Introduction to Wood Market in China

By Sophie Fei

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Made for Interreg Central Baltic Project LEF Network to China

Contents

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Executive Summary

China is a major player in the global timber products market, both as a producer and consumer. It is the world’s largest importer of logs and is the second largest importer of lumber. China’s market for timber product is increasing expand. It has relatively limited forest resources and a great potential for increases in consumption of wood products.

China’s timber market system has undergone reform as a result of the increasing liberalization of its markets. Timber production and distribution were monopolized by the government prior to the 1980s, but a gradual transition from state allocation to market liberalization occurred during the late 1980s and early 1990s. Currently timber producers are allowed to market their timber directly to different buyers, although timber harvest and transport remain under state supervision.

China’s primary wood-processing industry and wood-consuming sectors have experienced rapid growth. The limited amount of domestic resources and strong domestic demand for timber products in industries such as construction, furniture and panel have caused the volume of China’s imports of forest products to increase. While the government has attempted to reduce imports by establishing commercial timber resources through fast growing plantations, the gap between domestic supply and demand will continue to be filled by imports in the near future.

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Scope of research:

HS CODE	DEFINITION
44000000	Wood and articles of wood, wood charcoal
94036099	Other wooden furniture
94034000	Wooden furniture of a kind used in the kitchen
94035099	Other wooden furniture of a kind used in the bedroom
94038990	Furniture of other wooden materials
44181090	Windows, French-windows and their frames of other wood
44182000	Doors and their frames and thresholds, of other wood

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Present Situation and Development Trend of Timber Market Supply

By 2016, China's timber output has dropped to 77.759 million square meters. Under the background of declining timber production, in order to meet the requirements of domestic economic development and the improvement of people's living standards, China's annual timber demand mainly depends on imports. In 2017, China's total imported timber (log + sawn timber, log volume) exceeded 100 million cubic meters for the first time, reaching 108.497 million cubic meters, amounting to $19.986 billion, an increase of 15.6% and 23.2% respectively.

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Section 1 General Information about Wooden Houses in China

China's wooden architecture has a long history. 3500 years ago, it basically formed a frame system with tenons and mortises to connect beams and columns. By the Tang Dynasty, it gradually matured. Many large-scale wooden structures have been hundreds or even thousands of years. Since the 1980s, with the gradual decrease of timber available for wooden construction in China, the construction of pure timber structures has been forced to stop. In recent years, with the entry of foreign wood-structured residential buildings into the Chinese market, and the introduction of domestic standards for wood-structured buildings, wood-structured buildings have begun to recover in China, which has been stagnating for more than 20 years.

Although compared with the past 30 years, the construction of wooden structures in China has developed at an alarming rate in recent years, but the number is less than 1% of that in some countries such as North America, Europe and Japan. The main reason for the production gap is that the development of wood structure in China has been stagnant for 30 years, which has resulted in the lag of wood structure not only in technology, but also in other aspects in North America and other countries.

Section 2 Specific Information about Wooden Houses Sector in China

- Wooden house market in China

Wooden house in China at the moment is at least 30 years behind Europe and also the market shares is less than 1% of the whole construction market.

In order to real create a wooden house order, it needs several different steps:

1.Client really like wooden house, as China is running a very strict "forest cutting forbidden law" thanks to the overdose cutting 30 years ago. All raw log materials (mostly considered main construction materials as spruce/pine/fir) is imported from Russia, North Europe (mainly Sweden, Finland and Estonia) and Canada, so most Chinese have enough willing for such new experience living experience in wooden house, especially for log house because they can feel the real wood.

2. After the enough willing to buy a wooden house, next step is find a land for the wooden house and get permission from government for construction, the first specific difference between China and Europe is the land policy; In Europe, individual residence is allowed to hold the ownership of the land under their own name, but in China, all the land is belong to China government, so Chinese residential is only holding the use right of the land under due period (most cases in China would be private residential can hold the land for 40 years or 70 years under renting land contract with local government). Since the land ownership issue, the permission for build up is quite complicated. As a summarize of customer experience, I can say that among 100 people who is absolutely a wooden house purchasing desire, only 1 of them will get all the official permission documentation from government, this I consider as the biggest issue for local market openness.

