generic compliance with given environmental practices were reported at the company level in a couple of the cases reviewed (10%) and compliance with company-defined standards of fair labour conditions were found just once (5%). We found also one retailer mentioning the existence of furniture labelling to promote recycling (details not reported on the website itself but separately available in the packaging). In another case, the website indicated that the environmental sustainability declarations of certain products drafted in accordance with ISO standards 14040 and 14044 could be obtained from the retailer but not displayed online.

**Table 76 Information made available to consumers in 19 large retailer websites in three Member States**

Quality Feature	France				Italy				United Kingdom				TOTAL	
	C	T	M**	B	C	T	M**	B	C	T	M	B	Cases	%
<b>Product*</b>														
<b>Product Features (no testing)</b>														
Dimension	5/6	6/6	5/5	6/6	6/7	7/7	6/6	6/7	6/6	6/6	6/6	6/6	71/74	<b>95,9%</b>
Weight	4/6	4/6	3/5	4/6	2/7	2/7	1/6	2/7	4/6	4/6	2/6	4/6	36/74	<b>48,6%</b>
Materials used	6/6	6/6	5/5	5/6	5/7	5/7	6/6	4/7	6/6	5/6	5/6	4/6	64/74	<b>86,5%</b>
Materials imitated	1/6	0/6	n.a.	2/6	2/7	0/7	n.a.	1/7	1/6	1/6	n.a.	2/6	10/57	<b>17,5%</b>
Style imitated	1/6	0/6	n.a.	1/6	1/7	0/7	n.a.	0/7	2/6	1/6	n.a.	0/6	6/57	<b>10,5%</b>
<b>Trade Information</b>														
Origin of the product	0/6	0/6	2/5	0/6	0/7	1/7	0/6	1/7	1/6	0/6	2/6	1/6	8/74	<b>10,8%</b>
<b>Product Maintenance</b>														
Instructions and/or precautions on use	2/6	2/6	1/5	1/6	2/7	2/7	1/6	1/7	1/6	2/6	1/6	1/6	17/74	<b>22,3%</b>
Instructions on cleaning	1/6	1/6	1/5	1/6	1/7	1/7	1/6	1/7	3/6	1/6	1/6	1/6	14/74	<b>18,9%</b>
Instructions on maintenance	1/6	1/6	1/5	1/6	1/7	1/7	1/6	1/7	1/6	1/6	3/6	1/6	14/74	<b>18,9%</b>

same retailers in different countries, thus showing the frequency and likelihood for an average consumer to easily find details on certain product characteristics prior to purchasing a product. While these results cannot be used to draw any conclusion on labels/product card displayed for the same product or by the same retailer in a shop, they can still signal differences and similarities in retailers’ practices for the products and countries surveyed.

<sup>194</sup> With the possible exception of Italy, where environmental features appear relatively underreported.

Quality Feature	France				Italy				United Kingdom				TOTAL	
Product*	C	T	M**	B	C	T	M**	B	C	T	M	B	Cases	%
Instructions on disposal and recycling	1/6	1/6	1/5	0/7	0/7	1/7	1/6	0/7	0/6	1/6	1/6	1/6	8/74	<b>10,8%</b>
<b>Product Features (with testing)</b>														
Compliance with safety requirements	0/6	0/6	0/5	1/6	0/7	0/7	0/6	0/7	1/6	0/6	0/6	0/6	3/74	<b>4.0%</b>
Weight bearing capacity	1/6	0/6	0/5	0/6	2/7	1/7	0/6	0/7	2/6	0/6	0/6	0/6	6/74	<b>8.1%</b>
Durability of use and resistance to "wear and tear"	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	<b>n.a.</b>
Hazardous substances contained in the product	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	<b>n.a.</b>
<b>Socio-Environmental Sustainability</b>														
Social conditions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	<b>n.a.</b>
Environmental criteria	1/6	1/6	1/5	1/6	0/7	0/7	0/6	0/7	1/6	0/6	0/6	0/6	4/74	<b>5.4%</b>

Notes: \* "C" stands for Chair, "T" for table, "M" for mattress and "B" for bed, "n.a." for not applied. \*\* In one case the retailer under examination does not sell mattresses so related information has not been included.

Source: Authors' own elaboration

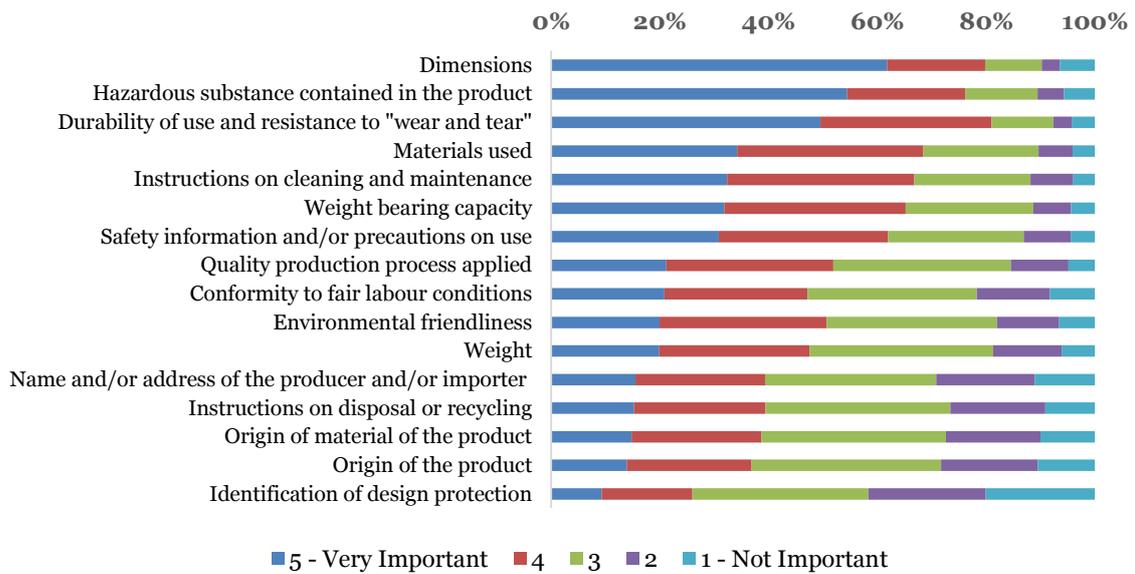
As regards the type of product information that appears more relevant to consumers, it is worth reporting again the results of the Consumer Survey (see Chapter 6). Figure 130 shows that the majority of respondents consider that receiving information on product durability and resistance to "wear and tear", the presence of possible hazardous substances such as formaldehyde, the materials used and the weight bearing capacity would be either important or very important. Consensus on the other items is less clearly polarized but at any rate present to various degrees.<sup>195</sup> Only information on the identification of compliance with design protection requirements was deemed of limited importance by a wide majority of respondents.<sup>196</sup>

<sup>195</sup> It is worth noting that consumers' ranking of information priority needs is broadly comparable in terms of key findings with the quality features indicated for a similar exercise on leather products recently completed for the European Commission. In particular, unsurprisingly, environmental and social-related information is comparatively less sought after than product quality features, while the needs to be informed about the product country of origin are less apparent. Matrix (2013) *Study on the feasibility of a leather labelling system at European level*, available at:

[http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item\\_id=6394](http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=6394)

<sup>196</sup> It should be noted that representatives of both manufacturers and consumer associations interviewed during our research explained that any potential initiative aimed at providing more information on furniture product characteristics would be unable to address existing issues in terms of intellectual property rights (IPRs) infringements. This stems chiefly from one reason: IPR and design infringements in the furniture sector essentially consist of the sale of (cheaper) copies of well-known high-end products, often over the Internet. In other words, the consumer is likely to be aware that he/she is buying a copy and may have actually chosen to do so for price considerations. Thus, increasing the amount of information on a product, for instance via a special card or label, is unlikely to change this.

**Figure 130 Importance attached by consumers to information about selected features of a furniture product**



Source: Authors' own elaboration

Since the results of the Consumer Survey show that about 55% of consumers maintain a willingness to pay for social and environmental features – a share broadly equivalent in size to what was once identified as the middle segment of the furniture market<sup>197</sup> – it is fair to conclude from the mystery shopping exercise that a considerable portion of the market, in terms of informational needs, remains untapped. Consumer attention to the environmental impact of their purchases was also confirmed in the 9<sup>th</sup> edition of the Consumer Markets Scoreboard, with 40.7% of respondents declaring that their purchasing choices were influenced by environmental sustainability considerations. More interestingly, consumers who did not make environmentally-conscious purchases indicated the lack of relevant information as the first reason for not considering environmental impacts of the goods and services purchased. The fact that sustainable products might be more expensive ranks second.<sup>198</sup> However, only speculative considerations can be made about the share of consumers that would alter their purchasing behaviour if more information on the environmental and social sustainability of furniture products was made available. An even broader share of consumers surveyed for this Study appear particularly interested in specific quality features such as durability (82% of respondents), ease of maintenance (78%) and friendliness to human health (75%). Here again, the results of the mystery shopping exercise indicate that there is a clear gap between the willingness to pay (see question 8 in the Consumer Survey presented in Chapter 6) expressed by surveyed consumers and the actual information provided online on a selection of products that could potentially allow these consumers to make a better informed decision. These (albeit limited) findings echo the results of the study undertaken

<sup>197</sup> In the past it was generally estimated by ITTO sources that in the EU15 the lower-middle segment accounted for some 40-45% of the furniture market, the middle segment for another 40% and the upper segment for the remaining 10-15%. This is broadly consistent with the results of the consumer survey (Chapter 6) showing that 80-85% of respondents rank price among the two main factors influencing their purchasing behaviour; 20-25% of this group of respondents is purely price sensitive. This is also in line with CSIL data from Part I of the Study.

<sup>198</sup> See Consumer Markets Scoreboard (2013), p. 54, at: [http://ec.europa.eu/consumers/archive/consumer\\_research/editions/docs/9th\\_edition\\_scoreboard\\_en.pdf](http://ec.europa.eu/consumers/archive/consumer_research/editions/docs/9th_edition_scoreboard_en.pdf)

by the DIN Consumer Council for upholstered furniture in Germany. As mentioned DIN found that information on similar quality features is seldom usable by consumers, and is not easily or consistently comparable.<sup>199</sup>

The 2012 Consumer Monitoring Report shows that furniture products score on average (i.e. 7.7) with other goods on comparability but below e.g. small household appliances and electronic goods. The industry also scores comparably lower than other products in terms of complaints (ranking 11 out of 21 good markets, slightly below average).<sup>200</sup> Our results indicate that lower comparability or insufficient information is most likely to concern product features that are of particular interest to consumers (e.g., durability, friendliness to human health, etc.). The problem of informational asymmetries towards consumers is likely to be more relevant for furniture than for several other consumer goods (but not all, see the case of ICT products and new cars) because of the specificity of furniture purchases. Indeed, in general, furniture products have a comparatively higher incidence on household budgets (e.g., the price of a kitchen); are less frequently purchased, and beyond well-established brands, market fragmentation does not allow consumers to easily access comparable and objective information on products that are not branded. From a competitiveness viewpoint, a potential initiative on furniture could allow retaining some of the strengths of the EU furniture industry (investment in innovation design, environmental and social sustainability of production processes) that have not yet been eroded by the purely price-based competition from imports from low-cost countries. Indeed competition in the furniture market is still based on factors other than price, where Europe retains a competitive advantage, provided that the corresponding quality features are adequately signalled on the market.

The Consumer Survey also indicated that just in one quarter of cases consumers (26%) are fully satisfied with the information made available at the point of sale for their purchasing decisions, while the larger majority of respondents (66%) agreed that provided information is sometimes inadequate to their needs. The remaining 8% were more negative and maintain information is never sufficient. Hence, the total share of the EU consumption markets affected by potential problems with quality signalling can be estimated in the region of about €50<sup>201</sup> billion market worth. Unsurprisingly, surveyed consumers satisfied with current information patterns are more likely to be found at the two extremes of the market among the brand-sensitive and price-sensitive clusters, while lack of satisfaction was felt more strongly among consumers interested in environmental sustainability features, as shown in Table 77.

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<sup>199</sup> See note 185.

<sup>200</sup> See GfK EU3C (2012), Monitoring Consumer Markets in the European Union, final Report, November 20, [http://ec.europa.eu/consumers/consumer\\_research/editions/docs/monitoring\\_consumer\\_markets\\_eu\\_2012\\_en.pdf](http://ec.europa.eu/consumers/consumer_research/editions/docs/monitoring_consumer_markets_eu_2012_en.pdf). Although differences in score between countries are small, the so-called EU12 countries have a slightly worse performance.

<sup>201</sup> The total EU consumption market is estimated at €80 billion. Problems are reported by some 74% of consumers roughly equal to €60 billion worth. This figure has been conservatively rounded to €50 billion to take into consideration that the likelihood of information-related complaints is probably much lower for high price / branded products in the upper segments of the market. Another approach would be to consider the portion of the market that is open to price segmentation by means of labels. Here again its estimated worth is of around €50 billion (25% of the market is reported as purely price-sensitive, while the market niches for brands and for type I eco-labels based on excellence in benchmarks would account respectively for some 1-2% and 8% of the market).

**Table 77 Q10 – When you buy furniture, is the product information displayed in the store sufficient? – Breakdown for aspect considered by consumers when buying furniture**

		10. When you buy furniture, is the product information displayed in the store sufficient?				
		Yes	Sometimes	No	Top box (Yes/Total)	Bottom box (No/Total)
8. When you buy furniture, how do you rank the following aspects of the product from the most to the least important? [First Choice]	<b>It should be environmentally friendly</b>	117	257	54	27%	13%
	<b>It should be of a specific brand</b>	31	43	3	40%	4%
	<b>It should have a reasonable price</b>	354	796	91	29%	7%
	<b>Its design should fit my taste or purpose</b>	820	2235	270	25%	8%

Source: Authors' own elaboration

These results were further echoed by the public consultation undertaken for this Study. Overall consumer organizations, furniture industry associations, business based in Italy and public administrations/standardisation bodies/technical institutes believe that information displayed in shops is rather insufficient for consumers to make informed purchasing choices and to compare different furniture products. Views on the comparability of products are particular negative among consumer associations and, to a lesser extent, public administrations/standardisation bodies/technical institutes. Conversely businesses based in Member States other than Italy and retailers generally perceive that the information provided to consumers is sufficient. Besides the finding of the DIN Consumer Council on upholstered furniture, in an ongoing study on the labelling of leather currently undertaken for the European Commission, furniture products were indicated as problematic when it comes to consumer information. In particular, the case of “bonded-leather”, which can be easily mistaken for real leather, was identified as an example of possible informational failures and potentially unwanted purchases.<sup>202</sup> Finally, a very large majority of consumers surveyed for the present Study (86%) agreed that it would be important for them to have better standardized information tools to facilitate comparisons between furniture products.

### 8.3.2 Problems along the value chain

As noted above, the markedly different positions of respondents representing manufacturers versus those representing retailers in the public online consultation indicates that manufacturers are not always managing to convey all the information they would like to provide to consumers prior to purchase. In some cases the impossibility of providing such information is deemed to directly affect the competitiveness of the manufacturers concerned and prevents them from operating on a level-playing field with their competitors.<sup>203</sup>

<sup>202</sup> As the study was still under preparation at the time of writing, no specific reference can be provided here. Some details on the case of bonded-leather and example of problems noted in some countries can be found at: <http://www.accc.gov.au/media-release/clearer-labelling-for-leather-look-furniture>; <http://whatconsumer.co.uk/forum/furniture/24722-leather-labelling-any-ideas-please.html>; and <http://www.consumeraffairs.com/news04/2012/08/bonded-leather-sofas-vs-genuine-leather-whats-the-difference.html>

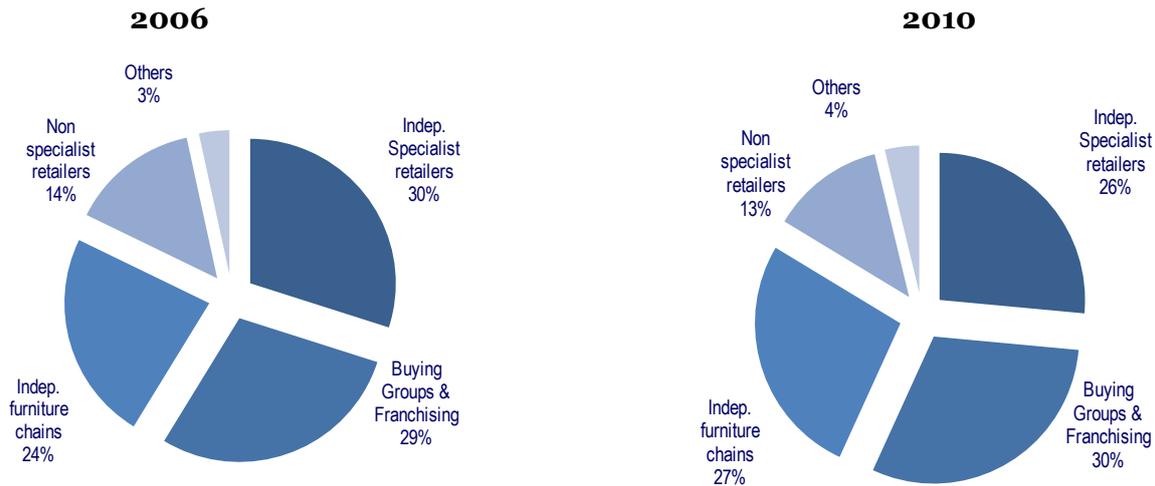
<sup>203</sup> For a comprehensive discussion of some of these aspects and potential solution of value chain issues, see the European Commission Green Paper on unfair trading practices in the business-to-business food and

It is very difficult to establish the magnitude of potential problems along the value chain or the number of manufacturers affected for various reasons including the fact that the scale of the problem is likely to vary from country to country, also depending on the structure of the market and the different products considered. As explained in Part I of the Study, the structure of the furniture market has considerably changed in the last two decades and this has altered the patterns of concentration between different segments, particularly in certain countries and for certain products. On average, manufacturers tend to remain more fragmented, with a large share of SMEs that represent more than 70% of the total production value (see Table 39). On the other hand, as shown in Figure 131 (further details in Section 4.2.3 of the Study), the evolution of furniture sales by distribution channel displays a growing role of big players. Indeed, independent retailer chains are generally large groups, and so are buying groups. The non specialized distribution represented by do it yourself shops, hypermarkets and department stores is also usually large scaled. Only independent specialist retailers holding a 26% share in 2010 are small-scale players in Western Europe. The role of independent specialist retailers was stronger in central and Eastern Europe (60% share in the latest available data of 2008). Note however that an increase in the role of big players was observable also in those Member States and that overall Central and Eastern Europe represent a smaller percentage of the total EU furniture consumption (i.e., less than 9% in terms of value; see Table 21 for a breakdown of furniture consumption per Member State). With this relatively imbalances in sizes it is fair to expect that manufacturers that do not possess their own distribution channels may be put in a less favourable bargaining position, also when it comes to deciding on marketing and communication strategies at the point of sale. The issue is of course different for small-scale retailers. Indeed during the Stakeholder Workshop, representatives of small scale retailers voiced their cost concerns, for instance, when asked by product manufacturers to display specific product information which however has not been translated by the manufacturer, thus transferring on the retailer the cost burden of translating it or training its staff to respond to potential requests by consumers. In addition, while large retailers may have specific arrangements in place to deal with the allocation of responsibility along the value chain when it comes to bearing the risk of making certain specific claims on a product, this might not be the case for smaller retailers who would have to negotiate on certain aspects on a case-by-case basis, with the ensuing transaction costs. Yet, as mentioned, small retailers represent a limited and still decreasing share of distribution channels. It is thus fair to conclude that, on average, the balance in terms of size and concentration remains less favourable for manufacturers.

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non-food supply chain in Europe, COM(2013)37; and the results of the underlying public consultation at: [http://ec.europa.eu/internal\\_market/consultations/2013/unfair-trading-practices/docs/summary-of-responses\\_en.pdf](http://ec.europa.eu/internal_market/consultations/2013/unfair-trading-practices/docs/summary-of-responses_en.pdf); and the recent Supply Chain Initiative at <http://www.supplychaininitiative.eu/>.

**Figure 131 Western Europe, home furniture sales by distribution channel (% share)**



Source: CSIL processing of data based on interviews, trade magazines, trade associations, company annual reports, product brochures, CSIL's databases and official statistics.

### 8.3.3 Possible barriers to the Internal Market

At present, there are general mandatory schemes in place in about 25% of the EU market in terms of population (and 27 % in terms of consumption value), plus a mandatory scheme on wood-based furniture in Switzerland as far as the European Economic Area (EEA) is concerned.<sup>204</sup> In addition, product-specific mandatory labelling requirements for flammability of upholstery furniture are in force in Ireland and the UK that would extend to 41% of the total market value for these specific products in the EU. This results in an additional cost burden for companies, that have to adapt their labels to the different regulatory environments, and ultimately in a possible barrier to the Internal Market.

However, in terms of overall impact on trade (both intra-EU and extra-EU, bearing in mind that intra-EU trade represents 85% of the total of EU flows), existing mandatory schemes do not appear to have represented so far a major relevant obstacle. As better explained in the impact assessment below, the labelling schemes that demand compliance with national standard requirements can be roughly estimated to have accounted for some maximum 0.5-1.0% total extra production and marketing costs as also indicated in the Stakeholder Workshop, equally borne by domestic and foreign manufacturers, with a negligible impact on price differentials mainly due to costs of familiarization with these schemes and translation costs. The two mandatory schemes on flammability in upholstery have long been addressed by an EU industry voluntary harmonisation initiative that has reportedly greatly reduced their potential impact as a barrier to intra-EU trade and participants to the Stakeholder Workshop confirmed there are little practical complaints related to them.<sup>205</sup> If an *a contrario* argument were to be made, one could notice that upholstery - which should have been the industry segment more protected by mandatory labelling, thanks also

<sup>204</sup> For further details, see Chapter 5.

<sup>205</sup> In the past, recourse was made to the European Upholstered Furniture Action Council (EUFAC) voluntary scheme as an industry-driven code of conduct to gradually align production processes with the flammability standards adopted by the UK and Irish legislation on upholstery, thereby avoiding direct EU harmonization legislation. However, while the scheme managed to become widely known in business to business transactions as substantially equivalent to the UK standard, its label reportedly failed to get recognized in the consumer market, apparently also because of lack of supportive marketing investments.

to the prevailing flammability technical standard requirements in certain Member States – has been conversely the segment with the highest share of imports over the last few years.

The voluntary quality schemes are not heavily participated (a total of about 280 companies, i.e. 0.2% of total manufacturers, although their market share can be higher and reach up to 5% of the market in Nordic countries). Hence, their distortive effects on the household markets are reported as fairly limited. Moreover, their informative impact on final consumers can be considered as rather marginal. Furthermore, the level of implementation of voluntary environmental performance declarations (EPDs)<sup>206</sup> at the national level and the possible distortive impact of the various eco-labels on the EEA market is much more difficult to estimate; overall it does not seem a major cause of concern.

From that, one could easily deduce that the impact of mandatory labelling as a trade barrier has been overall rather negligible at the aggregate macro-level. However, different considerations must be made at the company level, where results from the online public consultation do show that a sizeable number of respondents – particularly among Italian SMEs - claim to have been somewhat<sup>207</sup> affected in their business practices by differences in the mandatory schemes applicable in different EU countries and variously requiring the provision of information on certain characteristics of furniture products to consumers (e.g. on materials used, compliance with safety requirements, flammability, etc.). The reported impacts in terms of transaction and information costs vary among respondents (see Chapter 7). To understand the reaction of some of them, one has to consider that labelling schemes cause mainly the fixed costs of label preparation. Therefore, the smaller the size of the batch of products produced or exported and for which the label has to be adapted, the higher the unit cost. As a result, the impact of these measures could be better qualified as a cause of possible competitive disadvantage for SMEs (as it causes diseconomies for small production batches) rather than as a traditional barrier to trade. This probably explains the very high number of complaints received by Italian SMEs exporting on the French and Austrian markets in the public online consultation: their own mandatory scheme is not recognised in those two export markets and labels have thus to be modified for export. However, this is not a specific problem of the mandatory schemes as such, but applies whenever the national consumer codes require particular labelling requirements across all products, as is for instance the case of Austria.<sup>208</sup>

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<sup>206</sup> An Environmental Performance Declaration (EPD) is a verified document that reports environmental data of products based on life cycle assessment (LCA) and other relevant information and in accordance with the international standard ISO 14025 (Type III Environmental Declarations). In particular, in order to ensure that similar procedures are used when creating EPDs common and harmonised calculation rules have to be established. These rules are called Product Category Rules (PCRs). Voluntary EPDs have been experimented in France (the so-called *Affichage Environnemental*) and very limitedly implemented so far, mainly in the contract and public market for office furniture in Sweden and Norway. Four PCRs are available in Norway and namely for tables, plane furniture, seating solution and upholstery textile, but of these only seating has been actually implemented by five companies on 28 products and can be used for voluntary labelling purposes. There are three PCRs in Sweden (of which two expired) used by a total six companies and 14 products but not accepted for voluntary labelling schemes purposes.

<sup>207</sup> In particular two business associations out of 11 claim a low impact, but 14 Italian SMEs out of 19 claimed an impact, and 13 of them deem it high.

<sup>208</sup> Please note that besides two furniture-specific information schemes that are analysed in Chapter 7 and Annex 3 of this Study, in Austria another piece of legislation affects the provision of information about furniture product characteristics to final consumers. The Austrian Product Liability Act (Österr. Produkthaftungsgesetz - BGBl Nr.99 / 1988), which was issued by the Austrian Parliament on 21 January 1988 and entered into force in 1 July 1988, aims at ensuring the safety of products put on the Austrian

It is worth stressing at this stage that the French mandatory eco-labelling scheme, that is not yet in force (the so-called *Affichage environnemental*, see Annex 5), has indeed the potential to represent a major barrier to trade, unless standards for Product Category Rules (PCRs)<sup>209</sup> are harmonised and the requirement introduced across the EU. As mentioned, stakeholders interviewed for this study and representing various actors along the value chain, including retailers, voiced high concerns as regards the adoption and potential cost-implications of this type of schemes for those operating cross-border if mandatory requirements differ from one Member State to the other. Also in this case, SMEs and micro-companies are those more likely to be at a disadvantage.

## 8.4 Concluding remarks: the policy problem and its likely evolution

**The policy problem at hand appears mostly related to a specific type of market failure, i.e. incomplete information**, which triggers a problem of adverse selection due to the following features of the furniture industry:

- Most of the quality features of furniture products belong to the categories of experience and credence attributes: this means that consumers might not always be entirely equipped to fully incorporate quality features in purchasing decisions, as well as to distinguish between high- and low-quality products. This can generate problems of **adverse selection**,<sup>210</sup> in which consumers do not fully adjust their willingness to pay to the difference in quality of products available on the market.
- The adverse selection problem is further exacerbated by the fact that retailers that sell both high- and low-quality furniture might not have the same incentives as manufacturers in making quality differences crystal clear for customers.
- The problem is also aggravated by emerging trends such as increased competition from non-EU countries, growing price-sensitivity of furniture demand generated by reduced disposable income, and the rise of online furniture stores, which make the quality features of furniture even more difficult to test in practice before purchase. It must also be recalled that online interaction between consumers might, in principle, fill some of the information gaps on experience qualities (e.g. through rating of specific pieces of furniture by other

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market and applies, i.a., to all categories of furniture products both for personal and business use. This piece of legislation does not explicitly include any information requirement. Nonetheless, producers or importers have to provide specific information to consumers to limit or exclude liability that stems from products placed on the Austrian market. As a result, the following information about furniture products has to be provided to consumers: i) compliance with safety requirements as products need to be updated to the state-of-the-art; ii) instructions and/or precautions on use as consumers need to be aware of the normal use of the product; iii) either name and address of the manufacturer or name and address of the importer as the company putting the product on the market should always be identifiable; iv) date of manufacturing/importation in order to limit the duration of the liability. These pieces of information are usually included in a product card or in a label, attached to the product.

<sup>209</sup> PCRs are documents that define the rules and requirements for the EPD of a certain product category. They are vital for the concept of environmental declarations according to ISO 14025 as they enable transparency and comparability between different EPDs based on the same PCRs.

<sup>210</sup> Adverse selection refers to a market process where undesired results occur when buyers and sellers have asymmetric information; as a result the "bad" products or services are more likely to be selected. For further details and references to relevant literature on the topic, see above Section 5.1.

consumers), but not on credence qualities, and not for all furniture products existing on the market.

In addition, other problems have been highlighted by our research:

- **Existing product guarantees only partially address the issue** as, in the case of furniture, quality problems can become visible after a guarantee has expired and when complaints cannot be enforced.
- **Several factors** including the globalization of value chains, new sourcing strategies, and in particular the growing diffusion of new retail formats<sup>211</sup> **have altered vertical relations between manufacturers and retailers and made competition on “quality signalling” fiercer.** In addition, due to the structure of furniture production in the EU, manufacturers are more likely to be the side with less bargaining power in the vertical relationship, which also affects the type of product information that is ultimately communicated at the point of sale. As a result, consumers receive confusing messages, as different actors at different levels of the value chain may be interested in providing different types of product information to the consumer.
- **The lack of homogeneous market conditions seems to be hampering smaller businesses and the Single Market.** Mandatory schemes with non-fully overlapping scopes and modes of implementation adopted by different Member States to signal the general quality or specific features of furniture products do not appear to have generated significant barriers to intra-EU trade at the macro-level. However, as reported by an SME trade association during the Stakeholder Workshop and in the public consultation, they hinder or make cross-border activities more burdensome for smaller businesses. Some of the mandatory initiatives that are already in the pipeline in some EU countries could further aggravate this problem.

## 8.5 Stakeholders affected by the problem

### 8.5.1 Stakeholders affected

The stakeholders concerned by the current situation include consumers of furniture products, particularly those interested in product features other than price, ranging from quality attributes such as durability, friendliness to human health and ease of maintenance to the environmental and social sustainability of a product. At present, 66% of surveyed consumers are only sometimes satisfied with the information they find in shops prior to purchasing a furniture item. In addition, besides the quantity and quality of the product information provided, its comparability appears to be limited for consumers. Other stakeholders affected include the various actors of the furniture value chain (i.e. about 130,000 manufacturers, importers, wholesalers, and the estimated 100,000 retailers<sup>212</sup>) that are affected by potential intra-EU barriers to trade stemming from the co-existence of different furniture products initiatives across the EU and the costs of adapting product information and, in some cases, production processes and product characteristics to the requirements of different mandatory as well as voluntary schemes. Also public authorities are affected to the extent that they monitor the level of enforcement of existing mandatory provisions. This also includes fines on infringing actors in the value chain, when relevant. There are no data available on the amount of resources made available for monitoring and enforcement purposes and

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<sup>211</sup> See above Section 4.2.3.

<sup>212</sup> For further details, see Timber Trade Federation EU Market Overview at [www.ttf.co.uk](http://www.ttf.co.uk)

it has been anecdotally reported that the level of enforcement may indeed substantially vary among the countries concerned. Monitoring and enforcement costs would also depend on whether the scheme foresees third party testing/certification or simply checking the existence of self-declarations.<sup>213</sup> Manufacturer and retailers are also affected insofar as misaligned incentives along the value chain and different degrees of implementation of existing mandatory schemes or their absence leave room for an insufficient transmission to the final consumers of product information that could result in a competitive advantage for some manufacturers.

## **8.6 The baseline scenario: how the policy problem is likely to evolve**

**Absent any new policy intervention, different information requirements on furniture product characteristics would continue to exist across Member States.** Such fragmentation does not seem to be creating enormous problems for the EU Internal Market. In addition, the current informational asymmetries and the consequent problems emerged in the furniture value chain might be partly addressed by current legislative initiatives such as the new Consumer Rights (CR) Directive.<sup>214</sup>

In particular, there are three main factors that can influence the baseline scenario over the next few years, and namely:

- the impact of the Internet on consumer behaviour, including information retrieval patterns;
- regulatory changes stemming from the Commission's proposal for the new CPS Regulation, that is under discussion in the European Parliament and Council, and includes a mandatory indication of both the "country of origin" of a product and any information the manufacturer deems it useful to report for product safety signalling purposes;<sup>215</sup> and finally

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<sup>213</sup> In terms of quantitative estimates, the impact assessment study on a possible extension, streamlining or simplification of the Framework Directive 92/75 EEC on energy labelling of household appliances found that estimates associated with monitoring and enforcement of an energy labelling system could vary among the different Member States between €25,000 and €500,000. This led to an estimate of a total annual monitoring cost across the EU in the wide range of €0.675 - €13.5 million. The 9<sup>th</sup> edition of the Consumer Markets Scoreboard (pp. 61-71) also provides a series of economic enforcement data for the period 2009-2011, as reported by national authorities responsible for the enforcement of consumer protection law. However, because of the differences in powers between those authorities and differences in methodologies for data collection, it would be inappropriate to draw general EU-wide conclusions from these data in the context of this Study.

<sup>214</sup> The new CR Directive to be applied by Member States from 13 June 2014 requires i.a. the provision of information on the "main characteristics" of the good/service. This Directive has been currently transposed in some 18 countries. Transposition measures analysed so far do not go beyond or stipulate further details as to what constitutes "main characteristics". Nonetheless, the future implementation of this piece of legislation leaves room to oblige furniture traders (be they manufacturers or retailers) to provide a specific set of information to consumers. For further details on the CR Directive see Section 5.3.3 included in Part II of this Study.

<sup>215</sup> The so-called "indication of the origin" is one of the most innovative consumer information obligations included in the new CPS Regulation. Furthermore, during the ordinary legislative procedure the European Parliament amended this Regulation by obliging importers and distributors not to obscure any compulsory information or safety-related information provided by the manufacturer. This amendment might partially solve the problems detected along the furniture value chain as regards conveying information to final consumers. For further details on the new CPS Regulation see Box 13 included in Part II of this Study.

- voluntary measures, including a foreseen extension of the scope of the EU Ecolabel for furniture products, as well as other voluntary initiatives such as a European label on social sustainability.<sup>216</sup>

Depending on how these three factors develop, the prospected evolution of the current situation, absent any further intervention, is likely to partially address some of the problems identified in this Study. Below (see Section 9.2.1), we assess how the baseline scenario (Option 1) will affect the following impacts: the functioning of the Internal Market; cost and benefits for manufacturers and retailers (including SMEs in both cases); national authorities/administrations; the competitiveness of the EU furniture industry; trade with third countries; consumers; social and environmental sustainability. Prior to that, Section 8.6.1 below elaborates further on the uncertainties affecting two of the factors described above: forthcoming regulatory changes and the development of voluntary initiatives (in particular, the revision of the existing EU Ecolabel for wooden furniture).

### 8.6.1 *Baseline scenario: main uncertainties*

The main sources of uncertainty under the baseline scenario relate to the content of the final provisions of the Commission’s proposal for the CPS Regulation that is expected to replace the GPS Directive and the extent to which these provisions will apply to the information needs highlighted here, particularly as concerns product safety (and indirectly hazardous substances) and requirements on the country of origin. As explained above (see Box 14), at this stage the proposed CPS Regulation obliges manufactures and importers to indicate their name, registered trade name or registered trade mark as well as the address at which they can be contacted. They also have to provide instructions and safety information in a language that can be easily understood by consumers. In addition, distributors are obliged to verify that the manufacturer and the importer have complied with consumer information obligations laid down in the Regulation. Furthermore, the European Parliament introduced amendments that importers and distributors are obliged not to hide any compulsory information or safety-related information provided by the manufacturer (and by the importer with regard to distributors). Nonetheless, the most innovative piece of information is the so-called “indication of the origin”. According to this provision, manufacturers and importers have to ensure that products bear an indication of the country of origin of the product (within the meaning of paragraph 1, non-preferential origin rules spelled out in Regulation No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code<sup>217</sup>), thus allowing the identification of the actual place of manufacture in all those cases where the manufacturer cannot be contacted or the address provided is different from the place of manufacture.

Another source of uncertainty stems from the ongoing revision of the EU Ecolabel for wooden furniture that currently applies only to products made of at least 90% weight/weight solid wood or wood-based materials. Reportedly, this criterion is too strict, thus limiting the uptake of such eco-labelling scheme. Indeed, expanding the scheme to furniture products with a lower content of wood might be an effective measure to support the signalling of environmental sustainability attributes in the furniture industry. This expansion is currently under discussion.

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<sup>216</sup> For instance, at the time of writing a voluntary initiative on European social sustainability was under discussion among stakeholders. For further details, see: <http://www.efbww.org/default.asp?Issue=Bolster-up%20project&Language=EN>

<sup>217</sup> The “country of origin” is the country where the goods were wholly obtained or underwent their last, substantial, economically-justified processing or working.

## 8.7 Scope of a potential initiative

Overall, several of the product information requirements covered in the present analysis are more or even exclusively relevant for new products rather than for second-hand and antiques furniture items. Moreover, only one mandatory scheme requires providing information on whether furniture is new (when sold in the same premises where second-hand or antique furniture is sold); however, it does not apply to second-hand or antique furniture.<sup>218</sup> In addition, for the latter kind of furniture, the actual feasibility of certifying and monitoring compliance with several of the information requirements that appear to be key for consumers (e.g. hazardous substances contained in the product, durability and resistance to “wear and tear”) is very dubious. Hence, the analysis that follows applies to new furniture only and related results should not be extended to second-hand or antiques.

### 8.7.1 Objectives of a possible initiative

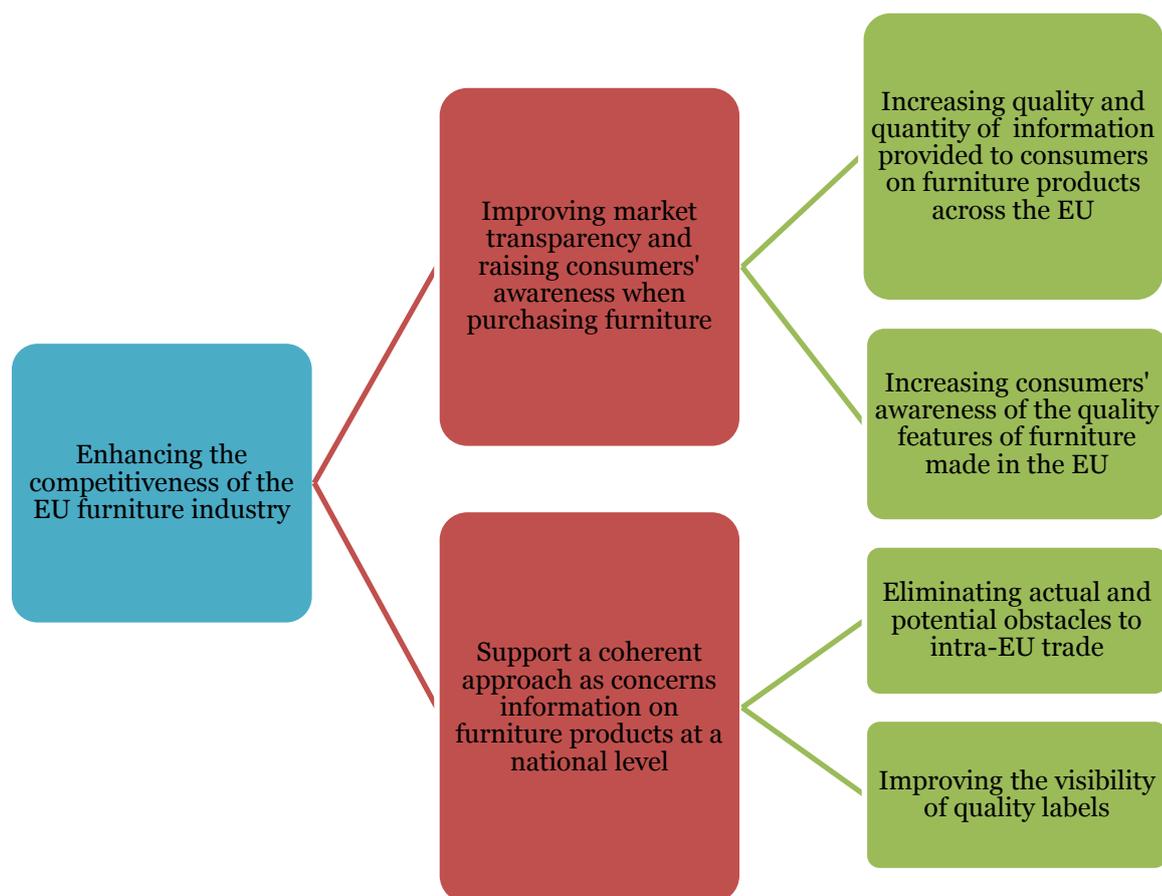
In light of the above, the **general objective** of a possible EU furniture products initiative is enhancing the competitiveness of the EU furniture industry by establishing a level-playing field in the EU consumer market. This general objective can be further specified and leads to different **specific** and operational **objectives**, and namely (see Figure 132):

- Improve market transparency and raise consumers’ awareness about quality features when purchasing furniture. This objective leads to two **operational objectives**: i) increasing the quantity and quality of information on the features of furniture products provided to consumers before purchase; and also ii) increasing consumers’ awareness of and willingness to pay for the quality features of furniture products made in the EU;
- Support a coherent approach to the provision of information on furniture characteristics across the EU. This leads to the following **operational objectives**: 1) lowering administrative and compliance costs, thus eliminating actual and potential obstacles to intra-EU trade; 2) favouring economies of scale in quality signalling and therefore improving overall visibility of quality labels in the market.

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<sup>218</sup> This product characteristic can be considered either as a search or credence attribute, depending on the level of consumer knowledge, but its absence in the majority of the schemes surveyed can be interpreted as a signal that it does not constitute a particularly problematic item when it comes to consumer choice.

**Figure 132 Objectives of a possible furniture products initiative**



*Note:* In blue the general objective, in red specific objectives, in green operational objectives.

*Source:* Authors' own elaboration

### 8.7.2 Possible contents in terms of information requirements

This section analyses the possible contents of a policy initiative in terms of information requirements with reference to the issues identified in the Consumer Survey (see Chapter 6) and taking into account the mandatory product information already required in some Member States (see Chapter 5). Where relevant, it also highlights when specific pieces of information are already included in existing EU legislation and legislative initiatives and in the EU Ecolabel for wooden furniture. More specifically, each information requirement will be discussed on the basis of the following criteria:

- Coverage by existing national mandatory (5 in total) and voluntary schemes (6 in total) across the EU;
- Coverage by existing or future EU legislation;
- Link with policy objectives and key impacts (competitiveness, comparability of information for consumers, etc.);
- Stakeholders' feedback from the public consultation and the Stakeholder Workshop;
- Results of the Consumer Survey;
- Results of the mystery shopping exercise.

Where relevant, the analysis of each item will be complemented by applying three additional filters:

- Compliance with international trade rules;
- Cost considerations;
- Existing standards.

These filters are essential to understand the broader context in which a potential furniture products initiative would take place and also to reflect one of the central questions to be analysed in the Study, i.e. whether an initiative would be feasible without imposing significant additional costs to operators on the market, as some stakeholders have repeatedly claimed. Before we turn to the individual information requirements, Section 8.7.2.1 below clarifies the question of compliance with international trade rules. Reference to existing standards and cost considerations will be developed under each item when appropriate. For ease of reading, items have been divided into five groups:

1. Product features covering product specifications for which no testing is required;
2. Product features covering trade-relevant information and for which no testing is required;;
3. Product features on maintenance and requiring no testing;
4. Product features on the technical performance and quality of a product that require testing and compliance with technical standards;
5. Product features on social and environmental aspects that are alternatively seen by different stakeholders as requiring reference standards or being simply based on self-declarations.

Finally, it is worth noting that all information requirements would evenly apply to all furniture product groups with the notable exception of weight-bearing that is relevant only for certain classes of products, as was also confirmed by some of the consulted stakeholders.<sup>219</sup>

#### 8.7.2.1 *Compliance with international trade rules*

The WTO Agreement on Technical Barriers to Trade (TBT) extends to mandatory government-administered labelling programmes defined as those developed in consultation with public authorities (or receiving direct or indirect financial assistance from them). These labelling schemes are subject to the provisions of the Code of Good Practice for the Preparation, Adoption and Application of Standards (hereinafter, the Code), regardless of their status as legal or *de facto* market standards. Under the Code, this means that products with similar characteristics should be treated in the same way. Therefore, whenever a public-oriented labelling scheme seeks to inform consumers not just about what a product is like, but also on how it was produced, or excessively delve ‘behind’ the product and make claims about, for instance, its ‘lifecycle’ without making reference to an international standard, this raises potential WTO-related questions. For comparison purposes, forestry management standards that heavily delve into “the production process” are promoted by NGOs such as FSC and PEFC and therefore do not qualify as technical barriers to trade because of their private nature.<sup>220</sup> As a result, they are subject to less limitations than any public-oriented standard would. Hence, whenever label information requirements relate to things which have no bearing on the commercial or practical substitutability of the good, but to the way in which the good is produced, this shall be carefully assessed against WTO rules to see if

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<sup>219</sup> As preliminary indication from the consumer survey it would appear that this quality feature is particularly important for kitchens, tables and/or chairs, sofas and/or armchairs, bed & mattresses. It is less relevant for products such as a wardrobe for which volume is more relevant, or e.g. a night-table.

<sup>220</sup> For further details on FSC see: <https://ic.fsc.org/certification.4.htm> ; and on PEFC: <http://www.pefc.org/>

the measure is non-discriminatory and does not create unnecessary obstacles to trade. This is potentially the case for environmental and social sustainability, if it refers to compliance with a given domestic legislation and not to an international standard.

### *8.7.3 Product features (not requiring testing)*

#### *8.7.3.1 Dimensions*

This piece of information is considered of great importance (scoring 4 or 5 in a scale from 1 to 5, top two boxes) by 80% of consumers surveyed and is included in one national mandatory scheme and two voluntary ones. It appears as being generally provided at the retail level and can at any rate be classified as a search attribute with very low information retrieval costs for consumers. Information on dimensions was provided in nearly all cases surveyed in the mystery shopping exercise included in the present Study. Stakeholders agree that it is of benefit to consumers and deliverable at marginal cost. No particular issues with the provision of this information have been reported, although its benefit in terms of both consumer welfare and competitiveness appear limited.

#### *8.7.3.2 Weight*

This is considered as important (scoring 4 in a scale from 1 to 5) or very important (scoring 5 on the same scale) information by 48% (top two boxes) of surveyed consumers. It is envisaged as a requirement in just one voluntary scheme, and can be considered as a search attribute. Information on weight was provided in about half of cases surveyed in the mystery shopping exercise included in the present Study. This piece of information can be delivered at marginal cost and no particular issue was reported by consulted stakeholders. Its added value in terms of both consumer welfare and competitiveness appear limited.

#### *8.7.3.3 Materials used*

This item is considered very important or important by 68% (top two boxes) of the consumers surveyed and is included in all mandatory schemes and in two voluntary ones across the EU. This piece of information can be considered a search, an experience, or a credence attribute, depending on the sophistication of the enquiry and the level of detail requested by the consumer. Information on materials used was provided in most of the cases surveyed in the mystery shopping exercise included in the present Study. Stakeholders agree in considering it of benefit to consumers and deliverable at marginal cost. Its inclusion as a mandatory information requirement could possibly have positive impacts on consumer welfare in the lower segments of the market and therefore on competitiveness. Issues may arise for very sophisticated and innovative products due to lack of agreed nomenclature or difficult classification of hybrid materials.<sup>221</sup>

#### *8.7.3.4 Materials imitated*

This item is a specification of the criterion above, explicitly aimed at raising awareness among consumers on goods that would be differently classified based on search or credence criteria. It is envisaged in two national mandatory schemes and was reported in a few cases surveyed in the

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<sup>221</sup> For instance it is now possible to produce furniture made of hybrid materials produced with mixtures of secondary products like rice husks, common salt and mineral oil and denominated with proprietary names. As the number of similar combinations is potentially endless, agreeing on a common nomenclature that is also understandable to consumers remains complex.

mystery shopping exercise included in the present Study. This piece of information is certainly of benefit to consumers whenever it can prevent misunderstandings about key quality features of a product. It would however pose a problem of nomenclature and definitions in the case of hybrid materials as reported above. This item can be considered of relevance for competitiveness purposes.

#### *8.7.3.5 Style imitated*

This item is required only in one mandatory scheme (i.e. in the French “Decree on Trade in furniture products”) whenever the product label of a furniture item contains a reference to a specific historical period or style (e.g. Art Nouveau, Louis XV, Venetian) and is mainly aimed at preventing consumers from mistaking a new product for an antique<sup>222</sup> item or a reproduction for an original. This piece of information is not covered by any of the existing voluntary schemes and it can be considered either as a search attribute or a credence one (for instance when a furniture item imitates a certain style that is assumed to be e.g. handmade while the item at stake was not), depending on the level of expertise of the consumer. Information on style imitated was provided in a few cases surveyed in the mystery shopping exercise included in the present Study. It is clearly of benefit to the consumer insofar as it prevents misunderstandings on the real nature and quality of a product, but only in specific circumstances (e.g., when both new and old products are sold) and can be provided at a very limited cost. However, its impact on competitiveness is likely to be limited and partially overlaps with the geographical indication, whenever the style imitated refers to a State or a Region.<sup>223</sup>

### *8.7.4 Product features covering trade-relevant information (not requiring testing)*

#### *8.7.4.1 Name and address of the manufacturer, the importer and the distributor*

These items are considered important or very important by 39% (top two boxes) of the consumers surveyed. While none of the existing scheme focuses on the name and address of the distributor, the identification of the manufacturer or of the importer is required in four mandatory schemes out of five. The identity of the manufacturer has to be provided also to comply with four voluntary schemes. Nonetheless, according to the majority of the participants to the Stakeholder Workshop, information on the manufacturer is hardly ever displayed in shops, also because it could allow consumers to bypass the retailer and buy the good online. The provision of these pieces of information has already been regulated at the EU level.

According to the Directive on Consumer Rights (Consumer Rights Directive 2011/83/EU), before the consumer is bound by a contract (or any corresponding offer) other than a distance or an off-premises contract, the trader<sup>224</sup> has to provide him/her with his trading name, the geographical address at which he is established and his telephone number. Moreover, with regard to distance or off-premises contract (or any corresponding offer), the trader has to provide consumers also with additional information such as his/her fax-number and e-mail address as well as, where applicable, the geographic address and identity of the trader on whose behalf he/she is acting and the

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<sup>222</sup> Under the same scheme, whenever new and old furniture items are sold in the same venue, new items should also bear the mention “new”.

<sup>223</sup> For further details, see: <http://ec.europa.eu/trade/policy/accessing-markets/intellectual-property/geographical-indications/>

<sup>224</sup> “Trader shall mean any natural or legal person who sells or offers for sale products which fall within his commercial or professional activity”, Article 2, Directive 98/6/EC.

geographical address of the place of business where the consumer can address any complaints. The Directive on Consumer Rights is mainly focused on information regarding retailers and concerns importers and/or manufacturers insofar as they directly sell the products to the consumer.

The GPS Directive (Directive 2001/95/EC) that is currently in force obliges producers to indicate, by means of the product or its packaging, their identity and the product reference or, where applicable, the batch of the products to which it belongs. Yet, the provisions included in this Directive have a limited impact on purchasing decisions, as consumers usually access the packaging of furniture products only after buying the item. The proposed Regulation on Consumer Product Safety (CPS)<sup>225</sup> goes further by obliging: manufactures<sup>226</sup> and importers<sup>227</sup> to indicate their name, registered trade name or registered trade mark and the address at which they can be contacted; distributors<sup>228</sup> to verify that the manufacturer and the importer have complied with consumer information obligations; importers and distributors not to obscure any compulsory information or safety-related information provided by the manufacturer (and by the importer with regard to distributors). This last provision, included as an amendment by the European Parliament, leaves more room to manufacturers and importers to affect purchasing decisions by affixing on furniture items certain information that cannot be removed by distributors.<sup>229</sup>

#### 8.7.4.2 Country of origin of the product

This is an item deemed very important or important by 37% (top two boxes) of surveyed consumers and can be described as a credence attribute.<sup>230</sup> This information is required in three voluntary schemes (i.e. in Sweden, the Czech Republic and Austria). The online mystery shopping exercise showed that no more than two companies in each of the countries surveyed display this information. There are diverging views among stakeholders as regards the costs involved in

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<sup>225</sup> Proposal for a Regulation of the European Parliament and of the Council on consumer product safety and repealing Council Directive 87/357/EEC and Directive 2001/95/EC, COM(2013)78

<sup>226</sup> “Manufacturer means any natural or legal person who manufactures a product or has a product designed or manufactured and markets that product under his name or trademark”, Article 3, Proposal for a Regulation on consumer product *supra* note 225.