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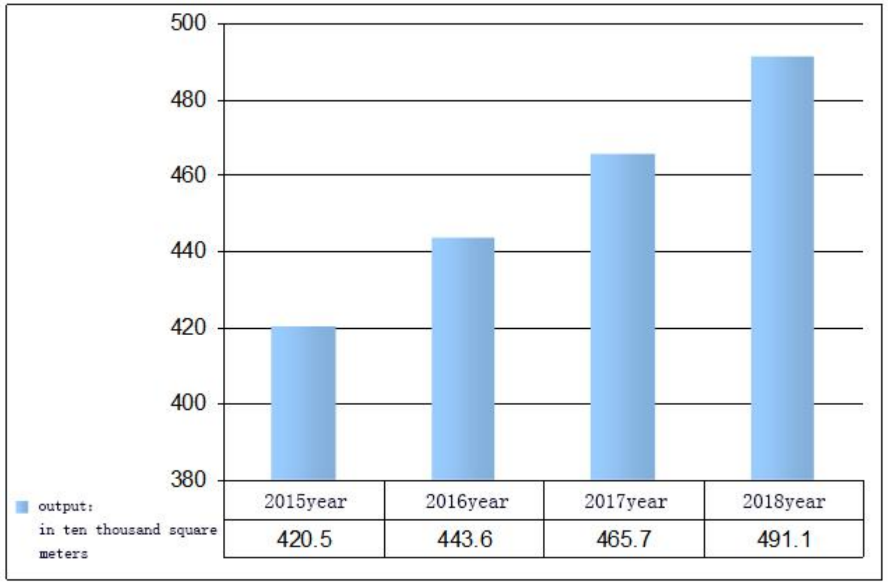
Analysis on the output of wooden house in China in the year 2015-2018



Data sources: **Model Prediction and Expert Arrangement**

Wooden house details and statistics for import numbers

Structural Analysis of China's Wooden House Imported Products from 2016 to February 2018

Import Structure	Year of 2016	Year of 2017	January to February 2018
High-end products	72.50%	68.40%	65.30%
Middle-end products	25.60%	28.50%	31.70%
Low-end products	1.90%	3.10%	3.00%

Data sources: **General Administration of Customs of the People’s Republic of China**

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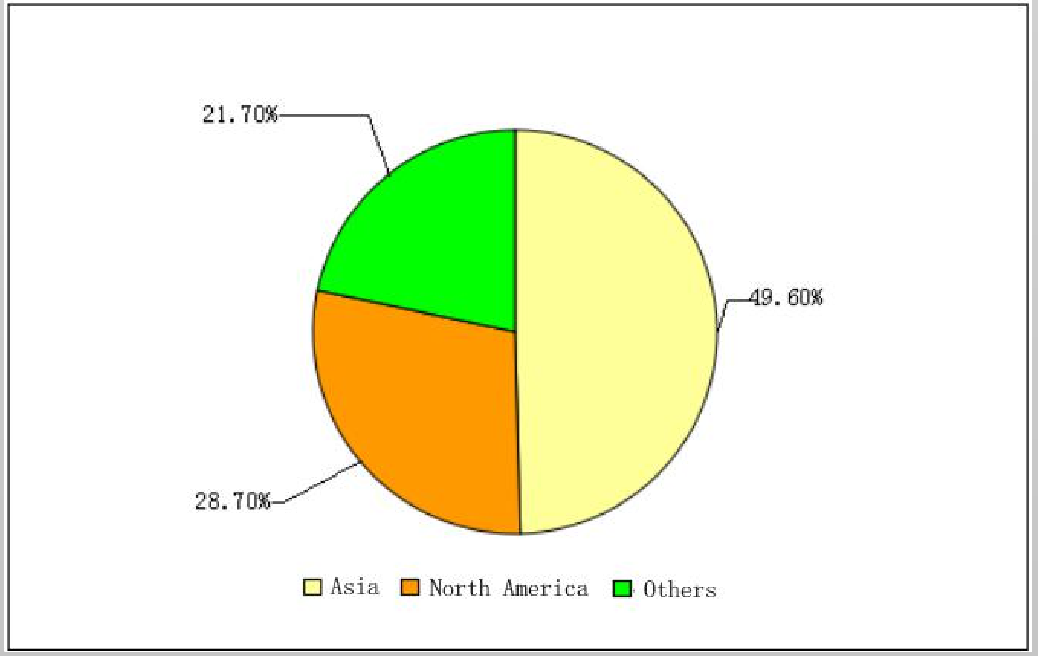
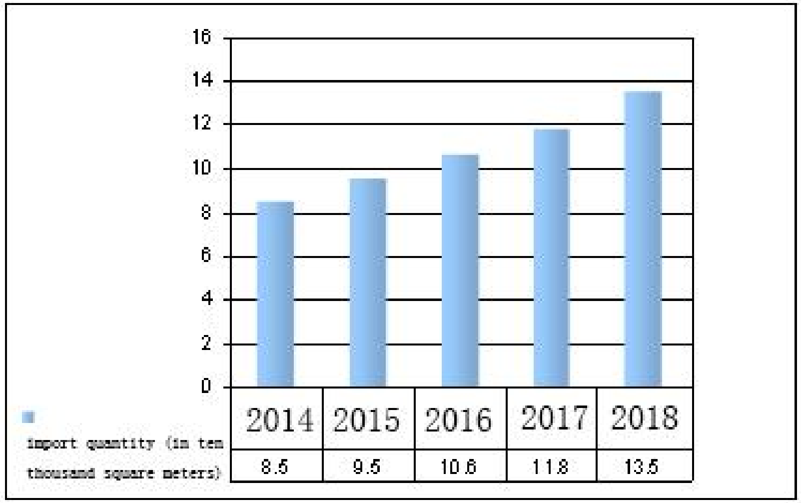
Areas of Imported Wooden House in China from January to February 2018



Data sources: **General Administration of Customs of the People's Republic of China**

Analysis of the import quantity of the wooden house from 2010 to 2015



Data sources: **General Administration of Customs of the People's Republic of China**

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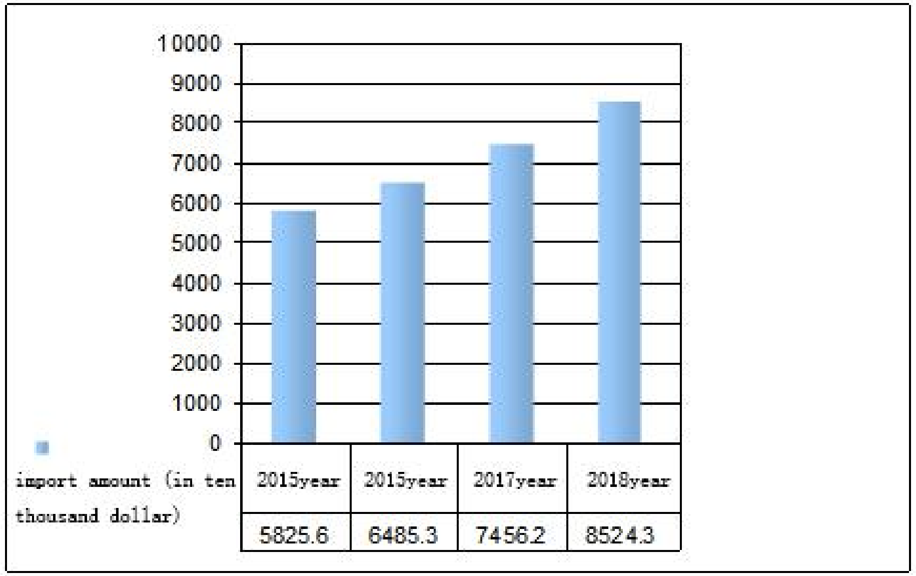
Analysis of the Import Amount of Wooden House in China from 2010 to 2015



Data sources: **General Administration of Customs of the People's Republic of China**

Rules and Regulations

1. Import and Export Flow Chart

Import and Export Flow Chart

Record filing and registration of foreign trade operators
Appointment of foreign trade corporation as import-export agent
(if foreign trade operator is not registered or unqualified)
FIEs handling own import-export not required to apply

↓

Customs registration
Customs registration not required if agent is appointed to complete customs declaration

↓

Application for import-export quotas and licences
(prior to customs declaration)
(applicable to commodities subject to quota and licensing control)

↓

Signing of foreign trade contract

↓

Completion of foreign exchange formalities

↓

Application for inspection of import/export commodities subject to inspection and quarantine

↓

Customs formalities (customs declaration, tariff payment, inspection and delivery)

↓

Verification and write-off formalities

2. Local procedures and paper works

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For new suppliers, suggest cooperation with import agents with FOB offer for final client since that is the easiest for beginners.
Clear evidence of official documentation for exported wooden house should be available. Export to China need following documentations for FOB offer :
Bill of lading, Packing list, Invoice, Contract, Certificate of origin, Phytosanitary certificate, Inspection certificate of fumigation, etc.