<sup>227</sup> “Importer means any natural or legal person established within the Union who places a product from a third country on the Union market”, *ibid.*

<sup>228</sup> “Distributor means any natural or legal person in the supply chain, other than the manufacturer or the importer, who makes a product available on the market”, *ibid.*

<sup>229</sup> During the Stakeholder Workshop organised as part of this Study, some manufacturer representatives claimed that retailers purposely hide part of the information that manufacturers intend to show to final consumers.

<sup>230</sup> On this point, a Special Eurobarometer on consumer protection in the Internal Market from 2008 shows that consumer choice is influenced by information on product origin. Yet, the report also indicates that other aspects such as price, safety and product brand have a stronger influence on consumer choice. In terms of data, the same report found that European consumers - when asked which factors frequently influence their choice when purchasing non-food items – mentioned price (75%), safety (50%), brand (49%), the country where the product was made (26%). For further details, see Special Eurobarometer 298, pages 110- 111, [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_298\\_en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_298_en.pdf) . Another Special Eurobarometer on international trade (2010) found that EU citizens are aware of the origin of products they buy. For example, around 50% of the respondents check the country of origin for textiles, electronic devices or cars/motorbikes. The origin of the product influences to some extent the purchase decision of about a third of respondents. For further details, see [http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc\\_146948.pdf](http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146948.pdf) International Trade Report, November 2010, page 10 and pages 30-35 on international trade.

providing this information and its practical feasibility, depending on the criterion used to define the country of origin and the related tracing requirements.

It is worth stressing that the item has already been included in the proposed revision of the General Products Safety Directive. According to the proposed Regulation on CPS, manufacturers and importers have to ensure that products bear an indication of the country of origin of the product,<sup>231</sup> intended as the place where the goods were wholly obtained or underwent their last, substantial, economically-justified processing or working. The application of this definition to furniture products is not straightforward, in particular with regard to self-assembly furniture where the last processing made by the manufacturer might consist in putting in the same box parts that can come from different sources located in different countries.

A positive impact on the competitiveness of the EU furniture industry would thus depend on how the definition is applied to furniture products.

#### *8.7.4.3 Country of origin of the materials used*

This item was judged very important or important by 39% (top two boxes) of the surveyed consumers and can also be described as a credence attribute. The country of origin of the materials used is not covered by any mandatory or voluntary scheme and its inclusion in a potential furniture product initiative would most likely amplify the procedural problems (i.e. definitions of part/components, definition of materials, definition of last processing or working on each part) that can arise when establishing the country of origin of a product.

This risk is particularly high in the furniture industry, one of the more fragmented manufacturing sectors in Europe, with a very high degree of B2B trade integration across EU Member States (and potentially worldwide). Traceability of any component material would be a precondition to provide information about the country of origin of materials used in furniture production.

The issue of traceability has already been tackled at the EU level as regards wood and woodworking products. Specifically, the Timber Regulation forbids the placing on the Internal Market of illegally harvested timber or timber products<sup>232</sup> derived from illegal timber. It requires operators who place timber and timber products on the Internal Market to exercise due diligence by collecting information not only on the products but also on their suppliers and the upstream value chain. In addition, traders<sup>233</sup> are obliged to keep records of their suppliers and customers, thus enhancing traceability and virtually allowing the identification of the country of origin of wood and woodworking products used in any single piece of furniture.

In the context of this Study it is worth stressing that even when identification of the country of origin of all materials used is possible, consumer welfare might be negatively affected by “information overload”.

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<sup>231</sup> Within the meaning of paragraph 1, non-preferential origin rules spelled out in Regulation No 952/2013 of the European Parliament and of the Council laying down the Union Customs Code.

<sup>232</sup> Wooden furniture as well as furniture component materials, with the exception of recycled products, are covered by the EU Timber Regulation.

<sup>233</sup> Traders are natural or legal person who, in the course of a commercial activity, sells or buys on the Internal Market timber or timber products already placed on the Internal Market

## 8.7.5 *Product features on maintenance (not requiring testing)*

### 8.7.5.1 *Instructions and/or precautions on use*

Instructions on the use of the product are an experience attribute for consumers and considered as very important or important by 62% (top two boxes) of respondents to the Consumer Survey (see Chapter 6). These items are currently included in one mandatory scheme and up to three voluntary ones. This information was provided in a few cases surveyed in the on-line mystery shopping exercise included in the present Study. Stakeholders agree that instructions on the use of the product are an essential piece of information for consumers and that it can be delivered at marginal cost. Some maintain it is already a well established practice, although this was not necessarily confirmed by the mystery shopping exercise undertaken by the research team. The matter is already partly regulated by the GPS Directive<sup>234</sup> and by the proposed CPS Regulation.<sup>235</sup> Overall, this item would bring added value in terms of consumer welfare. Its impact on competitiveness is deemed more controversial.

### 8.7.5.2 *Instructions on cleaning and maintenance*

Instructions on cleaning and maintenance are both experience attributes and are reportedly very important or important pieces of information for 67% (top two boxes) of consumers surveyed in this Study. These items are included in three voluntary schemes and in two mandatory ones (cleaning instructions are directly mentioned in only one mandatory scheme). This information was provided in a few cases surveyed in the on-line mystery shopping exercise included in the present Study. Stakeholders agree that both types of information can be provided at a very low cost and are essential for consumers to make informed choices, although the effect on company competitiveness is expected to be limited or absent.

### 8.7.5.3 *Instructions on disposal and recycling*

Instructions on disposal and recycling are to a great extent an experience attribute, whose importance is discovered by consumers only at the end of the product lifecycle. Thirty-nine per cent of the surveyed consumers deem this piece of information as very important or important (top two boxes) for purchasing decisions. This item is included in one mandatory scheme (as an optional piece of information) and in one voluntary scheme. This information was provided sporadically in the on-line mystery shopping exercise included in the present Study. The practical impact on consumer welfare might be diluted, as several furniture items are put on the second-hand market before being disposed of. The provision of this kind of instructions is quite complex because it partially depends on national and local laws regulating household and commercial waste. It might also require disassembling some furniture items, when different materials are used for different parts and components.<sup>236</sup> Against this background, detailed instructions on disposal and recycling cannot be easily included in a set of information to be provided to consumers before purchasing and national adaptations might still be required.

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<sup>234</sup> For instance, according to the GPS Directive, for any product potentially posing risks for certain persons, authorities can mandate the inclusion of a special warning about these risks.

<sup>235</sup> Manufacturers and importers have to ensure that their product is accompanied by instructions and safety information (except where the product can be used safely without such instructions and safety information).

<sup>236</sup> This issue has been acknowledged in France where any trader is responsible for collecting and processing the waste resulting from furniture products that he/she put on the French market.

## 8.7.6 *Product features on technical performance (requiring testing and standards)*

### 8.7.6.1 *Compliance with safety and flammability requirements*

This item was not covered as such in the Consumer Survey (which focused on “friendliness to human health” more generally), and is included in three mandatory schemes (one as regards generic compliance with safety requirements and two for flammability with reference to specific mandatory national standards).<sup>237</sup> The item is foreseen in another four voluntary schemes (flammability is tackled only in one voluntary scheme, where compliance with other safety requirements is also assessed). From the point of view of consumers, safety and flammability requirements are experience or credence attributes. Based on the “mystery shopping” exercise this information appears to be sporadically displayed in the markets reviewed for this Study. There is agreement among stakeholders on the fact that this information is of benefit to consumers, but assessment of costs varies, depending on whether the information is to be provided on the basis of self-declaration or third party testing/certification. In addition, providing this information in a manner that is easily understandable and comparable for consumers is far from simple. It can also become confusing for consumers, as the matter is already regulated by the GPS Directive, while what we are referring to in this Section includes information on compliance with challenging/demanding standards that go beyond EU basic safety requirements. Impact on competitiveness is deemed more controversial by the stakeholders themselves, as some safety/flammability standards can be considered as indicators of higher quality, while others imply a trade-off between different quality features (typically very stringent flammability requirements are at odds with strong environmental friendliness criteria).

### 8.7.6.2 *Durability and resistance to “wear and tear”*

This item was deemed very important or important by 81% (top two boxes) of surveyed consumers but is not provided in any of the mandatory schemes covered in this Study. It is found only in voluntary schemes by means of compliance with currently available voluntary EN standards. In particular, “durability” is generally included under the “fitness for use” category and is required in four voluntary schemes (i.e., Austria Quality Seal, The Golden M, Simbolo Calidad and Mobelfakta) as well as in all the eco-labels existing at the EU level. Durability is always tested by accredited laboratories certifying the fulfilment of requirements applicable to durability, strength, safety and stability provided for in the relevant EN (or ISO, when no EN exists) standards (see Table 78). For durability aspects not covered by standards, an evaluation performed by an independent test institution applying relevant national standards or other assessment criteria is usually required. In this case, a test report including a detailed description of how national standards relate to the requirements of ISO or EN and/or of the alternative assessment criteria adopted is needed. As regards resistance to “wear and tear”, EN, CEN, and ISO standards apply (see Table 78 and Table 79). Furthermore, some schemes (e.g., the EU Ecolabel for wooden furniture and the Blau Angel eco-label) require the availability of compatible replacements for at least five years or longer and/or set resistance thresholds for particular materials not covered by listed standards. We never found this information in the markets and product sheets reviewed during the online mystery shopping exercise.

Durability and resistance to “wear and tear” is an experience attribute for consumers, and it is partially assessed at the time of purchase by means of commercial guarantees when these are

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<sup>237</sup> For further details on relevant EN/ISO standards for flammability see also Table 79.

provided. Opinions on cost diverge among consulted stakeholders: as can be inferred from the above, stakeholders pointed out that there are already voluntary performance standards in this area, but these are not always implemented by manufacturers, also because of their costs. There is also disagreement on whether all relevant durability features are already covered by existing standards and on how durability and resistance to “wear and tear” should be specified. Yet, the item has potential added value for consumer welfare. In addition and as indicated in the SWOT analysis (see Part I), durability and resistance to “wear and tear” are part of the product quality attributes that are considered as a source of competitive advantage for EU furniture producers towards competition from low-cost producing countries. It is thus of relevance for competitiveness as well.

**Table 78 Fitness for use (durability, strength, safety, and stability)\*: relevant EN/ISO standards**

Product class	Product category	Standards
<b>Domestic furniture</b>	Seating	<ul style="list-style-type: none"> <li>- EN 1022:2005. Domestic furniture – Seating – Determination of stability</li> <li>- EN 12520:2010. Furniture; Strength, durability and safety – requirements for domestic seating</li> <li>- EN 1728:2012. Furniture - Seating - Test methods for the determination of strength and durability</li> <li>- ISO 7173:1989. Furniture - Chairs and stools - Determination of strength and durability</li> <li>- ISO/DIS 7173. Furniture - Seating - Test methods for the determination of strength and durability</li> <li>- ISO 7174-1:1988. Furniture - Chairs - Determination of stability - Part 1: Upright chairs and stools</li> <li>- ISO 7174-2:1992. Furniture - Chairs - Determination of stability - Part 2: Chairs with tilting or reclining mechanisms when fully reclined, and rocking chairs</li> </ul>
	Tables	<ul style="list-style-type: none"> <li>- EN 12521:2009. Furniture – Strength, durability and safety – Requirements for domestic tables</li> <li>- EN 1730:2012. Domestic furniture – Tables – Test methods for the determination of stability, strength and durability</li> <li>- ISO 7172:1988. Furniture -Tables - Determination of stability</li> <li>- ISO/DIS 19682. Furniture - Tables - Test methods for the determination of stability, strength and durability</li> </ul>
	Storage, kitchen, and bathrooms	<ul style="list-style-type: none"> <li>- EN 14749:2005 Domestic and kitchen storage units and worktops - Safety requirements and test methods</li> <li>- EN 16122: 2012 Domestic and non-domestic storage furniture - Test methods for the determination of strength, durability and stability</li> <li>- ISO 7170:2005. Furniture – Storage units – Determination of strength and durability</li> <li>- ISO 7171:1988. Furniture - Storage units - Determination of stability</li> </ul>

Product class	Product category	Standards
	Bed and mattress	<ul style="list-style-type: none"> <li>- EN 1957:2012. Domestic furniture – Beds and mattresses – Test methods for the determination of functional characteristics and assessment criteria</li> <li>- EN 1725:1998 Domestic furniture - Beds and mattresses - Safety requirements and test methods</li> <li>- EN 747-1:2007. Furniture – Bunk beds and high beds for domestic use – Part 1: Safety, strength and durability requirements.</li> <li>- EN 747-2:2007. Furniture – Bunk beds and high beds for domestic use – Part 2: Test methods.</li> <li>- ISO 9098-1:1994 Bunk beds for domestic use -- Safety requirements and tests -- Part 1: Safety requirements</li> <li>- ISO 9098-2:1994 Bunk beds for domestic use -- Safety requirements and tests -- Part 2: Test methods</li> <li>- ISO 10131-1:1997. Foldaway beds - Safety requirements and tests - Part 1: Safety requirements</li> <li>- ISO 10131-2:1997. Foldaway beds - Safety requirements and tests - Part 2: Test methods</li> </ul>
	Children furniture	<ul style="list-style-type: none"> <li>- EN 716-1:2008. Furniture - Children's cots and folding cots for domestic use - Part 1: Safety requirements</li> <li>- EN 716-2:2008. Furniture - Children's cots and folding cots for domestic use - Part 2: Test methods</li> <li>- ISO 7175-1:1997. Children's cots and folding cots for domestic use - Part 1: Safety requirements</li> <li>- ISO 7175-2:1997. Children's cots and folding cots for domestic use - Part 2: Test methods</li> <li>- ISO 9221-1:1992. Furniture - Children's high chairs - Part 1: Safety requirements</li> <li>- ISO 9221-2:1992. Furniture - Children's high chairs - Part 2: Test methods</li> </ul>
	Other items	<ul style="list-style-type: none"> <li>- EN 14072:2003. Glass in furniture – Test methods.</li> <li>- EN 15570:2008. Hardware for furniture - Strength and durability of hinges and their components - Hinges pivoting on a vertical axis</li> <li>- EN 15706:2009. Hardware for furniture - Strength and durability of slide fittings for sliding doors and roll fronts</li> <li>- EN 15828:2010. Hardware for furniture - Strength and durability of hinges and their components - Stays and hinges pivoting on a horizontal axis</li> <li>- EN 15338:2007. Hardware for furniture - Strength and durability of extension elements and their components</li> <li>- EN 15939:2011. Hardware for furniture - Strength and loading capacity of wall attachment devices</li> <li>- EN 16014:2011. Hardware for furniture - Strength and durability of locking mechanisms</li> <li>- EN 16337:2013. Hardware for furniture - Strength and loading capacity of shelf supports</li> </ul>
<b>Office furniture</b>	Office work chairs	<ul style="list-style-type: none"> <li>- EN 12529:1998. Castors and wheels - Castors for furniture - Castors for swivel chairs - Requirements</li> <li>- EN 1335-1:2000 Office furniture - Office work chair – Part 1: Dimensions - Determination of Dimensions</li> <li>- EN 1335-2:2009. Office furniture – Office work chair – Part 2: Safety Requirements</li> <li>- EN 1335-3:2009. Office furniture – Office work chair – Part 3: Test Methods</li> <li>- ISO 21015:2007. Office furniture - Office work chairs - Test methods for the determination of stability, strength and durability</li> </ul>
	Work tables and desks	<ul style="list-style-type: none"> <li>- EN 14074:2004. Office furniture – Tables and desks and storage furniture – Test methods for the determination of strength and durability of moving parts</li> <li>- EN 527-2:2002. Office furniture – Work tables and desks – Part 2: Mechanical safety</li> <li>- EN 527-3:2003 Office furniture - Work tables and desks - Part 3: Methods of test for the determination of the stability and the mechanical strength of the structure</li> </ul>

Product class	Product category	Standards
		- ISO 21016:2007. Office furniture - Tables and desks - Test methods for the determination of stability, strength and durability
	Storage furniture	- EN 14073-2:2004. Office furniture - Storage furniture – Part 2: Safety requirements - EN 14073-3:2004. Office furniture – Storage furniture – Part 3: Test methods for the determination of stability and strength of the structure - EN 14074:2004. Office furniture – Tables and desks and storage furniture – Test methods for the determination of strength and durability of moving parts - ISO 7170:2005. Furniture – Storage furniture – Determination of strength and durability
<b>Other furniture</b>	School furniture	- EN 1729-1:2006. Furniture – Chairs and tables for educational institutions – Part 1: Functional Dimensions. - EN 1729-2:2012. Furniture – Chairs and tables for educational institutions – Part 2: Safety requirements and test methods.
	Outdoor furniture	- EN 581-1:2006 Outdoor furniture – Seating and tables for camping, domestic and contract use – Part 1: General safety requirements - EN 581-2:2009 Outdoor furniture – Seating and tables for camping, domestic and contract use – Part 3: Mechanical safety requirements and test methods for seating. - EN 581-3:2007 Outdoor furniture – Seating and tables for camping, domestic and contract use – Part 3: Mechanical safety requirements and test methods for tables
	Non-domestic furniture	- EN 13453-1:2004. Furniture – Bunk beds and high beds for non-domestic use – Part 1: Safety, strength and durability requirements - EN 13453-2:2004. Furniture – Bunk beds and high beds for non-domestic use – Part 2: Test methods - EN 15372:2008 Furniture – Strength, durability and safety – Requirements for non-domestic tables - EN 15373:2007. Furniture: Strength, durability and safety – requirements for non-domestic seating. - EN 16121: 2013. Non-domestic storage furniture - Requirements for safety, strength, durability and stability - EN 16122: 2012 Domestic and non-domestic storage furniture - Test methods for the determination of strength, durability and stability - EN 16139:2013. Furniture - Strength, durability and safety - Requirements for non-domestic seating

*Note:* \*This information requirements are not included in any of the mandatory schemes in force within the EU.

*Source:* Authors' own elaboration.

**Table 79 Other relevant EN/ISO standards**

Resistance to “wear and tear”	Flammability
- CEN/TS 16209:2011. Furniture - Classification for properties for furniture surfaces	- EN 1021-1:2006. Furniture - Assessment of the ignitability of upholstered furniture - Part 1: Ignition source smouldering cigarette
- CEN/TS 16611:2014. Furniture - Assessment of the surface resistance to microscratching	- EN 1021-2:2006. Furniture - Assessment of the ignitability of upholstered furniture - Part 2: Ignition source match flame equivalent
- EN 12720:2009+A1:2013. Furniture - Assessment of surface resistance to cold liquids	- EN 597-1:1994 Furniture - Assessment of the ignitability of mattresses and upholstered bed bases - Part 1: Ignition source: Smouldering cigarette
- EN 12721:2009+A1:2013. Furniture - Assessment of surface resistance to wet heat.	- EN 597-2:1994. Furniture - Assessment of the ignitability of mattresses and upholstered bed bases - Part 2: Ignition source: Match flame equivalent
- EN 12722:2009+A1:2013. Furniture - Assessment of surface resistance to dry heat	- ISO 8191-1:1987. Furniture - Assessment of the ignitability of upholstered furniture - Part 1: Ignition source: smouldering cigarette
- EN 13721:2004. Furniture - Assessment of the surface reflectance	- ISO 8191-2:1988. Furniture - Assessment of ignitability of upholstered furniture - Part 2: Ignition source: match-flame equivalent
- EN 13722:2004. Furniture - Assessment of the surface gloss	

Notes: \*This information requirements are not included in any of the mandatory schemes in force within the EU.

Source: Authors’ own elaboration.

### 8.7.6.3 Weight bearing capacity

This criterion was deemed very important or important by 65% (top two boxes) of surveyed consumers. It is an experience attribute and is not covered by any mandatory scheme, but reported in three voluntary ones with reference to existing standards. During the mystery shopping exercise, we found that this piece of information was reported only by one large retailer in the UK. The same retailer however did not report weight bearing capacity in the other countries where it operates. This choice may be explained as a defensive measure against litigation because of the mandatory six year guarantee envisaged by the Consumer Law in the UK. This product feature is relevant only for certain type of furniture items. As shown in Table 78, this attribute is also referred to as “bearing strength” and is generally included under a broader information category known as “fitness for use”. As a result, relevant EN and ISO standards in terms of requirements and testing methods exist and, *mutatis mutandis*, the same conclusions drawn for durability apply.

### 8.7.6.4 Hazardous substances

The question of hazardous substances contained in the product was very important or important for 76% (top two boxes) of surveyed consumers. Four voluntary labels use different criteria to define this item, which is sometimes worded as a negative claim (i.e. this product does not contain substance X) and refers to compliance with different maximum thresholds for use of substances defined as hazardous by different sources (e.g. World Health Organisation lists, references to substances already included in ISO standards, etc.). Possibly because of its potential negative marketing effect, the mystery shopping exercise revealed that this information was not reported for individual products but only at the company level. There is substantial agreement among stakeholders that providing this information would benefit consumers and would come at low cost if it refers to the implementation of the REACH Regulation.<sup>238</sup> Therefore, while this item has

<sup>238</sup> Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency.

potential added value for consumer welfare, its overall benefit remains ambiguous at this stage, unless a clear and comparable system to provide this information to consumers is developed.

#### *8.7.6.5 Production process*

This information was deemed of very important or important by 52% (top two boxes) of surveyed consumers. It is residually envisaged in one national mandatory scheme that leaves it to the manufacturer's discretion to highlight production processes potentially affecting only the visible parts of furniture. We never found this information in the markets and product sheets reviewed during the online mystery shopping exercise. On the positive side, this piece of information remains a credence attribute from a consumer perspective and its provision could thus be a potential source of added value. On the negative side, information on production processes could also amount to a generic claim whose consequence for quality might appear controversial along the value chain or otherwise misleading or poorly comparable with different similar claims.

Some stakeholders consider providing this information of benefit for consumers under circumstances to be defined on a case by case basis. At this stage, relevant standards are available within the ISO 9000 series that aim at defining, establishing, and maintaining a quality assurance system for manufacturing and service organizations. Nonetheless, these standards are deemed an effective quality signalling mechanism only in B2B transactions. They are also general standards, without special rules for the furniture industry. As a result, the specific features of furniture manufacturing are still poorly codifiable with the purpose of informing consumers and enable comparison among products. Overall, this item has some potential added value for consumer welfare and competitiveness purposes but could also pose problems of misuse.

### *8.7.7 Product features on socio-environmental considerations (requiring standards)*

#### *8.7.7.1 Environmental sustainability*

This item is of very important or important to 51% (top two boxes) of surveyed consumers. It is envisaged as mandatory just by one proposed national mandatory scheme, which is not yet in force. Environmental considerations are included in two voluntary schemes and are the main focus of all the existing eco-labels. In the mystery shopping exercise this information was provided sporadically. This item can be considered a credence attribute for consumers but there are diverging views among stakeholders on how it could be demonstrated and on the related implementation costs. Some maintain that environmental sustainability can be demonstrated by means of general claims of compliance with EU legislation (which would raise issues of liability if proved false),<sup>239</sup> while others foresee the need to more objectively test compliance with a set of minimum standard requirements for reference. The item has a potential added value for consumers and is generally deemed a key competitiveness tool (see the SWOT analysis in Section 4.3 above) for the EU furniture industry, which is comparatively more advanced on this aspect than many of its competitors from low-cost producing countries. Apart from the methodology on the environmental footprint of products being proposed at the EU level with the recent EU Communication on Building the Single Market for Green Products,<sup>240</sup> there is no comparable environmental standard that could be used as reference for comparison purposes, given that all

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<sup>239</sup> Retailers, who are often the first point of contact for consumers, are likely to be more affected in this case.

<sup>240</sup> Communication from the European Commission on Building the Single Market for Green Product: Facilitating better Information on the Environmental Performance of Products and Organizations, COM(2013)196.

other existing schemes are ISO type I and therefore make references to various sets of performance thresholds. For wooden-furniture the use of certified wood from sustainable forests is a precondition, although differences might arise as to the different certification schemes used (e.g. FSC vs. PEFC). The proposed European approach for calculating the environmental footprint is under experimentation for a three-year period.

For what concerns private standards, it is worth mentioning a number of recent initiatives that are expected to shed more light on the current confusion being generated by the hundreds of sustainability labels that co-exist and compete on consumers markets around the world. The Sustainability Assessment of Food and Agriculture systems (SAFA) guidelines recently published by the Food and Agriculture Organization (FAO) and the ITC's Standards Map, both developed in cooperation with the ISEAL Alliance,<sup>241</sup> are expected to stimulate a more thorough debate on the content and basic requirements of existing private sustainability standards, as well as associated governance and legitimacy.<sup>242</sup> The ITC Standards Map compares 140 sustainability standards, 20 of which are related to the furniture market.<sup>243</sup>

### 8.7.7.2 *Social sustainability*

This item is very important or important to 47% (top two boxes) of surveyed consumers but is not currently covered by any of the mandatory schemes in the EU and only explicitly addressed by one voluntary scheme. This item is also a credence attribute for consumers. Here again, consulted stakeholders expressed diverging opinions not only as regards compliance costs but also on how social sustainability claims can be substantiated in practice. At the moment, besides compliance with existing International Labour Organization (ILO) standards (e.g., on freedom of association, forced labour, employment security)<sup>244</sup> or reference to the UN Global Compact initiative,<sup>245</sup> there are no specific internationally accepted standards on social aspects for furniture products. As a result and as it emerged also in the mystery shopping exercise, product information on this point is often provided by referring to the general company policy on social sustainability. This makes comparison between different products difficult or time-consuming for the average consumer (as one would have to check the actual content of the policy of the company concerned). Some of the surveyed stakeholders, particularly manufacturers, pointed to the fact that EU legislation on social aspects and specifically on fair labour conditions is more advanced than what is required by ILO (minimum) standards; however this cannot be easily signalled to the consumer and thus exploited as a potential source of competitiveness by EU producers. Yet in the absence of existing reference standards, including this item in the set of information requirements covered by a potential initiative could lead to the proliferation of unsupported claims. In terms of consumer welfare, information on a product's social sustainability is undoubtedly beneficial, particularly for consumers that are sensitive to these aspects. Nonetheless, providing information on social sustainability in a standardized and comparable manner remains challenging.