3. Cost analysis

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Import budget calculation

Item name	FOB price before board on ship departure Talinn (euro)	International freight (euro)	THC cost in Tallinn (euro) (250 euro / container 40" HC)	Freight insurance (0.35%)	Import duty (8%)	VAT (13%)	Import Inspection and Quarantine (3%)	Currency calculation (1Euro＝7.0RMB) EUR	RMB	Clearance and port trading charges (3500RMB	Canwood charge (3%)	Final price china port landed
Pre-fab	10,000.00	1,800.00	115.00	38.50	153.20	268.87	71.27	2,446.83	17,127.83	437.50	513.83	18,079.17

Calculation instructions

1. Port of import cargo: Port of Tallinn, Estonia; Port of discharge: Tianjin/Shanghai, China; Container size: 40HC (40 feet high cube); international shipping cycle: 50 days (or more); goods packaging method: the original packaging in factory;
2. Price terms: FOB price, Tallinn Port (the buyer will deliver the goods at the port of Tallinn, the import company will be responsible for the shipping and insurance costs); settlement method: Letter of Credit (L / C) or Telegraphic Transfer (T / T) , or part of Telegraphic Transfer + part Letter of Credit;
3. Cargo HS code: 9406100000; customs import tariffs, import value-added tax and commodity inspection and quarantine fees should be in accordance with national regulations; customs clearance and port trading charges include: change orders, customs declaration, inspection, transfer, storage, hoisting, short distance transporation, etc.;

Parameters			
	m² per container	100	
	Freight cost	1800	€/container
	THC cost	115	€/container
	Insurance	0.35%	of goods value
	Import duty	8%	of imported goods value
	VAT	13%	of cleared goods value
	Import inspection	3%	of cleared goods value
Cost elements - goods importing	Clearance	437.5	RMB
	Import agency Charge	2-3%	of total value

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◆ Buying behavior

As for the wooden house buying behaviour for the consumer' s perspective, the cognitive and rational factors do not offer sufficient explanation of consumer behaviour in the case of a high-involvement product such as a wooden house. In addition to the idiosyncratic of the customer, his/her personal situation and environmental factors, the role of feelings, experience, sub-conscious factors, needs and goals should also be taken into account to understand this kind of decision making.

1. Online VS Offline

Online sales is not suitable for wooden house case, because summer house is so easy product all Chinese can do, but element house and log house project are all different based on personal design, when it is done one by one, then it is not suitable for online-shopping.

Entry Mode

We define there are only 2 ways to get real long run business in China:
1- Produce locally
Produce locally will have more connecting with local client, better communication and more trust worthy after sales service, but it is always too early to new foreign players in the first stage;
2- Licensing sales
Found Sales representative in China is always the first option for foreign suppliers to first set up the business;
Business mode at the moment in China is mostly as following:
1. Joint Venture Cooperation
Foreign brand give exclusive representative authorization for China market and local partner get trained for local business.
Usually Estonian company need to offer:
a. Sample house
b. sales training
c. good fob offer
China partner need to be equipped by :
a. local sales team
b. Designing and construction team
c. familiar with trading
d. good communication in English

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◆ Distribution channels

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1. Import Product Cost Analysis:
The whole import process will make the cost 80% higher comparing with FOB cost ;
Because wooden house business is defined contract finish as "final house Construction finish ", so construction on site cost also need to considered in the offer to client. At the moment, all cost happened on construction site (machinery & workers & transportation) can be considered 600 RMB/㎡ as all subcontracted to local worker team ,so this cost should also be considered ;
Product made in Estonia is usually 1.4-1.5 times more expensive than made in China, at the moment, the China wooden house final contract is about 500 euro/㎡ including no interior furnishing;
In general, We define import product final price is basically 2-2.5 times more expensive than local offer for same manufacture list (quality can be expecting better from Estonian producer), but then the client will be quite exclusive mainly only private rich private person.
And also the long import procedure make the deal last very long (transportation need 52-58 days from Tallinn to Shanghai) But "Pure made in Europe" is also a very good IP for Chinese client, they would like to pay more for "all import" product.
The "IMPORT PRODUCT" must be high-end image, mainly focusing on PR for " European Design " & " Energy Saving " Topics ;

◆ Geographic coverage

From the distribution of wooden houses in China, there are more wooden houses in the south than in the north, and wooden house is more common in south of China. There are many good quality, beautifully designed wooden houses in Hong Kong, Taiwan and Macao in China.