To date, the only known example of a comparable methodology in this area has recently appeared in the US as a component of a broader socio-environmental standard mainly used for public

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<sup>241</sup> ISEAL is a non-governmental organisation whose mission is to strengthen sustainability standards systems for the benefit of people and the environment, for further details, see: <http://www.isealalliance.org/about-us>

<sup>242</sup> See <http://www.fao.org/nr/sustainability/sustainability-assessments-safa/en/>

<sup>243</sup> See <http://www.standardstmap.org>

<sup>244</sup> For a full list of existing ILO standards, see: [http://ilo.org/wcmsp5/groups/public/---ed\\_norm/---normes/documents/genericdocument/wcms\\_230305.pdf](http://ilo.org/wcmsp5/groups/public/---ed_norm/---normes/documents/genericdocument/wcms_230305.pdf)

<sup>245</sup> See <https://www.unglobalcompact.org/>

procurement purposes in the office furniture market (which is applied in one voluntary scheme in the EU).<sup>246</sup> In this standard, social features are expressed in points and graded accordingly by means of mandatory third party testing/certification. Specifically, the standard is based on compliance with a basic set of legal pre-requirements (employee health and safety management and respect of labour and human rights) and attributes scored according to the existence at the company level of 1) a publicly available documented policy on social responsibility, 2) a publicly available external health and safety management system; 3) employee inclusiveness policy; 4) evidence of company engagement in community outreach and involvement; 5) various forms of social responsibility reporting; 6) compliance with social responsibility criteria along the supply chain covering at least 75% of total direct material expenditure for all products, measured using actual annual expenditure data for a consecutive 12-month period within the previous 2 years, which requires a complex tracking system along the entire supply chain as it has to be demonstrated by suppliers as well. This discourages globally integrated supply networks and is difficult to comply with in environments that are unfamiliar with social reporting and public disclosure of company-related information.

### 8.7.8 Other items

#### 8.7.8.1 Information on protected design

This item was considered of interest by a limited share of the consumers surveyed (26% of respondents deemed this information as important or very important, top two boxes). It is never included in any of the mandatory or voluntary schemes reviewed for this Study. Surveyed stakeholders agree on the fact that providing this information is not useful for competitiveness purposes and to solve existing problems relating to the enforcement of IPRs. The item therefore appears as not worthy of further consideration as an information requirement for a potential furniture products initiative.

#### 8.7.8.2 Additional items from the mandatory schemes

One mandatory scheme includes additional information on search attributes such as the number of items included in the package. Two mandatory schemes require information on the date of manufacturing and the date of importation. Both were deemed irrelevant as a possible source of added value for consumers by the majority (but not all) of the consulted stakeholders. They also seem to have a very limited effect on competitiveness. As a result, these items have been deemed not worthy of further consideration as information requirements for a potential initiative.

### 8.7.9 Concluding remarks

To conclude,

Table 80 summarises some of the feedback gathered from a selection of stakeholders<sup>247</sup> on the importance of including each item in a potential initiative, on whether each piece of information is already provided, and on the possible magnitude of implementation costs if such items figured in the set of information requirements of a possible products furniture initiative. As the table shows, discrepancies exist on the interpretation of some of the selected items as well as on the perceived

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<sup>246</sup> See ANSI/BIFMA E3-2012 Furniture Sustainability Standard at: <https://www.bifma.org/store/ViewProduct.aspx?id=1377924>

<sup>247</sup> Note that representatives from all categories of stakeholders (e.g. consumer organisations, individual businesses, associations of both retailers and producers) were contacted but not all replied.

costs of implementation. These discrepancies were also reflected in some of the responses to the public online consultation and during the Stakeholder Workshop organised for the Study. Although the views expressed below are not necessarily representing those of all stakeholders under each group, they offer a clear overview of potential feasibility and implementation issues (e.g. in terms of interpretation of requirements, relative costs, selection of standards or other testing/certification procedures for some information items) that need to be borne in mind when assessing and comparing potential courses of action to address the problems discussed in this Chapter. A case in point is the item “compliance with safety requirements” which is rather broad. When referring to compliance with existing basic safety standards, the difficulty of complying with the requirements and the cost of doing so was deemed very limited for EU producers and for producers in general, as practically all products available on the market pass the relevant tests. The cost of compliance with more complex safety requirements was also considered to be limited if based on self-certification as is the case for the CE-marking approach (however costs could be relevant for market surveillance authorities). Conversely, cost issues emerged as soon as “safety” refers to compliance with non essential safety requirements and/or involves third party testing/certification. For instance, a technology institute indicated that the cost of testing the safety of a range of bunk beds is around €1,000 but this figure does not include the cost of physically sending the beds to the testing house, which is also important. This is why, reportedly, not all producers do actually comply with these requirements. Another respondent explained that testing and certifying compliance is too costly for manufacturers from some third countries, thereby delivering a comparative advantage to EU producers that can be more likely to be in a position to prove compliance with higher quality standards (see Section 4.3). Some respondents also signalled the costs of developing an easily understandable way to communicate that a product is safe to consumers: there could be reputational costs if the mention of safety “scares” the consumer instead of providing reassurance.

Another example of discrepancy concerns information on a product’s environmental or social sustainability. Some respondents believe that this could be easily provided by EU producers as a self-certification of compliance with EU rules and could thus strengthen the competitiveness of complying producers, given that EU rules are generally more demanding than those of other legal systems and those contained in some basic standards. However this approach could raise a series of issues: first, all relevant EU legislation would have to be identified and the list of applicable rules would have to be regularly updated; a system to declare compliance would also have to be thought of. More importantly, a system based on self-declaration would open the door to arbitrary claims and significantly increase costs for market surveillance authorities and, as explained in greater detail in the impact assessment (see specific parts in Chapter 9 below), could be problematic in terms of international trade law, whenever relevant international standards for furniture do not exist. As signalled in

Table 80, as soon as one departs from a self-certification approach, costs are bound to vary significantly, depending on how social and environmental criteria are defined.

**Table 80 Examples of diverging views among stakeholders on the desired contents of a product information scheme and related implementation modalities<sup>248</sup>**

	<b>Stakeholder A</b> (technology institute)	<b>Stakeholder B</b> (technology institute)	<b>Stakeholder C</b> (manufacturers association)	<b>Stakeholder D</b> (manufacturers association)
<b>PRODUCT FEATURES (no testing)</b>				
Materials used	Essential	Essential	Nomenclature can be controversial e.g. hybrid products, and might overlap at times with environmental concerns	Essential
Date of manufacturing /data of importation	Not relevant	Essential	Not relevant	Not relevant
<b>TRADE-RELATED INFORMATION (no testing)</b>				
Name and address of the importer	Not always possible	Essential	No comment	Essential
Name and address of the manufacturer	Not always possible	Essential	Not always possible when pieces are produced by several manufacturers and furniture is not assembled	Essential
Origin of the product	Origin of product can be deemed controversial. A clear definition of "origin" is required.	Essential	Origin of product can be deemed controversial	Essential
<b>PRODUCT MAINTENANCE (no testing)</b>				
Instructions and/or precautions on use	Essential	Essential	Already provided by companies	Essential
Instructions on cleaning	Essential	Essential	Already provided by companies	Essential
Instructions on maintenance	Essential	Essential	Already provided by companies	Essential
<b>PRODUCT FEATURES ON TECHNICAL PERFORMANCE/QUALITY (with testing/standards)</b>				
Compliance with safety requirements	Would require compulsory testing	Would require costly testing/certification	Self-certified CE-type mark	Essential and easy to provide

<sup>248</sup> Note that the views reported in the table are not necessarily representing the opinion of the entire category.

	<b>Stakeholder A (technology institute)</b>	<b>Stakeholder B (technology institute)</b>	<b>Stakeholder C (manufacturers association)</b>	<b>Stakeholder D (manufacturers association)</b>
Weight bearing	Relevant for certain items only	Essential	Added value unclear	Essential
Durability of use and resistance to "wear and tear"	Complicated to implement on all furniture. Would require compulsory testing or certification.	Difficult to unambiguously specify	Self-certified compliance with existing EN standards	No comment
Hazardous substances contained in the product	REACH could be used as a standard but would also require testing	Essential and easy to provide	REACH could be used as a standard	Essential and easy to provide
<b>SOCIO-ENVIRONMENTAL CONSIDERATIONS (with standards)</b>				
Conformity to fair labour conditions	Unclear how it can be demonstrated	Very difficult to measure	Self-declaration of compliance with EU legislation	Requires definition of guidance criteria
Environmental criteria	Many different criteria possible that would trigger different costs	Difficult to unambiguously specify	Self-declaration of compliance with EU legislation	Requires definition of guidance criteria

*Source: Authors' own elaboration.*

Finally we conclude with a summary table illustrating how each of these items scores in terms of the criteria used in the analysis above. The rows of the table group information requirements under the five categories used throughout this Section. The columns summarize whether the information item is a search, credence or experience attribute for the consumer; whether it is covered by one of the existing mandatory or voluntary schemes currently in force across the EU; whether the item is covered by existing EU legislation or legislation in the pipeline such as the CPS Regulation, and whether standards already exist for the information requirement under examination. The table then moves to key impacts, namely the perceived value added for consumers;<sup>249</sup> the expected impact on the competitiveness of EU furniture manufacturers; whether the item could potentially have impacts on trade with third countries; and finally whether providing that specific type of information is likely to raise significant costs and why. No information has been reported on whether the item has implication for the correct functioning of the Internal Market as this relates to the existence of the schemes as such, rather than to their contents in terms of the information requirements envisaged.

<sup>249</sup> On this point, the table relies either on the results of the consumer survey when an item was covered by the corresponding questionnaire or refers to the feedback provided by consulted stakeholders for items not included in the survey.

**Table 81 Summary table on information requirements for a possible furniture products initiative**

Product characteristic	Nature of information for consumers	Item Included in Mandatory Schemes (5 schemes in total)	Item included in Voluntary Schemes (6 in total)	Covered by EU legislation	Covered by Voluntary standards	Added value for consumers *	Comparability of information for consumers	Competitiveness relevance	International Trade Relevance	Cost of providing information
<b>PRODUCT FEATURES (not requiring testing): SPECIFICATIONS</b>										
<b>Dimension</b>	Search	Y (1)	Y (2)	N	Standards on dimensional requirements exist for office/school furniture	Very high (top two boxes 80%)	High	Very limited	N	Very limited
<b>Weight</b>	Search	N	Y (1)	N	N	Medium (top two boxes 48%)	High	Very limited	N	Very limited
<b>Materials used</b>	Search/Experience/Credence	Y (5)	Y (2)	N	N	High (top two boxes 68%)	High	Relevance in lower segments of the market	N	Very limited, except for hybrid materials
<b>Materials imitated</b>	Search/Experience/Credence	Y (2)	N	N	N	N.D.	High	Relevance for some products	N	Very limited except for hybrid materials
<b>Style imitated</b>	Search	Y (1)	N	N	N	N.D.	Unclear, depends on definition	N	N	Very limited
<b>PRODUCT FEATURES (not requiring testing): TRADE INFORMATION</b>										
<b>Name and address of the manufacturer</b>	Credence	Y (4)	Y (4)	Matter regulated under the GPS Directive	N	Medium (top two boxes 39%)	High	N	N	Very limited
<b>Name and address of the importer</b>	Credence	Y (4)	N	Matter regulated under the GPS Directive	N	Medium (top two boxes 39%)	High	N	N	Very limited

Product characteristic	Nature of information for consumers	Item Included in Mandatory Schemes (5 schemes in total)	Item included in Voluntary Schemes (6 in total)	Covered by EU legislation	Covered by Voluntary standards	Added value for consumers *	Comparability of information for consumers	Competitiveness relevance	International Trade Relevance	Cost of providing information
Origin of the product	Credence	N (1P)	Y (3)	Proposed under the CPS Regulation.	N	Medium (top two boxes 37%)	High	Y	Y	Depends on how origin is defined
Origin of the product's materials	Credence	N	N	N	N	Medium (top two boxes 39%)	High (but complex in cross-border value chains)	Y	Y	Depends on complexity of the product
<b>PRODUCT FEATURES (not requiring testing): MAINTENANCE</b>										
Instructions and/or precautions on use	Search/Experience	Y(1+1P)	Y(2)	Proposed under the CPS Regulation.	N	High (top two boxes 62%)	Medium	N	N	Very limited
Instructions on cleaning and maintenance	Experience	Y (2)	Y(3)	N	N	High (top two boxes 67%)	Medium	N	N	Very limited
Instructions on disposal and recycling	Experience	Y(1)	Y (1)	N	N	Medium (top two boxes 39%)	Low (depends also on local rules)	N	N	Depends on local rules
<b>PRODUCT FEATURES (requires testing/standards): TECHNICAL PERFORMANCE/QUALITY</b>										
Compliance with safety and flammability requirements	Experience/Credence	Y (1S+2F)	Y (4S + 1F)	Matter regulated under the GPS Directive	Several EN reference standards available on a number of products. Separate fire resistance standards also available.	Very high (75%, willingness to pay for products friendly to human health)	Depends: not easy to convey to non experts	Limited	Y	Depends: medium to high when dedicated system and third party testing/certification involved

Product characteristic	Nature of information for consumers	Item Included in Mandatory Schemes (5 schemes in total)	Item included in Voluntary Schemes (6 in total)	Covered by EU legislation	Covered by Voluntary standards	Added value for consumers *	Comparability of information for consumers	Competitiveness relevance	International Trade Relevance	Cost of providing information
<b>Weight bearing</b>	Search/Experience	N	Y (3)	N	Several EN reference standards available. Also considered as a component of safety standards on certain items e.g. chairs	High (top two boxes 65%, but depending on the type of furniture)	High	N	N	Limited
<b>Durability of use and resistance to "wear and tear"</b>	Experience	N	Y (4)	N	Several EN standards available It often includes also strength standards and weight bearing considerations.	Very high (top two boxes 81%)	Unclear as currently poorly codified	Y	Y	Potentially high if requirement is made mandatory and requires testing and third party testing/certification
<b>Hazardous substances contained in the product</b>	Credence	N(1P)	Y (4)	Matter regulated under the GPS Directive	CEN standards on formaldehyde emissions also available.	Very high (top two boxes 76%)	Difficult to communicate to non experts	Y	Y	Potential cost of developing a standardized system to communicate to consumer; limited cost of compliance for those respecting existing rules

Product characteristic	Nature of information for consumers	Item Included in Mandatory Schemes (5 schemes in total)	Item included in Voluntary Schemes (6 in total)	Covered by EU legislation	Covered by Voluntary standards	Added value for consumers *	Comparability of information for consumers	Competitiveness relevance	International Trade Relevance	Cost of providing information
<b>Production process</b>	Credence	Y(1+1P)	N	N	ISO9000 standards	Medium (top two boxes 52%)	Difficult, poorly codified	Y	Y	Depends on how process and related requirements are defined
<b>PRODUCT FEATURES (requires standard): SOCIO-ENVIRONMENTAL CONSIDERATIONS</b>										
<b>Environmental sustainability</b>	Credence	N	Y (2)	EU Methods for calculating the Product Environmental Footprint proposed with Communication 196/2103 + EU Ecolabel	ISO14000 standards	Medium (top two boxes 51%)	Limited except for eco-labels	Y	Y	Depends on how requirements are defined
<b>Social sustainability</b>	Credence	N	Y (1)	N	ILO standards + ANSI/BIFMA E3-2012 Furniture Sustainability Standard	Medium (top two boxes 47%)	Limited as poorly codified	Y	Y	Depends on how requirements are defined

Notes: Y= yes; N = not relevant; N.D. = no data; P=pending item included in a scheme but not yet in force; S=safety; F=flammability.\*The added value for consumers is “very high” when more than 75% of respondent deem the product characteristic as important or very important (top two boxes), “high” between 55% and 75%, “medium” between 35% and 55%, and “low” below 35%.

Source: Authors' own elaboration.

## **8.8 Impacts of a possible furniture products initiative on the upper segments of the furniture value chain: focus on wood and woodworking products**

As explained in greater detail in Part I of the Study, the furniture industry employs a wide range of raw materials such as wood, metal, aluminium, plastics, textiles, leather, and glass, as well as mechanical and ICT components. As a result, the furniture value chain is vertically linked to several value chains providing inputs for furniture production. Wood and wood-based panels represent a substantial share of component materials used in furniture products, with the sole exception of the mattress segment. In particular, wood furniture<sup>250</sup> accounts for about 60% of total furniture production in the EU (a segment worth about €50 billion in 2010) and wood is used also as a complementary material in other kinds of furniture (e.g., in the manufacturing of upholstered frames).

Against this background, this Section of the Study focuses on the implications stemming from a possible furniture products initiative on the upstream value chain of the wood furniture industry, notably wood and woodworking products. As the provision of some pieces of information to final consumers might require the collection of data and information on wood products used in furniture production, the potential adoption of a furniture products initiative is likely to affect information flows in related value chains.

### *8.8.1 The upstream value chain of the wood furniture industry according to the NACE classification*

According to the NACE rev.2 statistical classification of economics activities, woodworking products are grouped in Division 16 including, i.a., the manufacture of wood and of wood products such as lumber, plywood, veneers, wood containers, wood flooring, wood trusses, and prefabricated wood buildings, with the exception of furniture. In particular the following Classes are relevant for the upstream part of the furniture value chain:

- 16.10, including sawmilling and planing of wood;
- 16.21, including manufacture of veneer sheets and wood-based panels.

Furthermore, woodworking and therefore the furniture value chain is rooted in the wood value chain that is classified in two NACE rev.2 Classes:

- 2.10, including silviculture and other forestry activities;
- 2.20, including logging.

### *8.8.2 The impacts of existing furniture product information schemes and EU rules on information flows within the upstream value chain of the wood furniture industry*

As reported in the comparative analysis of existing measures (see Chapter 5 of the Study), none of the mandatory schemes currently in force across the EU28 requires special information on wood

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<sup>250</sup> This aggregate includes both solid wood furniture (a marginal share) and wood-based panel furniture (a substantial share).

and woodworking products embedded in furniture. Although all these schemes ask for the provision of information on materials used, the expected level of detail does not actually require information flows going beyond what could be termed “business as usual”.

As a result, prior to the entry into force of the EU Timber Regulation<sup>251</sup> in March 2013, the provision of additional information about these component materials was entirely left to voluntary measures. In particular, some voluntary schemes as well as all the existing eco-labels require compliance with thresholds for formaldehyde emissions. Compliance with these thresholds largely depends on the wood components of furniture (this is because formaldehyde is contained in the adhesive resin used for production of composite wood such as particleboard, plywood, etc.). The majority of eco-labels (including the two EU Ecolabels) consider also additional requirements with regard to wood such as traceability, sustainable procurement, and biocides contents. Furthermore, producers willing to inform consumers on the sustainability of the wood employed in their products can also resort to forest certification systems such as the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC), whose uptake is generally higher than that of furniture eco-labels.

As regards information on wood and woodworking products, the EU Timber Regulation represents a momentous breakthrough because it forbids the placing on the Internal Market of illegally harvested timber or timber products<sup>252</sup> derived from illegal timber and requires operators who place timber and timber products on the market to exercise due diligence.<sup>253</sup> Moreover, to enhance traceability, traders<sup>254</sup> are obliged to keep records of their suppliers and customers. Although this Regulation does not directly affect the amount of information provided to consumers, its enforcement has some clear informational effects: i) it ensures that all wooden furniture products put on the EU market employ wood that was legally logged, thus creating a level playing field in the Internal Market; ii) it fosters the collection and transmissions of information at different levels of the value chain, thus enhancing B2B information flows; iii) it allows traceability of wood and woodworking products, thus facilitating the identification of the country of origin of these materials. Conversely, it is worth stressing that the EU Timber Regulation does not address sustainability unless rules applied in the country of harvest take account of this specific issue.<sup>255</sup>

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<sup>251</sup> Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market.

<sup>252</sup> Wooden furniture as well as furniture component materials, with the exception of recycled products, are covered by the EU Timber Regulation.

<sup>253</sup> To exercise due diligence, an operator has to collect information about timber and timber products as well as about his suppliers and other context details (complexity of the value chain, rules in force in the country of harvest, level of enforcement in such a country, etc.), thus being able to conduct a full risk assessment and, when needed, to take risk mitigation measures.

<sup>254</sup> Traders are natural or legal person who, in the course of a commercial activity, sells or buys on the Internal Market timber or timber products already placed on the Internal Market

<sup>255</sup> The definition of legality applied by the EU Timber Regulation strictly depends on the scope of the laws in force in the country of harvest. Factors that are central in sustainable forest management such as biological diversity or forest productivity are not always embedded in national laws regulating logging. As a result, timber complying with the EU Timber Regulation is not necessarily sustainable. Similarly, sustainable timber is not automatically compliant with the Timber Regulation insofar as the definition of sustainability might not include compliance with laws in force in the country of harvest (note that products made of FSC or PEFC certified timber do not automatically comply with provisions included in the EU Timber Regulation).

### 8.8.3 *The impacts of a possible furniture products initiative on information flows in the upstream value chain of the wood furniture industry*

A possible furniture products initiative is likely to affect information flows within the entire value chain. In particular, as regards the wood furniture industry, several features of products placed on the market depend on the characteristics of wood and woodworking that are used in the production process. As a result, the introduction of a new furniture-specific information scheme is likely to affect B2B relations along the value chain.

Table 82 summarises the potential impacts on information flows in the upstream value chain of providing information about the product features discussed in Section 8.7. Specifically, furniture manufacturers are the best placed to provide information about dimensions, materials imitated, style imitated, name and address of the manufacturer/importer, origin of the product, and the production process applied, as these features are largely independent from the inputs of the production process.

Also information about weight, weight bearing performance, compliance with safety and flammability requirements, and durability and resistance to “wear and tear” could be potentially provided by manufacturers without a need to gather information within the value chain, as these product features can be measured by testing the final products. Nonetheless, two important caveats are required. First, manufacturers might not be the least cost producers of this kind of information as suppliers of wood and woodworking products might be better placed to perform tests and collect relevant evidence. Second and insofar as consumers will pay more attention to and be willing to pay a premium price for such features, manufacturers might start selecting wood and woodworking inputs based on their contributions to e.g. the durability or the weight bearing performance of their furniture products. As a result, additional information might be requested to upstream suppliers and a competitive advantage is likely to be attributed to those suppliers that are ready to provide these pieces of information.

When it comes to materials used, origin of the product’s materials, hazardous substances contained in the product, and environmental and social sustainability, the impacts on the information flows within the entire value chain are expected to be high as the relevant information has to be collected and transmitted at several points along the value chain and ultimately trickle down to consumers. While the first three features (materials used, origin of the product’s materials, and hazardous substances) are strictly dependent on a product’s component materials, environmental friendliness and social sustainability, in an assembling industry such as furniture, are contingent on standards, rules, and procedures adopted in the upper segments of the value chain (e.g. sustainable management of forests).

**Table 82 Furniture product features and their impacts on information flows on the upstream value chain**

<b>Product features</b>	<b>Impact on information flows on the upstream value chain (no/low/high impact)</b>
<b>Product features not requiring testing: specifications</b>	
<b>Dimensions</b>	No impact
<b>Weight</b>	Low impact
<b>Materials used</b>	High impact
<b>Materials imitated</b>	No impact
<b>Style imitated</b>	No impact
<b>Product features not requiring testing: trade information</b>	
<b>Name and address of the manufacturer</b>	No impact

<b>Product features</b>	<b>Impact on information flows on the upstream value chain (no/low/high impact)</b>
<b>Name and address of the importer</b>	No impact
<b>Origin of the product</b>	No impact
<b>Origin of the product's materials</b>	High impact
<b>Product features requiring testing/standards: technical performance/quality</b>	
<b>Compliance with safety and flammability requirements</b>	Low impact
<b>Weight bearing</b>	Low impact
<b>Durability of use and resistance to "wear and tear"</b>	Low impact
<b>Hazardous substances contained in the product</b>	High impact
<b>Production process</b>	No impact
<b>Product features requiring standards: socio-environmental considerations</b>	
<b>Environmental sustainability</b>	High impact
<b>Social sustainability</b>	High impact

*Source: author's own elaboration*

In light of the above, improving the information provided to consumers in the market for furniture can certainly lead to some reshaping in B2B information flows and a change in vertical relations among furniture producers and their suppliers. The potential impacts in the related value chains cannot be quantified at this stage of the analysis as they will strictly depend on the practical implementation of a possible furniture products initiative and, in particular, on how product characteristics covered by the initiative are defined, interpreted and communicated to consumers. In terms of benefits however, given that surveyed consumers were interested in receiving information on the product features with potentially higher impacts in terms of information flows within the value chain,<sup>256</sup> it is fair to expect that suppliers that are able to provide better quality component materials might improve their competitiveness. On the cost side, the operating costs of furniture manufacturers as well as of actors operating upstream in the furniture value chain will be affected by a possible furniture products initiative, especially in a mandatory form. In this respect, the more relevant question then becomes to what extent and in which form relevant information is already collected and transmitted along the value chain. If informational asymmetries, inconsistent practices, duplication of information, bottlenecks, and other critical issues are identified, then it would be worthwhile exploring in greater depth whether there are certain points in the value chain and specific modalities where such product information can be more effectively and efficiently collected and transferred to downstream segments of the chain.

## **8.9 Legal basis for action and compliance with conferral and subsidiarity principles**

The Legal Basis for action is to be found in article 169 of the Treaty on the Functioning of the European Union (TFEU), providing that the Community is to contribute to the attainment of a high level of consumer protection as a matter of concurrent competence with Member States, as well as in Article 114 TFEU, having as its object the establishment and functioning of the Internal Market by approximating the provisions laid down by law, regulation or administrative action in Member

<sup>256</sup> According to the consumer survey, information about hazardous substances contained in the product are important or very important (top two boxes) for 76% of respondents rank, material used for 68% of respondents, environmental friendliness for 51%, social sustainability for 47%, and the country of origin of component materials for 40%.

States, and article 173 TFEU aiming at ensuring that the conditions necessary for the competitiveness of the Union's industry exist.

As regards the problem of information asymmetries towards consumers, Member States may want – and have already done so in the past - to take individual (non-harmonised) action to improve quality signalling in furniture, including on potential threats to health. This possibility, in the absence of EU action, is strengthened due to the continued introduction and tightening of quality standards in third countries, and can be perceived as a competitiveness tool, as shown for instance by the latest French initiative on the *Affichage Environnemental*. Such actions, if uncoordinated, could hamper the functioning of the EU Internal Market and lead to high administrative burdens and costs for manufacturers. By being taken closer to the citizens, these Member States actions would be in line with the subsidiarity principle; they might however fail in ensuring a level-playing field across the EU28. Conversely and under certain circumstances as explained in greater detail below, a potential action at the EU level could address the problems of informational asymmetries as regards certain quality and process features of furniture products (e.g. durability, social and environmental sustainability) while still respecting subsidiarity considerations. These EU level actions would eventually lower barriers and simplify existing rules to enable everyone in the EU - individuals, consumers and businesses - to make the most of the opportunities offered to them by having direct access to the EU Single Market.

As explained in the previous sections, problems along the value chain and the question of misaligned incentives between manufacturers and retailers on which type of product information should be provided to consumers can derive/be explained either from different marketing and communication strategies between manufacturers and retailers or from the presence of potential unfair commercial practices and imbalanced relations between them. It is only in this second case that the attention of public authorities (national or EU) is triggered and can thus call into question the principle of subsidiarity.<sup>257</sup> Generally speaking, issues of determination of unfair commercial practices by omission, as well as the identification of the material information requested by the average consumer for the implementation of the Directive on Unfair Commercial Practices has been left to Member States' appreciation as also explained in the related Guidance document.<sup>258</sup> This approach is in line with the subsidiarity principle and is aimed at ensuring that the potentially differing business practices in the various national markets and the presence of different contract law frameworks across the EU is respected. However, there remains a room to harmonize at the EU level minimum information standards by means of binding rules if major market disruptions are found or by means of soft law instruments (e.g. voluntary codes of conduct) if a generalized situation of limited satisfaction is found without clear evidence of a serious Internal Market malfunctioning.

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<sup>257</sup> In the first case, which concerns exclusively marketing and commercial choices of private players, public authorities do not normally intervene.

<sup>258</sup> Guidance on the Implementation/Application of the Directive 2005/29 EC on Unfair Commercial Practices, Brussels, SEC(2009)1666, with particular reference to art. 6 and 7 of the Directive.

## 9 IMPACT ASSESSMENT

This Section introduces the policy options that were developed in consultation with the European Commission. The remainder of the Chapter analyses in detail the options that were retained after a close scrutiny of the evidence presented in Part II of this Study and additional elements gathered from the review of the literature and studies on comparable initiatives and product markets.

**Option 1 – No action: the baseline scenario.** This option would require no policy change at the EU level and leave the situation as it stands, with both mandatory and voluntary schemes coexisting across the EU. This approach would be in line with the preference of retailers' associations that do not perceive the existence of any policy problem. Under this option, one could expect that current regulatory developments such as the forthcoming Regulation on CPS, other initiatives already in the pipeline (including the ongoing revision of EU voluntary schemes such as the EU Ecolabels) and the natural evolution of the e-commerce market will be the main forces impacting on quality signalling and consumers' behaviour.

**Option 2 – Self-regulation.** This option refers to an initiative solely led by industry with relevant stakeholders (trade unions, standardisation bodies, etc.) to develop a pan-EU voluntary scheme providing information on furniture product characteristics. This approach would be meant to address the current fragmentation of the national schemes by encouraging a pan-European initiative to reach a critical mass.

**Option 3 – European Commission soft law initiatives.** This option would entail a combination of EU soft-law initiatives on furniture products in addition to the existing Eco-labels. Three types of initiatives could be envisaged: 1) guidelines responding to growing consumer concerns for transparency in e-commerce and information displayed online; 2) initiatives aimed at building consensus among stakeholders on common definitions of individual product characteristics (e.g. durability, social sustainability) and how they could be measured and communicated to the consumer. These initiatives could be supported by standardization; finally 3) once a technical agreement on how to define, interpret and communicate furniture product characteristics has been reached, an additional non-binding sectoral guidance could be envisaged to complement the existing general guidance documents issued by the Commission on the Consumer Rights Directive and the Unfair Commercial Practices Directive and function as a benchmark for reference in judging furniture retailers' compliance with these two Directives, and in particular the provisions on the main characteristics of the goods on sale.

**Option 4 – European Commission voluntary scheme.** This option would require the introduction at the EU level of a non-binding furniture products scheme containing a set of information requirements, to be displayed to consumers by means of a label or product card. In terms of content, this voluntary scheme could cover different combinations of the product characteristics analysed in Section 8.7 above. As explained in Section 9.4.1, the final combination of product characteristics included in the scheme would depend on the criteria used to select product information: e.g. the results of the consumer survey, the cost of providing information on each product feature, the results of existing studies on consumer reactions when product information is included in a label, and so on. The voluntary scheme could also potentially include all product characteristics discussed in Section 8.7. This voluntary scheme would complement the existing EU Ecolabels for furniture.

**Option 5 – European Commission mandatory scheme.** This option would envisage the adoption at the EU level of a mandatory and harmonised information scheme for furniture products, to be displayed to consumers by means of a label or product card. In terms of content, the scheme could cover different combinations of the product characteristics discussed in Section

8.7, or as in the case of Option 4 above, include all the product characteristics examined in this Study.

## 9.1 Policy options discarded at an early stage

**Option 2**, referring to a self-regulatory initiative solely developed by industry in cooperation with other relevant stakeholders to provide information on furniture product characteristics and address the current fragmentation generated by existing national schemes, was discarded at an early stage. Although this option would have been fully in line with the **proportionality** principle, it would have fallen short on the other criteria of effectiveness, feasibility and efficiency. It would also have failed to address the three problems identified in the Study, in particular the misaligned incentives along the value chain.

Specifically, the feedback received during the Stakeholder Workshop and in bilateral interviews with different types of stakeholders indicates that a self-regulatory approach would bring limited added value when compared to Option 1, while being significantly more costly (i.e. **less efficient**) than the baseline scenario. Indeed, developing a pan-EU self-regulatory initiative for furniture products and ensuring that it achieves the necessary critical mass to be recognized by consumers would require an investment of financial resources for communication, awareness-raising and marketing purposes. These resources are reportedly not available (**feasibility**).<sup>259</sup> Moreover consulted stakeholders and in particular manufacturers, their associations and representatives of consumer organisations expressed a high level of scepticism on the basis of previous experience with self-regulatory initiatives (**effectiveness**). Such scepticism stems from difficulties in having labels/product cards systematically displayed in shops once a voluntary/self-regulatory initiative is in place, reportedly because of problems along the value chain, and in particular misaligned incentives (e.g. between retailers and manufacturers) on the type of product information to be displayed to consumers.. This explains why consulted stakeholders did not consider it worthwhile to invest resources in developing a self-regulatory initiative that might not bring about significant positive impacts on the consumer market for furniture products.

**Option 4**, foreseeing the adoption of a voluntary scheme for furniture products at the EU level, was also discarded at an early stage, essentially because of its perceived limited added value when compared to the baseline scenario (Option 1), particularly in terms of **efficiency** and **effectiveness** in meeting policy objectives. By its voluntary nature, Option 4 would meet the criterion of **proportionality**, however and on the basis of existing experience with voluntary schemes it runs the risk of facing problems of limited uptake and awareness among consumers, unless significant resources are regularly invested in promoting the scheme. By way of example, the

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<sup>259</sup> Consulted stakeholders did not provide specific figures in terms of marketing and promotional costs; however the 2008 impact assessment for the revision of the EU Ecolabel gives some useful indications to understand the order of magnitude of marketing costs involved. Specifically, the EU Ecolabel budget for marketing in the whole of the EU directly from the Commission is around €460,000 per year with 5 dedicated staff helping to run the scheme. Marketing costs of the Ecolabel vary year on year around an average figure of approximately €1.5 million. A total of 36 staff is employed within the Member States to run the scheme, with an annual running cost of about €2.3 million. For comparative purposes, the Nordic Swan's annual budget in 2008 for Norway, Sweden, Denmark and Finland amounted to about €7.5 million and the scheme was run by around 70 employees. The budget for marketing, information and sales in these four countries with a population of 25 million altogether was €3 million. As a result the 2008 impact assessment foresees an initial financial input in the order of €5 million per year for five years for a professional promotion of the Ecolabel brand in the EU. For further details, see SEC(2008)2118, at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008SC2118&from=EN>

2008 impact assessment for the revision of the EU Ecolabel estimated that an initial financial input of about €5 million per year for five years would be needed for a professional promotion of the Ecolabel brand in the EU.<sup>260</sup> Moreover, the (currently limited) problem of market fragmentation described in Section 8.3.3 would only be addressed if the scheme achieves a certain level of diffusion across the EU. However, Option 4 would not substitute existing voluntary and mandatory initiatives at the national level. In addition, participants to the Stakeholder Workshop expressed overwhelming consensus that this type of approach, being developed at the EU level, would overlap with the existing EU Ecolabel for wooden furniture and bed mattresses and add yet another tool to an already overcrowded market for labels and signalling schemes. Finally, considerations on **feasibility** would very much depend on the content of the voluntary EU scheme in terms of information requirements. As explained in Section 8.7, some information requirements that could potentially be part of the scheme require the development of dedicated standards and/or ways of communicating the product information in a comparable and easily understandable way for consumers. This in turn requires the cooperation of all parties involved and additional resources to agree on definitions of individual requirements and ways of measuring and communicating them. Due to existing misaligned incentives along the value chain and past experiences with some shelved initiatives at the national level (see Section 5.3.2), this pre-condition does not seem to be present at the time of writing.

## 9.2 Option 1: no action – the baseline scenario

As explained above (see Section 8.6), there are three main factors that can influence the baseline scenario over the next few years, and namely:

- the impact of the Internet on consumer behaviour, including information retrieval patterns;
- regulatory changes stemming from the Commission’s proposal for the new CPS Regulation, that is being discussed under the ordinary legislative procedure and may eventually include a mandatory indication of the “country of origin” of a product and of any information the manufacturer deems it useful to report for product safety signalling purposes; and finally
- voluntary measures, including a foreseen extension of the scope of the EU Ecolabel for furniture products that already covers many information requirements (see Table 83 for a list of requirements currently included in the EU Ecolabel) as well as other voluntary initiatives such as a European label on social sustainability.

Depending on how these three factors develop, the prospected evolution of the current situation, absent any further intervention, is likely to partially address some of the problems identified in this Study. Indeed, The extent to which the impacts described below will actually materialize depends on three elements: 1) the likelihood that the future Regulation on CPS contains requirements on the country of origin; 2) the level of trust/confidence of consumers in the information provided, including the likelihood it is actually understood by the non-specialist reader;<sup>261</sup> and 3) the actual degree of enforcement of related provisions in the market, or in the case of voluntary measures, their level of uptake in the market, including acceptance among retailers.

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<sup>260</sup> For further details, see note 259.

<sup>261</sup> As explained elsewhere in this Study, this can be challenging, particularly in the field of product-safety information.

**Table 83: The Current Requirements of the EU Ecolabel**

<b>PRODUCT FEATURES (not requiring testing): SPECIFICATIONS</b>	
<b>Dimension</b>	None
<b>Weight</b>	<ul style="list-style-type: none"> <li>Information shall be provided on the total weight of the product.</li> <li>Information shall be provided on the materials used in the product, including fixtures and fittings, and their respective weight.</li> </ul>
<b>Materials used</b>	<ul style="list-style-type: none"> <li>Information shall be provided on the <u>materials used in the product</u>, including fixtures and fittings, and their respective weight.</li> <li>Name of the species of solid wood shall be provided.</li> <li>The product shall be made of at least 90 % w/w solid wood or wood-based materials. Glass, if easily replaceable in case of damage or breakage, may be excluded from the weight calculation as may technical equipment and fittings.</li> <li>The weight of any individual material, other than solid wood and wood-based materials, shall not exceed 3 % of the total weight of the product. The total combined weight of such materials shall not exceed 10 % of the total weight of the product.</li> <li>Plastics and metal shall be allowed in a percentage up to 2 % of the total weight of the piece of furniture</li> </ul>
<b>Materials imitated</b>	None
<b>Style imitated</b>	None
<b>Date of manufacturing /data of importation</b>	None
<b>PRODUCT FEATURES (not requiring testing): TRADE INFORMATION</b>	
<b>Name and address of the importer</b>	None
<b>Name and address of the manufacturer</b>	<ul style="list-style-type: none"> <li>Name/address of the consumer department of the applicant for the EU Ecolabel shall be provided.</li> </ul>
<b>Origin of the product</b>	None
<b>Origin of the product's materials</b>	<ul style="list-style-type: none"> <li>The origin of all wood shall be documented.</li> </ul>
<b>PRODUCT FEATURES (not requiring testing): MAINTENANCE</b>	
<b>Instructions and/or precautions on use</b>	<ul style="list-style-type: none"> <li>Information on the fitness for purpose, on the basis of domestic or contract use (light or heavy, indoor or outdoor) shall be provided.</li> <li>Instruction for assembly will be provided.</li> <li>Best use from an ergonomic point of view, where relevant, will be explained.</li> </ul>
<b>Instructions on cleaning and maintenance</b>	<ul style="list-style-type: none"> <li>Maintenance of products shall be possible without organic based solvents.</li> <li>The manufacturer shall guarantee the possibility of acquiring spare part (original functional items or items fulfilling equivalent functions) upon request throughout the actual period of their industrial manufacturing and for a period of 5 years as of the date when production of the relevant range is stopped.</li> <li>Information on cleaning and care shall be provided.</li> <li>Instruction for the replacement of glass (if any) upon request in case of damage or breakage from manufacturer or retailer shall be provided.</li> </ul>
<b>Instructions on disposal and recycling</b>	<ul style="list-style-type: none"> <li>The product must be easily recyclable. A detailed description of the best ways to dispose of the product (reuse, recycling, take back initiative by the applicant, energy production) shall be given to the consumer, ranking them according to their impact on the environment. For each option the precautions to be taken to limit the impact on the environment will have to be clearly stated.</li> <li>Instruction that the local authorities should be contacted on the best way to dispose of old furniture and materials shall be provided.</li> <li>All materials used for packaging shall be easily separable by hand in recyclable parts consisting of one material.</li> </ul>
<b>PRODUCT FEATURES (requires testing/standards): TECHNICAL PERFORMANCE/QUALITY</b>	
<b>Compliance with safety and flammability requirements</b>	<ul style="list-style-type: none"> <li>The product shall fulfil the requirements on durability, strength, <u>safety</u> and stability in EN standards applicable to the usage of the product. If no EN standard exists, the requirements in ISO standards shall be used. If no EN or ISO standard exists, an evaluation of the product's durability, strength, safety and stability on the basis of the design and choice of materials shall be performed by an independent test institution.</li> </ul>
<b>Weight bearing</b>	<ul style="list-style-type: none"> <li>The product shall fulfil the requirements on durability, <u>strength</u>, safety and <u>stability</u> in EN standards applicable to the usage of the product. If no EN standard exists, the requirements in ISO standards</li> </ul>

	shall be used. If no EN or ISO standard exists, an evaluation of the product's durability, strength, safety and stability on the basis of the design and choice of materials shall be performed by an independent test institution.
<b>Durability of use and resistance to "wear and tear"</b>	<ul style="list-style-type: none"> <li>The product shall fulfil the requirements on <u>durability</u>, strength, safety and stability in EN standards applicable to the usage of the product. If no EN standard exists, the requirements in ISO standards shall be used. If no EN or ISO standard exists, an evaluation of the product's durability, strength, safety and stability on the basis of the design and choice of materials shall be performed by an independent test institution.</li> <li>The user manual will provide the list of norms and standards which shall be used for the durability assessment.</li> </ul>
<b>Hazardous substances contained in the product</b>	<ul style="list-style-type: none"> <li>Substances or preparations that are assigned, or may be assigned at the time of application, any of the risk phrases (or combinations thereof) listed in Commission Decision 2009/894/EC cannot be added to the wooden product.</li> <li>The product must not contain halogenated organic binding agents, azidirin and polyaziridins as well as pigments and additives based on lead, cadmium, chrome (VI), mercury and their compounds, arsenic, boron and copper, and organic tin.</li> <li>Only flame retardants that are chemically bound into the matrix/material or onto the matrix/material surface (reactive flame retardants) may be used in the product. If the flame retardants used have any of the risk phrases listed in Commission Decision 2009/894/EC, these reactive flame retardants should, on application, change their chemical nature to no longer warrant classification under any of these R-phrases.</li> <li>Indoor furniture shall not be impregnated.</li> <li>Solid wood, after logging, shall not be treated with substances or preparations containing substances that are included in WHO recommended classification of pesticides by hazard classified as class 1a or 1b.</li> <li>Virgin wood shall not be treated with substances or preparations containing substances that are included in WHO recommended classification of pesticides by hazard classified as class 1a or 1b.</li> <li>Particleboard: the emission of formaldehyde from particleboards in their raw state, i.e. prior to machining or coating, shall not exceed 50 % of the threshold value that would allow it to be classified as E1 according to standard EN 312.</li> <li>Fibreboard: The formaldehyde measured in any fibreboard used shall not exceed 50 % of the threshold value that would allow it to be classified as class A quality according to EN 622-1. However fibreboards classified as class A will be accepted if they do not represent more than 50 % of the total wood and wood-based materials used in the product.</li> <li>The product shall not contain GMO wood.</li> <li>Chemical substances classified as harmful for the environment in accordance with Directive 1999/45/EC must not be added to substances and preparations for surface treatment. Nevertheless the products may contain up to 5 % volatile organic compounds (VOC) as defined in Council Directive 1999/13/EC.</li> <li>The applied quantity (wet paint/varnish) of environmentally harmful substances in accordance with Directive 1999/45/EC shall not exceed 14 g/m<sup>2</sup> surface area and applied quantity (wet paint/varnish) of VOC shall not exceed 35 g/m<sup>2</sup>.</li> <li>The VOC content of adhesives used in the assembly of furniture shall not exceed 5 % (w/w).</li> <li>Formaldehyde emissions from substances and preparations for surface treatment liberating formaldehyde shall be less than 0,05 ppm.</li> <li>Only biocidal products containing biocidal active substances included in Annex IA to Directive 98/8/EC of the European Parliament and of the Council, and authorised for use in furniture, shall be allowed for use.</li> <li>Limit values (in mg/kg) of elements and substances allowed in recycled wood fibres for the production of wood-based materials: Arsenic&lt;25, Cadmium&lt;50, Chromium&lt;25, Copper&lt;40, Lead&lt;90, Mercury&lt;25, Fluorine &lt;100, Chlorine &lt;1000, PCP&lt;5, Tar oils (benzo(a)pyrene)&lt;0,5.</li> </ul>
<b>Production process</b>	<ul style="list-style-type: none"> <li>Indicate any treatments or preservatives that have been used on outdoor products</li> </ul>
<b>PRODUCT FEATURES (requires standard): SOCIO-ENVIRONMENTAL CONSIDERATIONS</b>	
<b>Social sustainability</b>	None
<b>Environmental sustainability</b>	<ul style="list-style-type: none"> <li>The producer shall have a policy for sustainable wood procurement and a system to trace and verify the origin of wood and tracking it from forest to the first reception point.</li> <li>The producer must ensure that all wood originate from legal sources. The wood shall not come from protected areas or areas in the official process of designation for protection, old growth forests and high conservation value forests defined in national stakeholder processes unless the purchases are clearly in line with the national conservation regulations.</li> <li>At least 70 % of any solid wood and 40 % wood-based materials must originate either from sustainably managed forests which have been certified by independent third party schemes fulfilling the criteria listed in paragraph 15 of the Council Resolution of 15 December 1998 on a Forestry Strategy for the EU and further development thereof, or from recycled materials</li> <li>Post consumer wood, chips or fibres applied in the production of wood-based materials (input), shall at least comply with the provisions in the EPF Industry standard.</li> <li>Packaging shall be made out of one of the following: i) easily recyclable material; ii) materials taken from renewable resources; iii) materials intended to be reusable, such as textile coverings.</li> </ul>

## 9.2.1 Impacts of option 1: no action- the baseline scenario

### 9.2.1.1 Impact on the functioning of the Internal Market

The baseline scenario is not expected to have a major impact on the Internal Market. As mentioned in Chapter 8, at the macro-level the current situation does not appear to have significant effects on intra-EU trade. Impacts, especially in terms of additional costs are rather felt at the company level, particularly among smaller businesses. None of the developments foreseen under Option 1 is likely to generate new barriers to the Internal Market, with the exception of one of the mandatory schemes currently in the pipeline at the national level.<sup>262</sup> On the other hand, this Option will not address current discrepancies among existing national voluntary and mandatory schemes already in force in the EU.

### 9.2.1.2 Impact on Businesses

Under Option 1, cost impacts for businesses will depend on the implementation modalities of new EU rules. As regards the proposed CPS regulation and the introduction of a mandatory indication of the “country of origin”, for instance, past studies<sup>263</sup> found that if provisions requiring the indication of the origin of a product entail tracing systems, these would generate substantial additional costs, such as those relating to collating information to be put on the label and translation costs. It would thus be crucial for the assessment of the impact of such a provision to assess in greater detail whether businesses already use tracing system for internal controls either on a voluntary basis or to comply with other legislation. No quantification of these costs has been provided for the proposed Regulation on CPS; hence no estimate of the possible inclusion of a mandatory “country of origin” information requirement, among other things, can be provided.<sup>264</sup> As implementation modalities for a revised EU Ecolabel or for e.g. voluntary initiatives on social sustainability are unknown at this stage, their cost impact on businesses cannot be estimated. Previous estimations indicate that, although the overall administrative cost cannot be calculated as it depend on the level of uptake of the scheme and, according to a strict Commission definition of administrative costs, the Ecolabel Regulation does not impose any such costs as companies are free not to participate, in very general terms the cost of tests associated with applying for the Ecolabel might range between €1,000 and €10,000.<sup>265</sup> It is fair to assume however, that if – once adopted – these voluntary measures achieve a certain level of uptake, benefits will outweigh compliance costs.

None of the potential developments foreseen under the baseline scenario is expected to reduce the cost disadvantage currently affecting small and medium-sized manufacturers and described in Section 8.2. Existing costs affecting retailers generated by the coexistence of different national mandatory schemes will also remain.

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<sup>262</sup> Note that any scheme of this kind would have to be notified to the European Commission and the other Member States, in line with the procedure foreseen by Directive 98/34 preventing new technical barriers to trade, and this mechanism can contribute to prevent the emergence of new barriers in the Internal Market.

<sup>263</sup> See e.g. Matrix Study, *supra* note 195.

<sup>264</sup> On this point, see also European Parliament, EPRS, *Detailed Appraisal by the EP Ex-ante Impact Assessment Unit of the European Commission's Impact Assessment Consumer Product Safety Regulation*, April 2014, at: [http://www.europarl.europa.eu/RegData/etudes/etudes/JOIN/2014/514089/IPOL-JOIN\\_ET\(2014\)514089\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/JOIN/2014/514089/IPOL-JOIN_ET(2014)514089_EN.pdf)

<sup>265</sup> See SEC(2008) 2118, *Ibid.*, section 6.

### 9.2.1.3 Impact on national authorities/administrations

No specific information is available on enforcing some of the new requirements on safety information or product origin foreseen in the draft CPS Regulation, and diverging views on some of these requirements were reported for comparable initiatives in other sectors. For instance, a study on textiles<sup>266</sup> found that a public authority estimated that tracking requirements would bring about additional monitoring and enforcement costs. On the contrary, in other consultations it is claimed that tracking requirements would make market surveillance more effective and efficient, as competent authorities would be able to track down non-compliant economic operators more quickly and at a lesser cost.<sup>267</sup>

### 9.2.1.4 Impact on the competitiveness of the EU furniture industry

Option 1 is expected to have a limited impact in terms of cost and price competitiveness, as it will not affect cost of inputs, the cost of capital, and the cost of labour and only marginally affect company reporting obligations. Impact on the costs of production will mainly depend on the implementation features of a revised and extended EU Ecolabel for furniture products; however as these requirements stem from a voluntary measure, cost impacts are supposed to be more than compensated by the benefit accruing to companies that will adopt the revised EU Ecolabel. Some impact is expected in the capacity to innovate, as eco-innovation can be expected to be promoted by any successful uptake of voluntary initiatives. This in turn could further strengthen some of the competitive advantages of EU furniture manufacturers, as illustrated in the SWOT analysis (Section 4.3). No particular impact can be expected on financial issues such as access to risk capital or financial conditions.

Most of the expected impacts of the revised EU Ecolabel and the CPS Regulation will materialise in terms of revealed competitive advantage as it will affect the transparency and comparability of the information available to consumers about the safety, the origin and, on a voluntary basis (under the EU Ecolabel), the sustainability of the products purchased. This could result in an increased market share for EU producers in the Single Market.

Overall the competitive position of EU firms with respect to non-EU competitors would improve. This is deemed particularly the case as far as environmental and social sustainability requirements are concerned, provided that voluntary measures such as the EU Ecolabel achieve a good level of uptake and that problems along the value chain are solved. As regards the EU Ecolabel, feedback gathered from stakeholders during this Study indicates that if the current scope of application for furniture products were wider and the cumulative costs of compliance for businesses reduced, this instrument could potentially achieve a much higher uptake and thus become a viable solution to some of the problems identified in this Study. We can also anticipate benefits for “country of origin” aspects, although to a lower degree.<sup>268</sup> Little can be said on whether the scenario will re-orient investments towards the EU.

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<sup>266</sup> *Ibid.*

<sup>267</sup> See European Parliament Research Services, Detailed Appraisal by the EP Ex-ante Impact Assessment Unit of the European Commission's Impact Assessment Consumer Product Safety Regulation.

<sup>268</sup> As mentioned above, a 2010 Special Eurobarometer on international trade shows that EU citizens are quite aware of the origin of products they buy. This however does not automatically influence their purchasing decisions (e.g. in the consumer survey around 20% respondents declared a willingness to pay a price premium for products coming from a specific country; while this share is 55% for the environmental friendliness of a product).

#### *9.2.1.5 Impact on trade with third countries*

No negative impact can be anticipated on exports outside the EU, as companies will remain free to adapt their strategies to the requirements of the different markets and labelling of environmental and social responsibility aspects will remain on a voluntary basis.

#### *9.2.1.6 Impact on consumers*

Option 1 is expected to have positive impact on the quantity of information provided to consumers, particularly as regards the “country of origin” of a product and its safety,<sup>269</sup> although this option will not address all the informational needs expressed by consumers (see e.g. durability) in the Consumer Survey undertaken for this Study. Informational benefits are likely to be greater in the case of product safety information, as available evidence indicates that consumers are more interested in this item than in other requirements, including the identification of producer/importer and the origin of a product. Existing informational asymmetries as regards the social and environmental sustainability of furniture products could also be partially reduced, if voluntary measures such as the revised EU Ecolabel achieve a good level of uptake among producers. In terms of consumer prices, impact on consumers could be foreseen only for those who are willing to pay a premium for products with specific quality or sustainability features.

#### *9.2.1.7 Social and environmental impacts*

There are little reference data on the impact of social sustainability labelling on the consumer market, as most of the experiences to date (e.g. on textiles, but also furniture in Sweden and the USA<sup>270</sup>) are limited to the public procurement segment. As regards environmental impacts, when successfully implemented, EU Ecolabels are reported to have had a positive impact on consumer awareness of environmental sustainability features. Estimating the potential market captured by voluntary initiatives such as a revised EU Ecolabel for furniture products or a voluntary scheme on social sustainability remains challenging. The Consumer Survey indicates that about 60% of respondents expressed a willingness to pay for products that are socially and environmentally friendly. When comparing responses on this point with those provided to the question ranking decision-making factors (see Figure 36), only 20% of respondents placed environmental friendliness among the two most important criteria for decision-making. Against this background, estimates indicating that these voluntary initiatives would reach about 25% of the market would be tantamount to maximum potential market saturation.

### *9.2.2 Distributional effects*

Distributional effects among the various businesses affected can be anticipated as follows:

- Companies operating in countries traditionally associated to furniture quality in the mind of the consumer may gain a certain advantage from the inclusion of a mandatory provision on “country or origin” in the new Regulation on CPS;
- Companies that compete on sustainable socio-environmental features would be put in a better position to exploit their competitive advantage, provided that a revised EU Ecolabel reaches a good level of uptake. As explained in the problem definition, these companies currently experience a competitive disadvantage whenever they are unable to signal the sustainability of their products to consumers;

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<sup>269</sup> We refer here to the future implementation of the proposed Regulation on CPS.

<sup>270</sup> We refer here to Mobelfakta (Sweden) and ANSI/BIFMA e3 Furniture Sustainability (USA).

- Producers who manufacture and sell their products only in one EU Member State would be at a very marginal disadvantage, as the implementation modalities of prospected regulatory developments will most likely differ from the national requirements they currently comply with.

### 9.2.3 *Compliance with the Proportionality Principle*

No issue with compliance with proportionality principles can be identified under Option 1.

### 9.2.4 *Overall assessment of option 1*

Overall, while Option 1 would manage to remedy to some of the problems identified in the Study (particularly as regards existing information asymmetries on product safety, product origin, and the environmental friendliness of a product) and thus partially meet the policy objectives of a potential initiative, several problems would be left unaddressed. In particular, the coexistence of various national measures targeting furniture products would remain, with the ensuing impact (albeit limited) on SMEs operating in several Member States. Additional barrier to the Internal Market could emerge in the future if new mandatory initiatives are adopted at the national level. However this last risk can be mitigated by the notification procedure foreseen by Directive 98/34 preventing new technical barriers to trade. Existing informational asymmetries as regards other product features that are of particular interest to consumers (e.g. durability and resistance to “wear and tear”) would remain.

As regards product information covered by voluntary measures such as the EU Ecolabel, the final impact in reducing informational asymmetries and strengthening the competitiveness of products with higher quality and sustainability features will very much depend on the level of uptake of these voluntary measures among manufacturers and their success among consumers. Finally, reported problems along the value chain would only be partially addressed by Option 1. Indeed, retailers could be obliged to provide information on the country of origin of products and any other information on the safety of the product that manufacturers may deem of relevance for consumers. However other competitiveness-relevant features related to product quality and sustainability would remain subject to the existing situation of misaligned incentives between manufacturers and retailers when it comes to providing information to consumers.

## 9.3 **Option 3: European Commission soft-law initiatives**

The Commission could also complement the baseline scenario described above (Option 1) with a combination of soft-law initiatives to foster and guide dialogue between manufacturers, retailers and consumers’ organisations. These can be grouped into three main families:

- 1) **Initiatives aimed at responding to rising consumer concerns for transparency in e-commerce and information displayed online**, given the growing impact of the Internet on consumer purchasing behaviour. Information obligations for distance sales are fully harmonised in the Consumer Rights Directive. However, the Commission could exploit the increasing importance of the online market by extending also to the furniture market existing plans to develop - together with intermediaries and retailers - codes of good conduct, good practices and guidelines for price, quality and sustainability comparison online, including the criteria applied for grouping and ranking products and related services;

- 2) **Preliminary initiatives aimed at building consensus among stakeholders**, not so much to harmonize the content of product information cards/labels foreseen by existing and forthcoming schemes but rather to build consensus on common definitions of individual product characteristics (e.g. durability, social sustainability) and how these could be measured and communicated to the consumer in a comparable and neutral way. Where needed, this approach could also include a detailed assessment of all technical standards already available and issue standardisation mandates to complement existing standards with new ones for furniture characteristics that are not currently covered (e.g. environmental performance, social sustainability), or to replace existing standards with more consumer-friendly ones (e.g. in the field of durability and resistance to “wear and tear”, see the findings of the DIN study reported above).<sup>271</sup> Eventually, individual companies would have an incentive to adopt these newly developed standards rather than having to comply with different national ones; in addition, these standards could also be used by existing national schemes, thus preventing uncoordinated action at Member State level;
- 3) Finally, once a technical agreement on how to define, interpret and communicate furniture product characteristics has been reached, **an additional non-binding initiative could be envisaged to provide guidance to, and raise awareness among dispute settlement bodies, Courts and national administrations on essential information requirements.** This sectoral guidance could complement the existing general guidance documents issued by the Commission on the Consumer Rights Directive<sup>272</sup> and the Unfair Commercial Practices Directive<sup>273</sup> and function as a benchmark for reference in judging furniture retailers’ compliance with the new Consumer Rights Directive and the Unfair Commercial Practices Directive, and in particular the provisions on the main characteristics of the goods on sale. This third step could be achieved, for example, via a non-binding instrument that would leave room for the discretionary assessment of specific national circumstances and could also call on Member States to align existing mandatory schemes (see above, Chapter 5) with the contents agreed upon at the EU level.

The likelihood that the impact described in the following Sections actually materialize depends not only on consumers’ willingness to pay and their actual behaviour at the time of purchase once more product information is provided, but also on the degree of implementation and uptake on the market (including, first and foremost, acceptance among retailers) of the non-binding initiatives

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<sup>271</sup> This is broadly in line with what attempted in the recent past by other Commission guidance initiatives. For instance, in the food industry where a proliferation of quality labels can be found and there was a risk of creating confusion and information overload on consumers rather than facilitate their purchasing, the Commission proposed its Guidelines on voluntary certification schemes for agricultural food products and foodstuffs setting out a detailed set of recommendations for managing the content of schemes with a view to increasing transparency and comparability (available at:

[http://ec.europa.eu/agriculture/quality/certification/index\\_en.htm](http://ec.europa.eu/agriculture/quality/certification/index_en.htm) . On this point see also, the Special Eurobarometer 342 on consumer empowerment at

[http://ec.europa.eu/consumers/consumer\\_empowerment/docs/report\\_eurobarometer\\_342\\_en.pdf](http://ec.europa.eu/consumers/consumer_empowerment/docs/report_eurobarometer_342_en.pdf) , and a recent AIM-BEUC initiative at: <http://www.aim.be/news/article/aim-beuc-initiative-on-smarter-logos-better-informed-consumers-february-201> .

<sup>272</sup> See: [http://ec.europa.eu/justice/consumer-marketing/files/crd\\_guidance\\_en.pdf](http://ec.europa.eu/justice/consumer-marketing/files/crd_guidance_en.pdf) . Inspiration can also be drawn from the voluntary model for displaying information on online digital products (movies, songs, apps, etc.) contained in the CRD guidance. This pilot sector has been chosen because of the particular complexity of these products and also because the Directive itself expressly requires information on their interoperability and functionality.

<sup>273</sup> See (SEC(2009)1666) at: [http://ec.europa.eu/justice/consumer-marketing/files/ucp\\_guidance\\_en.pdf](http://ec.europa.eu/justice/consumer-marketing/files/ucp_guidance_en.pdf)

foreseen by Option 3. It should be noted that competition is moving fast from the physical retail market to the online one and new players are appearing on the market: this could lead to reduced resistance among existing stakeholders to agree on guidance documents for online commerce purposes and to show relevant information both online and at the point of sale.

### *9.3.1 Impacts of Option 3: European Commission Soft-Law Initiatives*

#### *9.3.1.1 Impact on the functioning of the Internal Market*

On an aggregate macro level, the main potential impact of a combination of soft-law initiatives under Option 3 would stem from paving the way – through technical preparatory work - for the prevention of barriers to the Internal Market that could potentially arise following the adoption and implementation of new national mandatory schemes, and in particular those based on different national standards for EPDs (as, for instance, the recently proposed initiative in France, the so-called *Affichage environnemental*).<sup>274</sup> No other impacts on the functioning of the Internal Market could be expected.

#### *9.3.1.2 Impact on businesses*

Option 3 is likely to trigger additional costs for businesses if new standards are eventually developed, particularly as regards durability and resistance to “wear and tear”, and compliance with such standards is demanded by furniture consumers. Exact cost estimates will depend on the actual content of the new standards. As mentioned elsewhere in the Study, some of the consulted stakeholders indicated that testing the compliance with existing standards for a family of similar pieces of furniture could cost between €500 and €1,000. The cost of declarations and attestations of quality is reported at around €100 – 500 per family of products, depending on their level of complexity. These figures however do not include the costs of EPD for which limited experience is available (see Box 16 below). Nonetheless, EPD costs should decrease insofar as common PCRs will be defined at the EU level. In other words, having one set of PCRs at the EU level rather than different national ones would deliver cost savings.

To the extent that the soft-law initiatives foreseen under Option 3 are actually implemented, companies - and particularly SMEs - exporting in countries where a mandatory scheme is already in place could see their administration, sales and marketing costs slightly reduced as they would not need to adapt the product information to different requirements in each market. Removal of existing cost disadvantages could also extend to retailers operating across the EU and in Member States where national mandatory schemes are currently in place.

Under Option 3, retailers could bear some additional costs to update software and catalogue entries and train staff on the product features for which new information would be provided to consumers. Such costs are likely to be on a one-off basis. Their magnitude remains the subject of speculation also because related estimates were not provided, except for an indication that providing additional product information on a website would lead to administrative costs in the region of €2,000 per information item (e.g. product dimensions, durability, and so on). Litigation costs stemming from consumer complaints are expected to decrease under Option 3.

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<sup>274</sup> As noted for the baseline scenario, the notification procedure foreseen by Directive 98/34 preventing new technical barriers to trade would also come into play.

### **Box 16 The cost of declaring socio-environmental footprint sustainability**

No EN equivalent to product category rules (PCR) for the detailed calculation of an environmental performance declaration (EPD) in the field of furniture currently exists as is the case, for instance, in the construction industry, although initiatives are being developed to this aim. The total cost of an EPD actually depends on PCR availability. The total cost to produce an EPD without a PCR is difficult to estimate, because of the need to develop PCRs on a case by case basis, but can be quite substantial, particularly for SMEs and micro-companies. Developing a PCR at the company level per similar categories of products (if not already available) to perform the underlying life-cycle assessment study can normally take between 5-12 months. Conducting a life cycle assessment study in accordance with the PCR may take anywhere between 1-12 months depending on the availability of data and the amount of life-cycle assessment (LCA) work that has been done in the company up to that point. PCR standards on furniture are being proposed at the ISO level, mainly with reference to office furniture for public procurement purposes. US standardization bodies are making steps in the direction of social sustainability and have just released a common PCR standard inclusive of social responsibility issues, requiring third party testing/certification.

#### *9.3.1.3 Impact on national authorities/administrations*

No additional costs are envisaged for national authorities and Member State administrations over and above those already borne for routine activities. Actually, by monitoring the online market through regular mystery shopping exercises, the relevant authorities at the national level could cover a substantial share of the furniture market at no additional implementation costs.

#### *9.3.1.4 Impact on the competitiveness of the EU furniture industry*

As regards the prospected impact of Option 3 on the competitiveness of the EU furniture industry, the same considerations made for Option 1 above apply. However, positive impacts would be greater, due to the likely inclusion of more quality features, including durability and resistance to “wear and tear” (the product feature that elicited the highest willingness to pay among consumers surveyed for this Study), if relevant standards are agreed upon. Most of the expected impact will therefore materialise in terms of revealed competitive advantage: manufacturers of furniture products with (higher) quality features will be in a better position to signal the characteristics of their products to the final consumer. This is expected to result in an increased market share for domestic EU producers within the EU. Similar effects on the external markets are also possible. Little can be said on whether the scenario will re-orient investments towards the EU.

#### *9.3.1.5 Impact on trade with third countries*

To the extent that harmonisation/standardisation will also bring alignment with prevailing standards in export markets, the removal of external trade barriers is also possible to a certain extent (see, for instance, box 17). As regards, in particular, mandatory schemes such as the Swiss Ordinance on the Declaration for Timber and Timber Products, the Technical Regulation of Eurasian Economic Commission, or the Uniform Law Label in Canada and USA, the impact expected from harmonization is limited, as labelling requirements under those schemes will continue to diverge from the EU ones, unless two conditions are met: i) the harmonization/standardisation at EU level takes into account as much as possible the prevailing international rules and standards; ii) the EU model gains credibility at a global level thus spurring changes in mandatory schemes currently in force in EU trade-partner countries.<sup>275</sup>

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<sup>275</sup> For further details on the content of existing schemes in selected third countries, see Annex 6 to this Study.

### Box 17 Formaldehyde Emission and Quality Signalling

During the present Study, the issue of formaldehyde emissions and related confusing quality signalling was raised several times by interviewees as a cause of great concern for consumers but also of great confusion in health-related quality signalling. Back in the 1980s, laboratory studies started showing that exposure to formaldehyde could cause nasal cancer in rats. In 1987, the U.S. Environmental Protection Agency (EPA) classified formaldehyde as a probable human carcinogen under conditions of unusually high or prolonged exposure. Since that time, some studies on humans have suggested that formaldehyde exposure can be associated with certain types of cancer. In 2004 the International Agency for Research on Cancer (IARC) came to the conclusion that formaldehyde could be classified as a human carcinogen although the assessment is still deemed controversial in some regards. As a consequence, DG SANCO funded an update of the 2005 project INDEX “Critical Appraisal of the Setting and Implementation of Indoor Exposure Limits in the EU” requiring a particular focus on formaldehyde to tackle complex harmonization issues in the EU, as thresholds for furniture emissions are not mandatory in certain Member States’ markets, but have been complied with on a voluntary basis by EU producers.<sup>276</sup> The existing schemes therefore greatly vary in the importance attributed to the issue also with reference to the main national markets. Sometimes it is completely ignored. Sometimes it is carefully tested with reference to different thresholds. The result is extremely confusing for consumers and ultimately detrimental to the overall label credibility. Health concerns have also impacted some major export markets. In the US, EPA first recommended the use of “exterior-grade” pressed-wood products to limit formaldehyde exposure in the home<sup>277</sup> and even warned buyers that before purchasing pressed-wood products, including building materials, cabinetry, and furniture, they should spontaneously inquire about the formaldehyde content of these products. Then in 2010 compulsory standards for formaldehyde emissions in wood products were approved and were first enacted for domestic producers and then starting from July 2013 incorporated in US external trade regulations. In Japan all composite wood products should be marked with a formaldehyde emission grade that determines the possible use of the product. The Japanese standard without limitation of use is actually lower than the most stringent EU ones and very difficult to prove.<sup>278</sup>

#### 9.3.1.6 Impact on consumers

Impact on consumer welfare under Option 3 is likely to be positive and greater than under the baseline scenario (Option 1), as provision of product information on a higher number of characteristics is expected to reduce existing information asymmetries on experience and credence attributes even further. Option 3 would also further reduce the amount of consumer complaints and the overall costs of litigation, thanks to increased convergence across the EU on the definition, interpretation and communication to consumers of product features, assuming that provision of information is matched by actual compliance. Indeed, this positive impact was signalled as a tangible benefit of existing national initiatives by several respondents to the public online consultation. Consumers are also likely to benefit from more understandable standards specifically targeted to them, for instance on product durability.

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<sup>276</sup> Already back in 1980 some European countries started to regulate formaldehyde emissions and developed an obligatory emission class E1 (0.1 ppm boards) for wood-based panels. In particular Emission class E1 (0.1 ppm boards) became mandatory for wood-based panels in Austria, Denmark, Germany, Sweden and some other European countries. Europe then established the emission classes E1 and E2 (European Standard EN 13986) regarding wood products used in construction. In 2006 compliance with emission class E1 became obligatory for panel production of EPF European Panel Federation members 0.05 ppm boards can be marked with an environmental label (“Blue Angel”). In 2011, EPF agreed on a reduction in formaldehyde emissions for CE labelled, uncoated wood panels for construction (EN 13986). The new limit should not exceed 0.065ppm. IKEA also set an own emission limit at half E1 (0.05 ppm)

<sup>277</sup> These products emit less formaldehyde because they contain phenol resins, not urea resins. Pressed-wood products include plywood, panelling, particleboard, and fibreboard and are not the same as pressure-treated wood products, which contain chemical preservatives and are intended for outdoor use.

<sup>278</sup> All products must be approved by the Japanese Ministry through an extensive application process that includes provision of desiccator data used for testing.

### 9.3.1.7 *Social and environmental impacts*

Also in the case of Option 3, the considerations reported for the baseline scenario apply. Moreover preliminary results from the experiment with environmental sustainability labelling in France seem to indicate that the environmental awareness of companies increases particularly with forms of environmental sustainability labelling based on life cycle assessment methodologies. The adoption of this kind of environmental labelling will be fostered by agreeing on common relevant standards. Additional positive social and environmental impacts could also derive by increased awareness among consumers on the sustainability of furniture products. While not all consumers will react to the provision of additional information on sustainability, it is likely that those who are sensitive to those issues and have expressed a willingness to pay a price premium for sustainable products will also react accordingly when better informed.<sup>279</sup>

### 9.3.2 *Distributional effects*

In light of the above, the main winners and losers under Option 3 remain the same as under the baseline scenario. In addition to that:

- conformity assessment and testing bodies would be likely to have an expanded market;
- artisan-type and some small firms trading locally and with little previous certification or product labelling requirements are likely to be negatively affected in their cost structure, especially producers of traditional furniture that could experience problems in complying with technical standards conceived for modern products;
- manufacturers who already trade on their reputation and brand and have direct relationship with customers and who do not need to convey information by means of standards would also bear additional costs, particularly if guidance on the “main characteristics” of furniture products is developed and becomes a benchmark for reference in judging compliance with the new Consumer Rights Directive and the Unfair Commercial Practices Directive.

It goes without saying that some of these additional costs for manufacturers could be reduced if compliance with certain requirements is done via self-declaration and without third party certification. However, the overall impact in terms of consumer welfare and competitiveness might be reduced if, as evidence from the food sector indicates, consumers place less trust in self-reported claims.

### 9.3.3 *Compliance with the proportionality principle*

This option would be fully compliant with the proportionality principle, as it remains based on non-binding initiatives.

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<sup>279</sup> On this point, a recent study on the US Energy Star certification - a voluntary labelling that favours the adoption of energy efficient products in the US appliance market and summarizes otherwise readily accessible information – showed that certification acts indeed as a substitute for more accurate, but complex energy information and that the opportunity cost of having imperfectly informed consumers in the refrigerator market ranges from \$12 to \$17 per refrigerator sold, roughly equal to 1% of consumer prices. The paper also confirms the non-additionality of willingness to pay considerations. See for reference, Sébastien Houde, *How Consumers Respond to Environmental Certification and the Value of Energy Information* NBER Working Paper No. 20019 Issued in March 2014.

### 9.3.4 Overall assessment of option 3

The successful implementation of Option 3 relies entirely on the willingness of manufacturers and retailers to cooperate. It therefore crucially depends on the incentives provided by the evolving regulatory framework on the one hand and by the anticipated market trends on the other hand. When compared to the baseline scenario, Option 3 has a greater potential to meet the policy objectives of a possible furniture products initiatives as it would further reduce information asymmetries between producers/retailers and consumers, particularly on aspects that are not covered by the existing and forthcoming regulatory developments. By opening avenues for debate and cooperation on technical standards and the definition and interpretation of the content of product cards/labels, Option 3 could also address to a certain extent the misaligned incentives observed along the value chain. Finally, its impact on the functioning of the Internal Market is likely to remain limited but positive if Option 3 manages to prevent additional mandatory measure from emerging at the national level or to harmonise the contents of existing as well as future measures. Positive effects on the Internal Market could be amplified if Commission's soft-law initiatives are complemented by an instrument that would encourage Member States with mandatory schemes already in place to align the underlying requirements with a coherent approach at the EU level.

## 9.4 Option 5: A mandatory scheme

A mandatory scheme would extend to the market for furniture the mandatory labelling requirements already envisaged for instance in the field of textiles by means of a *lex specialis*.<sup>280</sup> Option 5 can be conceived as a scheme providing information on all the requirements mentioned in Section 8.7.2 or on a more or less arbitrarily defined subset of information requirements focusing on traditional quality features and product characteristics that appear of particular relevance for consumers. Before we move to the assessment of the prospected impacts of Option 5, Section 9.4.1 clarifies what could be the possible content of a mandatory scheme, particularly with regard to consumers' attitudes towards product information and the reading of labels/product cards. The findings presented in Part II of the Study are also taken into account in the analysis. It is also worth clarifying at the outset that compliance with information requirements included in a mandatory scheme could be achieved either via self-declaration or via third party testing/certification. While for search and experience attributes (see Box 15), self-declaration is a viable option, even when technical performance is at stake,<sup>281</sup> for credence attributes such as environmental and social sustainability this approach could open the door to arbitrary claims that would ultimately undermine consumer trust in the product information provided. In turn, a reduced level of trust is likely to mitigate the potential benefits of a mandatory scheme.<sup>282</sup> On the other hand, the difference between these two modes of compliance will generate different costs for businesses. We come back to these points where relevant in the text.

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<sup>280</sup> See <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52009PC0031> . The legal basis used was Art. 95 of the EC Treaty, now Art. 114 TFEU.

<sup>281</sup> For instance, claims that a piece of furniture has a certain degree of resistance to "wear and tear" could be based both on self-declaration and on third party certification. In the case of self-declaration, the manufacturer would ultimately be responsible of the claim made.

<sup>282</sup> Indeed, positive impacts in terms of willingness to pay generated by the provision of product information on labels depend on consumers' level of trust in those labels. On this point see also note 286.

### 9.4.1 The possible content of a mandatory scheme

Results of research into the reading and understanding of labels show that consumers look on average at a few pieces of information on a text-based labelling, and are mainly interested in even a smaller set of information.<sup>283</sup> Against this background, a mandatory scheme under Option 5 could be implemented with reference to a subset of information requirements only, selected on the basis of various possible criteria ranging from the level of consumers' interest to willingness to pay, or evidence of underreporting in the market. By way of example, Table 84 below summarizes the information requirements (either credence or experience attributes) that have been reported as more likely to attract the attention of consumers and are not already included under the baseline scenario (Option 1).

**Table 84 Example of information requirements with potential impact on the market for furniture**

Quality features on a label likely to attract the attention of about 60-80% of consumers	Quality features on a label likely to attract the attention of about 50% of consumers
<ul style="list-style-type: none"> <li>• Instructions on use / safety</li> <li>• Instructions on cleaning/maintenance</li> <li>• Materials used</li> <li>• Product safety (hazardous substances; compliance with safety requirements)</li> <li>• Performance durability / resistance to wear and tear</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental friendliness</li> <li>• Conformity to fair labour conditions</li> </ul>

Source: Authors' own elaboration.

As will be clarified in the following sections, a mandatory scheme in any version that does not include all attributes discussed in Section 8.7 would simply have a more limited impact, closely linked to which product information is covered by the scheme. At this stage, establishing the content of any version of the scheme containing only a subset of product information would remain arbitrary, as it would essentially depend on which selection criteria and the related policy objectives are given more prominence (e.g., cost competitiveness, consumer demand for a certain item, and so on). What is certain however is that, contrary to a mandatory scheme including all product features covered in Section 8.7, any less comprehensive version would eventually undermine the level-playing field among market players. Indeed, by focusing on a subset of information items, this approach would provide better quality signalling and related price segmentation opportunities only to the players that have specialised in the quality features included in the scheme. Conversely, manufacturers who have specialised in features not covered by

<sup>283</sup> In particular, in a similar exercise on the market for meat, when asked which aspects they looked for when buying meat, about 70% of consumers mentioned a maximum of three items, 50% mentioned another two for a total of five items, while the remaining ten quality features attracted some attention by about 10-30% of respondents. The labelling was not read by about 5% of consumers. For further details, see Food Chain Evaluation Consortium (FCEC) Civic Consulting – Agra CEAS Consulting – Van Dijk Management Consultants – Arcadia International, Study on the application of rules on voluntary origin labelling of foods and on the mandatory indication of country of origin or place of provenance of meat used as an ingredient, DG Health and Consumer Protection, July 2013. Results from the consumer survey undertaken for this Study (Chapter 6) would anticipate broadly similar patterns. Indeed, there are a handful quality features that would be read by about 60-80% of consumers, another three items (including environmental friendliness and conformity to fair labour conditions) that, at present, appear of interest to about 50% of surveyed consumers, while all the remaining information items would be read only by a minority of users. Also in the case of furniture, almost 3.5% of respondents appear unwilling to read any label at all.

the mandatory scheme would be on the losing end, as consumers' attention would be drawn towards quality features different from those these manufacturers have specialised in.

All in all a fully inclusive version of the scheme would thus appear more appropriate in meeting the policy objectives of a potential initiative. To assess the potential impacts of Option 5 we will thus take as a basis a mandatory scheme that includes all attributes discussed in Section 8.7. This is also likely to provide an "upper bound" scenario of the possible cost and benefits generated by Option 5.

#### *9.4.2 Impact of a mandatory scheme: value creation out of general awareness raising about quality features*

Results from our Consumer Survey (see Chapter 6) would indicate that in a simplified furniture market model, a mandatory scheme could potentially deliver €1.0 – 2.0 billion worth of value creation annually,<sup>284</sup> with the different qualities competing to get a share of that value which – again for simplification purposes - is purely attributed to signalling and information and not to the scarcity of the underlying information signalled. Otherwise, the premium price of a product card/label would decrease as the quality feature becomes common in the market. This last issue has been long debated to explain the apparent decrease in value of eco-labels over time, as soon as these eco-labels became known.<sup>285</sup> Whether this potential value creation actually materialises depends on consumers' level of trust in the labels.<sup>286</sup> Under a conservative estimate of a 50% level of trust, the final total estimate of the value that can be captured by introducing a mandatory scheme would amount to about €500 million – 1 billion annually, depending on the assumptions made. This figure is roughly in line with the more conservative findings of studies carried out on an *ex post* basis on purely functional labels: these studies estimate the impact of those labels to be in the region of about 1% of the potential market in terms of price premium (and extra margins).<sup>287</sup> Assuming that products from EU manufacturers have a comparative advantage in terms of product

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<sup>284</sup> The market open to price segmentation by means of labels would be currently worth some €50 billion (25% of the market is reported as purely price-sensitive, while the market niches that already make their purchasing decisions based on brands and on type I eco-labels account respectively for some 1-2% and 8% of the market; as a result about 65% of the total EU market for furniture – estimated at a total of €80 billion – would be affected by a new mandatory scheme). Another way to look at this is to consider the level of satisfaction declared by consumers as regards product information available in shops. The consumer survey indicates that 74% are not fully satisfied, and this corresponds roughly to €60 billion worth. This figure has been conservatively rounded to €50 billion to take into consideration that the likelihood of information-related complaints is probably much lower for high price / branded products in the upper segments of the market. If the premium price that can be obtained by providing additional product information is estimated in the region of 2%-4%, as estimated by public consultation participants and in line with results obtained in other sectors, this leads to a total estimate of €1 billion-2 billion.

<sup>285</sup> There is evidence that the initial enthusiasm for eco-labels has suffered a decline over time as this became known. A MORI survey in Great Britain, for instance, established that the premium for an "environmentally friendly" labelled product costing roughly £10 has declined by 40% since 1991, from £1.02 to £0.62 in 1998.

<sup>286</sup> Recent research on food labels would tend to show that, on average, about 60% of consumers tend to trust the information included in a label, but this share decreases to 40% when consumer know that the label is based on producers' self-assessment, while it increases to some 70% for schemes certified by third parties. Generally speaking, mandatory schemes are more trusted than voluntary ones; hence a 50% level of trust can be assumed in this case. For further details, see Food Chain Evaluation Consortium (FCEC) Civic Consulting – Agra CEAS Consulting – Van Dijk Management Consultants – Arcadia International, Study on the application of rules on voluntary origin labelling of foods and on the mandatory indication of country of origin or place of provenance of meat used as an ingredient, DG SANCO July 2013.

<sup>287</sup> See for instance the studies by Gerstman and Meyer (1991) who found a 1-4% price premium from 75% of all consumers, and the study by D Winterhalter (1994) which notes that 57% of consumers say they are prepared to pay a 1-5% premium. Quoted in V. Vangelis Private Voluntary Eco-labels: Trade Distorting, Discriminatory and Environmentally Disappointing, OECD 2002.

quality and sustainability, this additional value could be almost entirely captured by EU-based firms.<sup>288</sup>

One of the limitations of the line of reasoning above is that it extrapolates information from the impact of product labels at a given point in time to the general market, without considering broader possible horizontal awareness-raising or educational impacts on consumers over time. In this case, mandatory schemes would not so much act statically as a sum of their components, but would rather operate dynamically, by changing the overall attitude of consumers towards quality and ultimately their purchasing behaviour. This mechanism however cannot be captured by willingness to pay methodologies and is extremely difficult to demonstrate empirically.

Retailers for instance maintain that raising consumer awareness (what some participants to the Stakeholder Workshop called “educating consumers”) on certain product features has no impact on sales. The only piece of evidence that can be used to substantiate a positive impact in the case of furniture is that the countries where mandatory schemes have been in place for longer are those with the lowest share of purely price-sensitive consumers (5-10% below EU average), even in the wake of the economic crisis. This would point to a possible effect in the region of about €4-8 billion annually.<sup>289</sup> In the best-case scenario, this result can be entirely attributed to better knowledge about product quality, although other cultural or market factors might be at play. Whether this positively contributes to the competitiveness of the EU furniture industry remains a matter for which no supportive evidence or research is available. However, positive effects can be inferred from the very strong favourable attitude of concerned companies, who - both in the public online consultation and during the Stakeholder Workshop - explained that the cost of complying with existing mandatory schemes are compensated by reputational and sales benefits.

In addition, it should not be taken for granted that a mandatory scheme will result in a 100% compliance rate on the supply side. For instance, preliminary information available on the implementation of a mandatory labelling scheme on materials used for wooden furniture in Switzerland shows that 75% of the firms surveyed in a mystery shopping exercise were compliant, but only 55% fully met the scheme’s requirements.<sup>290</sup>

#### 9.4.2.1 *Impact on the functioning of the Internal Market*

As explained in the problem definition (Chapter 8), on an aggregate macro level, the introduction of a mandatory scheme at the EU level is not expected to have a major impact on the Internal Market in terms of trade flows. Indeed, existing intra-EU barriers caused by the coexistence of different national mandatory schemes did not appear to be significant at the general level (their impact was more visible at the company level for SMEs). A mandatory scheme including environmental performance information requirements (ISO III type) would however be beneficial for the Internal Market as it could be used as a basis to prevent potential new barriers arising from the adoption and implementation of national mandatory schemes based on EPDs, as currently envisaged in some Member States (e.g. France). In this respect, Option 5 would be more effective than the baseline scenario (Option 1), which does not address this aspect if not via Directive 98/34 preventing new technical barriers to trade, and of Option 3, which does so only via a non-binding approach.

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<sup>288</sup> On similar estimates for the US market, see Sébastien Houde (2014), *supra* note 279.

<sup>289</sup> In a global EU market estimated at €80 billion, reducing the share of price sensitive individuals by 5-10% would create a market open to quality-based price segmentation worth some €4-8 billion. It is assumed that this quality-based market is mainly captured by EU firms.

<sup>290</sup> *Trop de meubles ne disent rien sur leur bois*, Bon à Savoir / n° 2012-03, p.16-17.

#### 9.4.2.2 Impact on businesses

In addition to the benefits estimated in Section 9.4.2,<sup>291</sup> when compared to the current situation, Option 5 would deliver benefits to manufacturers selling in several Member States in the form of cost savings, as companies would have to incur administrative and marketing costs to comply only with one scheme rather than adapt product information to the requirements of each market. These benefits are likely to be felt more strongly by SMEs exporting to markets where mandatory schemes are in place, because of the proportionally higher impact that existing costs have on smaller enterprises.

As regards the expected magnitude of costs generated by Option 5, manufacturers operating in countries where a product card is mandatory reported during the Stakeholder Workshop that the marginal costs of labelling furniture items is in the region of €1 apiece, but it is unclear whether translation costs were also included in this figure. This estimate is also quite sensitive to the actual number of products included in a production lot, which tends to vary greatly across product categories. The impact assessment on the direct cost of including nutrition labelling<sup>292</sup> on food products concluded that the drafting, artwork and printing costs could be estimated between €2,000–4,000 and €7,000–9,000 per product, including translation costs in all the official languages of the EU. This led to an estimated cost of labelling of €0.51–1.61 per individual item. In the case of textiles, the European Apparel and Textile Confederation (Euratex) estimated the cost of a basic label in the range of €0.10–0.60 per item.<sup>293</sup> Precise figures on the EU physical markets for furniture are missing and also depend on changes in the housing stock. If different sources are triangulated, consumption figures can roughly be estimated in the region of 250–300 million pieces sold annually. The range of cost to label a single piece of furniture can be estimated at about €0.60–1.50. By multiplying the cost per occurrence by the population of affected furniture items, this translates in a total annual administrative cost broadly equal to about €150–450 million.

During the public online consultation and the Stakeholder Workshop, it was generally maintained that mandatory schemes should not trigger any additional costs for testing, as these costs are already borne by companies to comply with existing EU rules. However, diverging views were also recorded on the actual extent to which compliance with standard testing requirements is really used as a means of proof in the market, especially by microenterprises.<sup>294</sup> As mentioned, for instance the cost of testing a family of similar pieces of furniture as regards durability and resistance to “wear and tear” is reportedly of around €500–1,000. The cost of declarations and attestations of quality is reportedly in the range of €100–500 per family of products.<sup>295</sup> As a result, total costs stemming from product features that require testing is in the area of €600–1,500 per family of products.<sup>296</sup>

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<sup>291</sup> These range from €500 million to €1 billion annually, when considering only current consumers’ willingness to pay.

<sup>292</sup> European Advisory Service (2004), The introduction of mandatory nutrition labelling in the European Union – DG Health and Consumer Protection, at p. 31.

<sup>293</sup> Quoted in Matrix Study, *supra* note European 195.

<sup>294</sup> These companies are however supposed to be mainly active as subcontractors for medium companies, rather than operating in the consumer market.

<sup>295</sup> Estimates of these costs are obviously subject to wide variations in their order of magnitude. For comparison purposes, the costs for certifying organic farming have also been estimated in the region of 0.03%–0.3% of company turnover on a sliding scale, with SMEs bearing comparatively more costs.

<sup>296</sup> In case compliance with the requirements covered by certain product information can be credibly achieved via self-declaration, the cost would be lower.

There are no data on the average size of a production lot in the furniture industry. If we assume the size to be in region of 4,000 items, costs to test and label a single product would range between €0.75 and €1.875.<sup>297</sup> If the price premium that can be obtained by providing additional product information is around 3%,<sup>298</sup> testing and labelling will be profitable for furniture items currently sold at a price higher than €25-63. These estimates are extremely sensitive to the assumptions made; in any event, they indicate that small firms producing small batches would be put at a relative disadvantage. For instance, for a SME producing 400 items per family of products, testing and labelling costs could raise up to €2.10 – 5.25, thus leading to a net benefit only for items currently sold at a price higher than €70-175.<sup>299</sup> Nonetheless, to perform a more balanced assessment two elements are worth recalling at this stage: i) under an EU mandatory scheme, companies and especially SMEs currently exporting to countries where mandatory schemes are already in place would bear testing and labelling costs only once instead of incurring these expenses for each national market they enter; ii) most respondents to the public online consultation claimed that participation into schemes contributes to reducing their litigation costs with a positive impact on the overall net benefit for a company. Assuming for the sake of simplicity a cost to test and label a single product equal to €2 and multiplying this cost per occurrence by the population of affected furniture items (250/300 million pieces sold annually), total annual costs would range between €500 million and €600 million.

All in all, cost impacts on manufacturers are likely to be less than 1% of annual turnover as also reported in the public consultation.<sup>300</sup> Hence, existing mandatory schemes are considered on average of net benefit to manufacturers and justifying related costs thanks to increased turnover and greater access to the quality-sensitive share of the market. Yet, the likelihood of net benefits decreases, the smaller the size of the company.<sup>301</sup> Most importantly and as explained above, net benefits would mainly depend on global educational/awareness raising effects on consumers, rather than on specific willingness to pay considerations. In the case of willingness to pay, the net benefit is very small and uncertain, which would also explain the extremely limited success of voluntary schemes so far.

On the side of retailers, a representative from a large-sized company consulted for this Study reported that under the current situation, compliance with the requirements of a national mandatory scheme caused additional annual costs in the region of 0.015-0.020% of sales volumes. Costs were generated by the need to adapt marketing information requirements and additional administrative work. By introducing an EU-wide mandatory scheme, Option 5 could mitigate some of these recurrent compliance costs, once retailers incur the one-off costs of adaptation to the requirements of the new scheme. This potential cost-reduction, however, is likely to benefit mainly multinational retailers operating in several Member States, who are also those comparatively more

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<sup>297</sup> While labelling costs are estimated in the area of €0.60-1.50; costs of testing, declarations, and attestation of quality features is in the area of €0.15 – 0.38 assuming 4,000 items per family of product.

<sup>298</sup> Some companies participating to the online consultation estimated the premium price that can be obtained by providing additional product information in the area of 2%-4% of their turnover.

<sup>299</sup> Note that these estimates are relevant only for those companies that directly reach the consumer.

<sup>300</sup> This however does not include the costs of EPD for which little previous experience with current schemes exists.

<sup>301</sup> As mentioned, under Option 5, SMEs are likely to benefit comparably more than large companies from the elimination of the need to comply with different mandatory schemes at the national level. However the cost of complying with the requirements of Option 5 remains proportionally higher, the smaller the company.

affected by the current situation.<sup>302</sup> As is the case for manufacturers, Option 5 would still generate costs to update software and catalogue entries and train staff on the features of the scheme. Such costs are likely to be on a one-off basis. Costs to derive and obtain specific information for new products instead would continue over time. The magnitude of these various types of costs remains the subject of speculation also because related estimates were not provided, except for an indication by one of the standardization bodies consulted for this Study that giving additional product information on a website would cost in the region of €2,000 for two information items (e.g. product dimension, durability, and so on). Therefore, a mandatory scheme with 20 additional items would cost an additional total €40,000 on a one-off basis. What really counts here however is that retailers are more likely to be net losers in mandatory schemes, as the marginal added value of price segmentation in capturing consumers' needs – whenever this is not linked to the retailers' proprietary labelling schemes or branding strategies - tends to be attributed to the manufacturer.

#### 9.4.2.3 *Impact on national authorities/administrations*

No sector-specific information is available on enforcement costs in the Member States where mandatory schemes are in place.<sup>303</sup> Therefore no correlation can be made between enforcement costs and level of compliance at the point of sale. Generally speaking, there is very limited evidence concerning the potential costs of monitoring and enforcement or of market surveillance activities for mandatory schemes, as their magnitude also depends on the underlying criteria and rules. In the case of a mandatory scheme for furniture products, possible synergies with the enforcement of the EU Timber Regulation could be exploited. Monitoring and enforcement costs would also depend on whether the scheme foresees third party testing/certification or simply checking the existence of self-declarations. In the past, the impact assessment study<sup>304</sup> on a possible extension, streamlining or simplification of the Framework Directive 92/75 EEC on energy labelling of household appliances found that estimates associated with monitoring and enforcement of an energy labelling system could vary among the different Member States between €25,000 and €500,000. This led to an estimate of a total annual monitoring cost across the EU in the wide range

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<sup>302</sup> Another important feature to be highlighted is that the French and the Italian mandatory schemes have slightly different implementation modalities as regards their impact on consumers' decision-making process and related cost consequences. In France product information has to be provided by means of a label attached to the product and/or packaging or an identification card delivered with the product and signed together with the contract. The label is mandatory, but can be replaced by an identification card issued by the manufacturer or the importer and containing more detailed mandatory information. However, the label has to be quoted in every advertisement, including catalogues, thus generating an additional burden for e.g. retailers. In Italy a similar scheme is in place and also envisages compulsory provision of information although on slightly different characteristics. Also in this case product information can be provided via a product card attached to the product and/or to the packaging, but differently from France always displayed where the product is displayed in order to ensure that the consumer is informed before purchasing and can always make on-site comparisons. Conversely, there is no mandatory requirement to add it to advertisements, which makes it less costly.

<sup>303</sup> The budgets available for market surveillance activities EU-wide are roughly in the region of €400-450 million overall. In some cases these figures have been dramatically shrinking over the last few years. It seems thus unlikely that additional requests for product surveillance would welcome at Member State level. For further details, see European Commission, DG SANCO (2013), The Consumer Conditions Scoreboard – Consumers at home in the Single Market.

<sup>304</sup> Europe Economics. 2007. Impact assessment study on a possible extension, tightening or simplification of the framework directive 92/75 EEC on energy labelling of household appliances.

of €0.675 - €13.5 million,<sup>305</sup> depending on which national data were extrapolated. However, a parallel ANEC study undertaken on the same occasion found that enforcement actions of the European Energy Label were either not taken or not being reported in seven out of nine investigated Member States. Costs will obviously vary depending on the need to enforce labelling requirements at border controls and on whether enforcement efforts can be complemented by consumers, consumer associations, NGOs, and the industry itself, thus easing the burden on public authorities.

Just for illustrative purposes, if 5% of EU retailers (i.e. 5,000 companies) were controlled on an annual basis by two public officers at a pace of 2.5 visits a day at an estimated daily cost of €200-400 per officer, this would lead to a total cost of €0.8-1.6 million. If, in each control, four products were routinely randomly tested for compliance with declared standards, this would trigger an additional cost of about €10-20 million.<sup>306</sup> The costs for subsequent investigation and prosecution, however, remain unknown, as these depend on the different judicial and administrative arrangements of each Member State. There is little experience on the costs of verifying an EPD in furniture, and no information could be drawn from the French experience, where this aspect was not reviewed.

#### 9.4.2.4 *Impact on the competitiveness of the EU furniture industry*

The large majority of participants to the Stakeholder Workshop are confident that under Option 5, the EU furniture industry could derive a revealed competitiveness advantage over its main international competitors exporting to the EU, especially producers established in developing countries. Accrued competitiveness would derive from the comparatively higher quality and sustainability of EU furniture products.<sup>307</sup> In a nutshell, stakeholders believe that as production processes carried out within the EU have to comply with stricter rules in terms of environmental friendliness and fair labour conditions, and are based on more advanced production processes, signalling these quality and sustainability features in a mandatory pan-European scheme would lead to an increase in demand for such products in the Internal Market. The rationale behind this line of reasoning is explained in box 18.

All other impacts in terms of cost of inputs, cost of capital, cost of labour, are deemed negligible as the scheme foreseen under Option 5 targets product information provided to consumers rather than the production process itself.<sup>308</sup> Conversely administrative costs are expected to increase

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<sup>305</sup> See Europe Economics and Fraunhofer (2007), *Impact assessment study on a possible extension, tightening or simplification of the framework directive 92/75 EEC on energy labelling of household appliances*, also reported in Matrix Study, *supra* note 195.

<sup>306</sup> This would amount to 20,000 different products to be tested at an estimate cost per test of €500-1,000 each.

<sup>307</sup> For a definition of competitiveness of EU industries, cf. Commission Staff Working Document, Operational Guidance for Assessing Impacts on Sectoral Competitiveness within the Commission Impact Assessment System – A “Competitiveness Proofing” Toolkit for use in Impact Assessments, SEC(2012)91

<sup>308</sup> It is worth recalling that a potential furniture products initiative would only affect product information provided to consumers. It is not aimed at changing the nature and quality of products nor their production process. It could be argued that businesses will undertake additional investments to change their production process and improve the quality of their products, following the introduction of a mandatory scheme. While this is indeed a possibility, it should not be considered as a direct consequence of the mandatory scheme, but as the result of a private decision by manufacturers on the basis of cost-benefit considerations. To illustrate: let us assume the introduction of a mandatory scheme requiring the provision of information on the environmental friendliness of furniture products. A manufacturer will incur in additional administrative and (if required by the scheme) testing/certification costs as a consequence of the scheme. This however does not have a direct impact on the other production costs of

along the lines described in Section 9.4.2.2 because of the need to provide product information on a label/product card. Testing costs may also increase for the companies that wish to signal the compliance of their products with information requirements covered by the scheme. This applies in particular to experience attribute (e.g. durability) and credence ones (e.g. social sustainability), provided that the necessary standards are developed and self-declaration is not sufficient to comply with the scheme requirements. All in all, according to the feedback given during the Stakeholder Workshop, the overall cost competitiveness of EU manufacturers is not likely to be significantly affected: consulted stakeholders explained that as the overall quality of EU furniture products remains relatively high, EU producers are already bearing those costs, albeit “invisibly” when the ensuing quality of their products cannot be consistently signalled to the consumer. Yet, experience in some Member States indicates that signalling product performance and environmental and social sustainability to consumers in a clear and comparable manner is complex and costly. In addition, as explained above, the cost competitiveness of SMEs is likely to be proportionally more affected under Option 5.

Finally, some additional benefit can be expected in the capacity to innovate, as eco-innovation in particular, and quality-related innovation in general, can be promoted by awareness raising among consumers. No particular impact can be expected on financial issues such as access to risk capital or financial conditions. It can be assumed that a successful implementation of Option 5 could contribute to some extent to re-orient delocalisation investments back towards the EU.

As regards related value chains (see Section 8.8), the potential cannot be quantified at this stage of the analysis as they will strictly depend on the practical implementation of a possible furniture products initiative and, in particular, on how product characteristics covered by the initiative are defined, interpreted and communicated to consumers. In terms of benefits however, given that surveyed consumers were interested in receiving information on the product features with potentially higher impacts in terms of information flows within the value chain, it is fair to expect that suppliers that are able to provide better quality component materials might improve their competitiveness.

#### **Box 18 The Rationale Behind Revealed Competitiveness Advantage**

This box clarifies the logical steps underpinning the argument put forward by stakeholders who believe that revealing the comparatively higher quality and sustainability of EU furniture products would ultimately bring about a competitive advantage for EU manufacturers:

- 1) A given product “made in the EU” embodies higher social and environmental features than a comparable extra-EU product.
- 2) A mandatory scheme can effectively signal those features in comparative terms.
- 3) Consumers are actually interested in those features and search for the related information before purchasing furniture.
- 4) Consumers can understand, compare and react to the information provided.

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the firm, as the mandatory scheme only requires the manufacturer to signal the extent to which the product is environmentally friendly, not to make it more environmentally sustainable. Of course, if demand for environmentally friendly products increases on the market, the manufacturer could eventually decide to incur additional costs to improve the performance of its products on this point. This decision will however not be a direct consequence of the scheme but result from a voluntary decision of the manufacturer, after a comparison of the expected benefits (i.e. increased revenues) and the expected costs (i.e. additional investments to upgrade the product) indicates that upgrading the product delivers net benefits.

- 5) Consumers are willing to pay for those features and their willingness to pay has to be at least as high as the price differential stemming from larger costs borne to deliver better quality and sustainability attributes.

The first link of the chain seems to be realistic to a large extent. As emerged also from other studies recently conducted for the European Commission,<sup>309</sup> EU producers incur comparatively higher production as well as labour costs than their counterparts in several third countries for various reasons, including compliance with the EU *acquis* that aims, i.a., at improving environmental as well as the social performance of EU companies. The second link of the causal chain presented above shows some problems: conveying information on environmental and social features is often less simple than expected. For instance, the Ministry of the Economy in France recently launched a pilot system of EPD (the so-called *Affichage Environnemental*) and was eventually not persuaded of the feasibility of this approach to communicate environmental information. In particular, it was noted that without shared methods for calculating and communicating impacts, there would be a substantial risk of just generating further confusion among consumers.<sup>310</sup>

As regards consumers' behaviour, the causal chain seems to be even weaker. In fact, the Consumer Survey conducted for this Study shows that environmental friendliness and conformity to fair labour conditions are pieces of information deemed important by almost half of the respondents. Furthermore, about 60% of the respondents also show a certain willingness to pay for these attributes, far less than e.g. for durability or resistance to "wear and tear". Nonetheless, environmental friendliness is only the third driver of consumers' choices and comes after fitness to taste and purpose and price considerations. In addition, possible cognitive biases in the decision-making process (which may be worsened if information on those features is not adequately conveyed) may impinge on the link between searching for information and changing the purchasing behaviour accordingly. Moreover, there is no reliable estimate of the magnitude of the willingness to pay for different attributes. Considering the fact willingness to pay does not add up for each product feature, and taking into consideration a recent drop of household income following the financial crisis, the overall growth in demand for EU furniture products is likely to be lower than what prospected by stakeholders consulted for this Study.

#### 9.4.2.5 Impact on trade with third countries

To the extent that mandatory schemes switch consumer preferences from pure price-sensitiveness towards other quality features, it can be anticipated that low-cost imports from third countries are bound to increase comparatively less in relation to disposable income, and possibly even decrease. Under Option 5, companies from third countries may find exporting to the EU increasingly difficult, particularly if they are not able to adequately provide consumers with some of the information requirements foreseen by the scheme.

To the extent that proposed scheme has little impact on costs for EU producers, it is unlikely to prevent exports. In theory, an EU mandatory scheme could also serve as a reference to assess product quality in external markets as well, and could potentially and represent a benchmark for reference and a competitive asset in those markets too. This is however purely a matter of

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<sup>309</sup> See for instance the recent Cumulative Cost Assessments on the Steel and Aluminium industries both completed in 2013 and available at [http://ec.europa.eu/enterprise/sectors/metals-minerals/files/steel-cum-cost-imp\\_en.pdf](http://ec.europa.eu/enterprise/sectors/metals-minerals/files/steel-cum-cost-imp_en.pdf) and [http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item\\_id=7124&lang=en&title=Final-report---Assessment-of-Cumulative-Cost-Impact-for-the-aluminium-Industry](http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=7124&lang=en&title=Final-report---Assessment-of-Cumulative-Cost-Impact-for-the-aluminium-Industry) .

<sup>310</sup> *Ministère de l'Écologie, du Développement Durable et de l'Énergie, Affichage environnemental Bilan au Parlement de l'expérimentation nationale*, Novembre 2013, <http://www.developpement-durable.gouv.fr/Bilan-au-Parlement-de-l.html>

speculation on which opinions diverge. It is unlikely that third countries would promote information schemes on quality features for which they have no competitive advantage.

#### *9.4.2.6 Impact on consumers*

Under Option 5 consumers are likely to benefit by a significant reduction in information asymmetries and greater comparability of furniture products sold on the EU market. A mandatory scheme would also increase consumer welfare by reducing the amount of complaints about frauds and unfair practices and by lowering the overall costs of litigation (also for companies). Since most of the quality features of furniture are either experience or credence attributes and consumers might become aware of such features only in the long run, complaints on furniture rank around mid-range in EU current statistics on the subject and were not considered as a cause of major concern by the few national consumer protection authorities responding to the public consultation. A positive impact can however be expected for a limited set of product features that are normally considered search attributes for consumers. A case in point has been highlighted in an ongoing study for the European Commission on leather labelling, where the so-called “bonded leather” is reportedly easily mistaken for real leather.

As Option 5 will not generate significant additional production costs for manufacturers,<sup>311</sup> a mandatory scheme will also have a very marginal impact on cost-driven prices. An expected increase in consumer prices will rather come from the increased added-value of high quality/sustainable products for final users.

#### *9.4.2.7 Social and environmental impacts*

There are few comparable reference data on the impact of social sustainability labelling.<sup>312</sup> As mentioned above, preliminary results from the experiment with environmental sustainability labelling in France seem to indicate that the environmental awareness of companies increases with forms of environmental sustainability labelling based on life cycle assessment methodologies. Additional positive social and environmental impacts could also derive by increased awareness among consumers on the sustainability of furniture products.

### *9.4.3 Distributional effects*

In light of the above, potential losers under Option 5 would again be retailers, as they would be restrained in their own proprietary brand-based product segmentation strategies. Under a mandatory scheme, they would also potentially bear more liability risks for information provided by manufacturers, especially those from outside the EU. Conversely, consumers and manufacturers at large are expected to be on the winning side under this policy option. Other distributional effects among the various businesses affected can be anticipated as follows, and vary depending on

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<sup>311</sup> As explained, cost increases stem from higher administrative costs and, where relevant, testing/certification costs.

<sup>312</sup> In the apparel industry, the Sustainable Apparel Coalition (a trade organization comprised of brands, retailers, manufacturers, government, and non-governmental organizations and academic experts, reportedly representing more than a third of the global apparel and footwear market) has developed the Higg Index – a tool that standardizes the measurement of the environmental and social impacts of apparel and footwear products across the product lifecycle and throughout the value chain. The latest version of the Index was released in 2013. It is thus too early to assess any impact, but Index could be monitored in the coming years to draw some preliminary conclusions on sustainability effects. The main difference between the apparel and the furniture industry is the relative weight of branding as a source of added value for consumers.

whether compliance with some of the scheme's requirements can be achieved via self-declaration or will require third party testing/certification. These two scenarios are explored below.

Impacts valid both for the self-declaration scenario and testing/certification:

- manufacturers who already trade on their reputation and brand and have direct relationship with customers and who do not need schemes would bear unnecessary extra administrative costs;
- large retailers would have comparatively less transition costs than smaller ones;
- companies producing a wide range of product types in small lots, or 'bespoke' or customized type products, or products where there are frequent design changes because of changing material supply or fashion trends, would bear comparatively more costs;
- companies that already compete on sustainable socio-environmental features in the countries where existing mandatory schemes focusing on other quality issues are in place would make the most of their competitive advantage.

Impacts valid only for the testing/certification scenario:

- medium to large companies already accustomed to third party testing and certification, and trading regularly across the EU would have minimal transition costs;
- innovative companies and companies in markets with relatively fast-changing technology would be faced with some additional costs as long as they introduce new products on the market;
- conformity assessment and testing bodies would be likely to have an expanded market;
- artisan-type and some small firms trading locally with little previous certification or product labelling requirements are likely to be negatively affected in their cost structure. This is particularly the case for producers of traditional furniture, unless these are exempted by testing and certification obligations;
- very small firms producing in the low price segment will be negatively affected, as administrative and testing/certification costs to comply with the scheme will reduce their margins. This market segment is however expected to be residual and almost negligible, in the light of extra EU competition;
- companies already exporting in the countries covered by existing mandatory schemes would have comparatively more advantages.

#### *9.4.4 Compliance with the proportionality principle*

The case for an EU regulatory intervention would not be very strong for a mandatory scheme and would appear questionable in proportionality terms. A mandatory scheme in the current conditions would not so much address a typical technical barrier to the Internal Market, but rather a competitive disadvantage that manufacturers and SMEs in particular have vis-à-vis other competitors also in their domestic market. Most importantly and as reported by participants to the online consultation, these barriers are not always related to existing national mandatory schemes; they are sometimes generated by the need to comply with the mandatory general provisions of the different national consumer codes, whenever these set specific requirements on product information. The few technical barriers related to standards have reportedly been addressed by means of voluntary industry-led initiatives. Therefore, the rationale of addressing by means of a *lex*

*specialis* a problem that is not specific to the furniture industry would remain unclear, unless it can be demonstrated that in the furniture industry the problem is much stronger than elsewhere.

If that cannot be demonstrated, it would seem more proportional to address the general problem first and then, eventually, the sectoral one. As matter of fact, national mandatory schemes are implemented as by-laws of the national consumer codes and in all likelihood would have to follow the same provisions, even if harmonised. Moreover some important information requirements are also being considered under the proposal for the Regulation on CPS. It is also unclear how a mandatory scheme could be proportional to the general provisions of the Consumers Rights or the Unfair Commercial Practices Directive, as these explicitly envisage that sector-specific matters are – as a rule - left to the appreciation of the Member States and local business practices.<sup>313</sup> An EU level intervention such as the one proposed under Option 5 would fully meet proportionality requirements only in cases where the adoption and implementation of national mandatory schemes based on socio-environmental sustainability may pose a serious risk of Internal Market fragmentation and Directive 98/34 proves insufficient to address the problem. In that particular case, the need to avoid major barriers to trade inside the EU, could be complemented by the need to raise awareness among consumers on the trade-off between certain environmental aspects and product performance features (e.g. flammability, resistance to “wear and tear”, and so on).

#### 9.4.5 Overall assessment of Option 5

Overall, an extended mandatory scheme is the policy option with the greatest potential to meet the policy objectives of a possible furniture products initiative: its scope would allow providing a very comprehensive set of product information to address the informational asymmetries towards consumers, particularly as regards credence and experience attributes. By the same token it is bound to have greater positive impacts than the baseline scenario and Option 3 in creating level-playing field for the EU furniture industry and in fostering its competitiveness. As explained above, this positive impact may be mitigated for smaller companies, because of proportionally higher compliance costs (see for instance the assessment provided in Section 9.4.2.2). However, in terms of feasibility under the current circumstances, support for Option 5 must be qualified. In particular, most of the competitiveness benefits of Option 5 are related to two key assumptions:

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<sup>313</sup> When it comes to Unfair Commercial Practices, the Directive currently maintains that it can be considered as misleading omissions, taking account of all its features and circumstances and the limitations of the communication medium, to omit material information that the average consumer needs, according to the context, to take an informed transactional decision and thereby causes or is likely to cause the average consumer to take a transactional decision that he would not have taken otherwise. In a separate guidance document the Commission has maintained that since the concept of material information has not been explicitly defined in the Directive, national authorities and courts will need to use their judgment in assessing whether “key items” of information have been omitted, taking into account all features and circumstances of a commercial practice and the limitations of the communication medium. The average consumer benchmark is defined as “reasonably well informed” and “reasonably observant and circumspect”, taking into account social, cultural and linguistic factors, as interpreted by the Court of Justice. There is no case law available on furniture. The Commission Guidance makes it clear that the average consumer test is not to be considered as a statistical test. National courts and authorities have to exercise their own faculty of judgment, to determine the “typical reaction of the average consumer” in any given case. In the light of the above, an EU mandatory scheme for furniture products would be seen as a regulatory remedy to an omitting behaviour that has already been defined elsewhere a matter for national authorities to judge, without clear evidence that this omitting behaviour is more serious than in other cases. For further details, see SEC(2009)1666, *supra* note 234.

- 1) That mandatory schemes have the potential to raise awareness about quality in the general mass market and translate it into creation of economic value from consumer choice;
- 2) That socio-environmental sustainability in particular as well as quality features in general represent a potential source of competitiveness advantage for EU companies, once better exploited via mass awareness-raising means such as mandatory labels/product cards.

However self-evident the first assumption might appear to stakeholders themselves, it is only conjecturally supported by hard data or economic evidence in the market for furniture, and the means of its empirical confirmation and quantification are admittedly very thin. The main convincing argument in this respect is the behaviour of manufacturers themselves, particularly SMEs, that are the most severely hit in terms of cost burden under a mandatory scheme, but instead of asking for the disbandment of existing schemes, as one could logically expect, appear (e.g. in the public online consultation) strongly in support of an extension EU-wide. This is even more surprising, in light of the fairly compelling evidence that existing national schemes have not acted as a traditional barrier to trade protecting the domestic markets from pure price competition on costs.

The second assumption is more speculative and less supported by evidence from past experience to even attempt extrapolations. It is worth noting that the effects on competitiveness are tautological inasmuch as most (but not all) experts agree that environmental and social sustainability represent potential competitive advantages for the EU industry and the way forward, although recent data show that some EU manufacturers remain competitive also in the lower segments of world markets. Moreover, it should not be taken for granted that mandatory quality schemes extended to socio-environmental sustainability will behave the way traditional schemes have done so far.<sup>314</sup>

This would also actually explain the apparent market failure of retailers in conveying environmental-related information to the mass market and their lack of incentives in catering to this potential segment of demand. Elements gathered for this Study also seem to confirm that there is less information on the environmental-related quality features of furniture products than it could have been expected based on consumers' demand for it. This is variously explained in terms of fragmentation of eco-labels, lack of consumers' trust in environmental claims, poor understanding of ISO I type compliance labels, mismatch between increases costs and consumer willingness to pay for environmentally friendly products.

Another key point deserving attention is the following: whenever mandatory labelling requirements relate to features which have no bearing on the commercial or practical substitutability of the good, but to the way in which the good is produced, this may contravene WTO rules and bear the risk of a trade dispute. This risk remains quite significant with regard to social and environmental sustainability as at present there is no recognized international reference standard for social responsibility and fair labour conditions (except for the suppliers code of conduct of the UN Global Compact initiative, that is reportedly still poorly known among consumers) and PCRs for EPDs in the field of furniture for life-cycle assessment purposes are not harmonized yet (for further details see Section 8.7.2.1 and Box 16).

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<sup>314</sup> It was a striking finding in our sample that consumers from the countries exposed to mandatory labelling schemes had lower sensitivity to price, while those from a subset of countries generally deemed to have a high degree of environmental consciousness seemed to have the highest price-sensitivity, irrespective of any disposable income consideration. However these findings have to be taken with a pinch of salt as the sample – as usually happens with surveys carried out EU-wide – is not necessarily statistically representative at the Member State level and correlations might be spurious.

## 9.5 Stakeholder feedback on the alternative policy options

As already signalled in the previous Sections, **retailers oppose any option different from no action** (Option 1), as the other policy alternatives would restrain their freedom to compete in product segmentation based on proprietary labelling strategies, making them the net losers from any intervention. Under Options 3 and 5, they would also bear additional liability risks for the information provided to consumers. Moreover, from their point of view, any possible gain in terms of added value from increased consumer awareness about furniture quality features would be more than compensated by the lost possibility of capturing willingness to pay by means of their own quality signalling.

Conversely, **broad consensus could be found among all the other stakeholders on the option of introducing a mandatory scheme including all product features** (Option 5), as this approach would provide consumers with the highest possible amount of comparable information and leave a levelled playing field among manufacturers, without giving more communicational advantages to some product quality features over others. Any version of the scheme featuring only a subset of information requirements would instead leave out some product features and put manufacturers that have specialized on those features at a comparative disadvantage.

**Broad agreement was also reached on the basic principle that any mandatory scheme would have to come at no extra cost** for the value chain (including no third party testing/certification whatever added value this may confer to consumers by enhancing their trust in the system) and be entirely based on information already available and results from routine standard tests. However,

Table 80 shows that as soon as these broad principles are referred to specific information requirements, diverging views readily appear on implementation modalities or on what can be considered as routine evidence from current tests. Therefore, the extent to which the broad agreement on the content of the scheme and its underlying principles would concretely translate into a feasible option remains unclear.

## 9.6 A comparison of alternative options

### 9.6.1 Effectiveness in fulfilling the intended policy objectives

Both the baseline scenario (Option 1) and the soft law intervention (Option 3) would partly achieve the objective of improving market transparency and better informing consumers, although with different degrees of likelihood and a different scope of quality features covered. However, Option 3 has a greater potential in reducing the competitiveness disadvantage that SMEs suffer because of compliance with existing national mandatory schemes and therefore remove obstacles to intra-EU trade for these companies. Although our analysis has focused on the impact of a mandatory scheme covering all product features (Option 5) it is worth mentioning here the possible effects of a mandatory scheme including only a subset of product information (see above, 9.4.1). The latter would be more effective than the soft law intervention (Option 3) in reaching the objective of reducing information asymmetries for consumers and ensuring full comparability on all requirements included in the scheme. In terms of competitiveness its impacts would however be more limited, as they would affect exclusively the product features covered by the scheme. It would also distort competition between producers specialized into different product features. Instead, a mandatory scheme covering all product features would achieve all the intended policy objectives

but could only become feasible if dedicated standards are developed for some product features, in particular those relating to social and environmental sustainability. If implemented along these lines, Option 5 would also reduce its risk of being challenged under the WTO.

### *9.6.2 Efficiency Considerations*

Efficiency and cost benefit considerations for the options analysed in this study are heavily dependent on assumption regarding the final content of a potential initiative and on extrapolations subject to a margin of error (see e.g. the considerations made on the size of a batch of furniture products, etc.). Hence, it is not advisable to rely on efficiency as a prime element for decision-making. However, available estimates point to total possible annual benefits in the region of €500 million – 1 billion (when accounting only for willingness to pay) for Option 5, and decreasing for the soft law intervention (Option 3) first and for Option 1, also depending on factors that cannot be entirely anticipated at the time of writing. The total annual costs of Option 5 are expected to be in the region of €500-600 million. They are likely to be lower, again on a decreasing scale when moving to Option 3 and to Option 1.

Moreover it is worth highlighting that it is not so much the size of benefits and costs but rather their nature along the value chain that remains poorly understood and quantifiable by stakeholders themselves. For instance, during the Stakeholder Workshop it appeared that different actors familiar with various mandatory systems had a difficult mutual understanding of related cost implications due to their peculiar downstream implementation features (typically the additional cost burden on advertising practices in France). There is some preliminary evidence (e.g. from the mystery shopping exercise) that even multinationals segment their quality signalling behaviour based on the specific provisions of the consumer protection legislation and contract law of the country they operate in. This should further warn the European Commission on subsidiarity and proportionality grounds of the possible unintended side effects of harmonized provisions if their deep contractual and liability implications in the different legal systems of the Member States and related potential costs are not fully understood. This would require a deep knowledge of the different legal system (e.g., omitting compliance with consumer protection provisions is also a cause for possible business to business unfair competition Court cases in Italy).

### *9.6.3 Coherence with EU policies*

It is worth recalling that some of the elements to be included in a mandatory scheme have been already proposed under parallel EU legislation being discussed in Parliament or about to enter into force in the next few years and as such have been incorporated in the baseline scenario for the time being. This could eventually help switch the focus of the policy intervention from harmonizing the format of a label/product card<sup>315</sup> towards harmonizing the contents and interpretation of these items to make them more understandable and comparable for consumers.

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<sup>315</sup> As explained above, stakeholders are unlikely to reach an agreement on the content of a mandatory scheme that would not include all product features, as any mandatory scheme featuring only a subset of product information would put some stakeholders at a comparative disadvantage. However, at present some of the preconditions that would make a fully comprehensive mandatory scheme a viable option (e.g. existence of reference standards for some quality or process features) are missing.

#### 9.6.4 *Compliance with the proportionality principle*

Options 1 (the baselines scenario) and the non-binding nature of Option 3 do not pose particular problems in terms of compliance with the proportionality principle. Conversely a mandatory scheme (Option 5) seems much harder to justify under proportionality considerations. In particular, evidence gathered for this Study shows that the risk of Internal Market fragmentation is currently limited in the case of furniture, and does not appear as a solid-enough ground to warrant a furniture-specific intervention. Moreover, a mandatory scheme could conflict with general provisions on Consumers Rights or Unfair Commercial Practices stipulating that sector-specific matters are – as a rule – left to the appreciation of the Member States and local business practices.

#### 9.6.5 *Final comparative conclusions*

Table 85 below compares the different policy options retained for detailed analysis in terms of efficiency (i.e. how costs and benefits compare), effectiveness, proportionality and feasibility. Each cell of the table provides details on specific impacts that are relevant for this comparative analysis. At present, there are not enough elements available to carry out a proper cost-benefit analysis and the assessment of some benefits and costs would be subject to such a substantial range of variability due to their intrinsic uncertainty to make any quantified analysis potentially misleading. However, elements to appreciate the order of magnitude of the various factors at play have been provided above.

No option appears as clearly preferable when all elements are taken into consideration (see Table 4). This is even more evident when uncertainty about the materialization of impacts and about agreement on implementation modalities are considered. Indeed as regards consumers it is important to remember that the design of the product fitting consumer taste or purpose is the most important aspect.

Since a mandatory scheme (Option 5) is the preferred option for some stakeholders (e.g. consumer organisations, industry associations and businesses headquartered in Italy, see above Chapter 7), it is worth noting that several qualifications are relevant:

- Intra-EU barriers in the market for furniture are relatively marginal when compared to other markets. Reported problems are related to vertical relations along the value chain rather than to specific horizontal barriers between Member States;
- Experience in Member States indicates that signalling product performance and environmental and social sustainability to consumers in a clear and comparable manner is complex and costly;
- There is no automatic causal link between the provision of certain product information to consumers and their purchasing behaviour; and
- There is limited availability of relevant ISO and EN reference standards for some product features.

Therefore, a soft law approach (**Option 3**) including i) guidelines addressing transparency in e-commerce and information displayed online, ii) initiatives aimed at building consensus among stakeholders on common definitions of individual product characteristics, and iii) a non-binding sectoral guidance to function as a benchmark for reference in judging furniture retailers' compliance with the Consumer Rights Directive and the Unfair Commercial Practices Directive (in particular as regards the provisions on the main characteristics of the goods on sale) **appears as**

**the preferred choice** at the time of writing, and more in line with proportionality principle considerations. Specifically, Option 3 could pave the way to develop more-consumer friendly standards where needed and raise awareness among national authorities about best practices in fulfilling information requirements. It would also allow building on developments in the field of labelling that are likely to happen in any event. Finally, it would allow addressing some of the bottlenecks and problems along the value chain identified in the Study, depending on stakeholders' willingness to cooperate.

**Table 85 Multi-criteria analysis of policy options**

	<b>No action</b>	<b>Combination of Soft Law Initiatives</b>	<b>Mandatory EU scheme</b>
<b>Efficiency</b>	<p><b>0</b></p> <ul style="list-style-type: none"> <li>No significant impact on current costs and benefits for businesses, no major change for consumers</li> <li>Potential additional costs if revised Ecolabel is widely adopted</li> </ul>	<p><b>+</b></p> <ul style="list-style-type: none"> <li>No major impact on business costs and on switching costs</li> <li>Reduced costs for businesses wishing to engage in cross-border trade, due to partial convergence of business conditions</li> <li>If cooperation is achieved, efficient outcome along the value chain might ensue</li> </ul>	<p><b>+ / 0</b></p> <ul style="list-style-type: none"> <li>Consumers would benefit from harmonization of product information</li> <li>Manufacturers gain due to enhanced transparency of information provided to consumers</li> <li>Compliance might prove costly for some businesses (including need to develop new standards), thus potentially altering the level playing field</li> <li>Enforcement costs for public authorities due to market surveillance</li> </ul>
<b>Effectiveness</b>	<p><b>0</b></p> <ul style="list-style-type: none"> <li>Current policy initiatives at the EU level might partly address problems of incomplete information and conflicting interests along the value chain</li> <li>Fragmentation in the Internal Market may increase as a result of national initiatives</li> <li>Adaptation costs for businesses might hamper cross-border trade</li> <li>No major impacts on competitiveness</li> </ul>	<p><b>+ / 0</b></p> <ul style="list-style-type: none"> <li>Unlikely to fully address problems of incomplete information and conflicting interests along the value chain. Highly dependent on industry response (cooperation along the value chain)</li> <li>Unlikely to trigger full harmonization across Member States</li> <li>Likely to lead to some degree of convergence in the interpretation of quality features across the EU28</li> </ul>	<p><b>+++</b></p> <ul style="list-style-type: none"> <li>Can address problems of incomplete information and conflicting interests along the value chain, particularly if all product features are covered by the scheme</li> <li>Increased transparency</li> <li>Some conflicts along the value chain would be solved</li> <li>Fully harmonizes a wide range of information requirements</li> <li>Reduced compliance and adaptation costs for businesses (in particular SMEs) might enhance intra-EU trade</li> <li>Can prevent national initiatives that would increase fragmentation for information items covered by the scheme</li> </ul>
<b>Feasibility</b>	<p><b>0</b></p> <ul style="list-style-type: none"> <li>N.a.</li> </ul>	<p><b>++</b></p> <ul style="list-style-type: none"> <li>Highly feasible, as it mostly depends on the initiative of the European Commission, but requires cooperation of value chain actors</li> <li>Possible non-binding instrument subject to political consensus among Member States</li> </ul>	<p><b>--</b></p> <ul style="list-style-type: none"> <li>Controversial to very controversial (depending on scope) among stakeholders, in particular retailers</li> <li>Might create problems of coherence with WTO rules</li> <li>Lack of fully developed standards on some aspects (e.g. sustainability)</li> </ul>
<b>Proportionality</b>	<p><b>0</b></p> <ul style="list-style-type: none"> <li>N.a.</li> </ul>	<p><b>+++</b></p> <ul style="list-style-type: none"> <li>Fully compliant with the proportionality principle, as based on non-binding initiatives</li> </ul>	<p><b>--</b></p> <ul style="list-style-type: none"> <li>Difficulty to justify a furniture-specific intervention</li> <li>Mandatory scheme could conflict with general provisions on Consumers Rights or Unfair Commercial Practices stipulating that sector-specific matters are – as a rule – left to the appreciation of the Member States and local business practices.</li> </ul>

Source: Authors' own elaboration

## 9.7 Monitoring and Evaluation Provisions

Table 86 lists the main progress indicators to measure the effectiveness of a potential EU furniture products initiative in achieving the policy objectives identified in the Study (see Section 8.7.1)

As regards the general objective of the initiative, i.e. enhancing the competitiveness of the EU furniture industry, a comprehensive sectoral analysis of the EU sector should be performed on a regular basis by collecting, i.a., data on key indicators such as those gathered and discussed in Chapter 1 and Annex 2 of this Study (e.g., production value, value added, imports, exports, etc.). This analysis should also consider the evolution of comparable indicators in selected extra-EU countries and in other manufacturing industries within the EU. Indeed, an evaluation of changes registered in industry indicators in absolute terms can be misleading, as many variables other than those impacted by a possible furniture products initiative can affect the sector's competitiveness. Hence, international as well as cross-sectoral comparisons can provide a more balanced evaluation of the selected policy action(s).

As regards monitoring the achievement of the first specific objective (i.e., improving market transparency and raising consumers' awareness when purchasing furniture), progress can be monitored through the Consumer Market Monitoring Survey performed by the European Commission on a yearly basis. The evolution of all the indicators<sup>316</sup> covered in the Consumer Market Monitoring Survey should be assessed both in absolute terms and by comparing the performance of other goods markets. It is worth stressing that whereas increased market transparency is expected to improve all the indicators, in the short run increased consumer awareness/product information may also lead to the deterioration of indicators measuring the extent to which the market lives up to what consumers expect. Hence, to better understand these dynamics, a mystery shopping exercise such as the one described in Section 8.3.1 could be envisaged to complement the assessment of progress in market transparency. The mystery shopping would naturally focus on the information requirements included in a possible furniture products initiative.

For the second specific objective (supporting a coherent approach at a national level when it comes to information on furniture products), impacts should be observable in the degree of fragmentation in furniture product specific schemes as well as in intra-EU trade of finished items. A benchmarking analysis, similar to the one presented in Chapter 5 and in Annexes 3, 4, 5, and 6 of this Study would be an effective way of monitoring the evolution of national measures. As a result of a possible furniture products initiative, national schemes should either decrease in number or converge in terms information requirements and certification and testing criteria/procedures. Intra-EU trade of finished furniture products should also

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<sup>316</sup> As regards the market for furniture and furnishings, five indicators are monitored: i) the ease of comparing goods or services on offer (comparability); ii) consumers' trust in retailers/suppliers to comply with consumer protection rules (trust); iii) problems experienced and the degree to which they have led to complaints (problems and complaints); iv) the extent to which the market lives up to what consumers expect (expectations); v) the available choice of retailers/suppliers (choice). In addition, the so-called Market Performance Indicator (i.e. a composite index taking account of comparability, trust, problems and complaints, and expectations) is also measured.

be positively affected by a possible policy initiative. Nonetheless, as the EU furniture industry remains one of the most integrated sectors (see Chapter 1) the magnitude of impacts for this indicator is expected to be limited.

**Table 86 Indicators, monitoring and evaluation**

<b>Level of objective</b>	<b>Objective</b>	<b>Main progress indicators</b>
General objective	Enhancing the competitiveness of the EU furniture industry	Data on the EU furniture industry: <ul style="list-style-type: none"> <li>• Production</li> <li>• Value added</li> <li>• Imports</li> <li>• Exports</li> <li>• Employees</li> <li>• Number of enterprises</li> </ul>
Specific objective	Improving market transparency and raising consumers' awareness when purchasing furniture	Consumer market scoreboards: <ul style="list-style-type: none"> <li>• Overall Market Performance Indicator</li> <li>• Comparability</li> <li>• Trust</li> <li>• Expectations</li> <li>• Problems and complaints</li> <li>• Choice</li> </ul> Mystery shopping
Specific objective	Support a coherent approach as concerns information on furniture products at a national level	Analysis of EU furniture product schemes: <ul style="list-style-type: none"> <li>• Mandatory schemes</li> <li>• Voluntary schemes</li> <li>• Eco-labels</li> </ul> Data on intra-EU trade of finished furniture products: <ul style="list-style-type: none"> <li>• Dispatches</li> </ul>

Source: Authors' own elaboration