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Section 3 Specific Information about Wooden Windows and Doors in China

2. Sales channel structure in China

Main channel: the main channel refers to the main sales channel of the wooden house. There are two main sales channels: direct marketing and distribution. Direct marketing refers to the direct contact between manufacturers and consumers, which is a kind of order-based production. Distribution refers to the contact between manufacturers and consumers through distributors.

Consolidated channel: by means of consolidated channel, it can reduce the number of middlemen and establish direct contact with consumers to better understand consumer demand and give timely after-sales service.

Partnership channel: is a long-term and close cooperative relationship in which members of the channel system devote themselves to common development on the basis of mutual trust and common long-term goals.

- **Different components of wooden windows and doors sector in China**

According to the material, wooden doors can be divided into solid wooden doors and composite wooden doors. It is widely used in civil and commercial buildings and residential buildings. There are European style, simple modern style, American style, Mediterranean style, Chinese style, French romantic style, Italian style in China.

As for wooden windows, there are many kinds of windows in China, like wooden windows which has a very long history in China, aluminum windows, PVC windows and also aluminum wood windows.

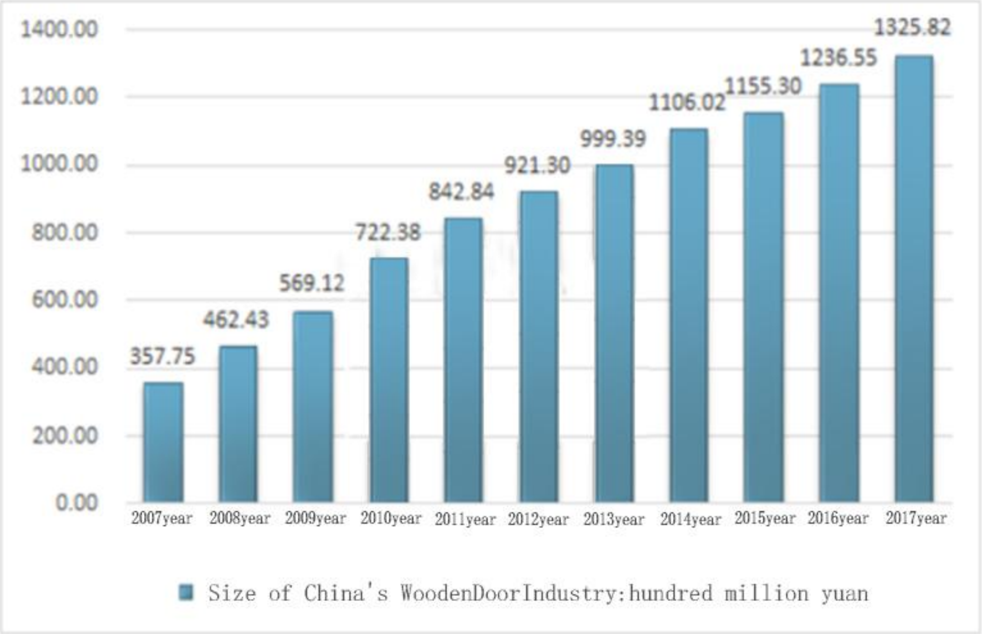
◆Relevant sector details and statistics

The development of wooden windows and doors in China originated in the mid 1990S, and has developed into an industry group composed of more than 100 enterprises, with an overall capacity of about 5 million square meters. This industry has the following characteristics: firstly, the windows and doors has a high starting point, the product quality has reached the international advanced level, more than 80% of enterprises have a complete set of processing centers, most of which are imported advanced equipment, cutting tools and wood windows and doors systems from Germany and Italy. The processing technology level is basically synchronized with that of Europe, and the product quality is comparable to that of developed countries in Europe and the United States. Secondly, there are many famous brand products and high industry concentration. windows and doors, such as the Milux Windows of China, Mylch Windows & Doors, Orient Sundar Group and so on, which are very influential windows and doors enterprises in various regions of our country. Thirdly, the services of upstream and downstream products related to industry are guaranteed. Fourthly, products are mainly used in high-end residential or commercial projects. China's wooden window industry has been developing for 15 years. The main target of service is high-end projects. China's annual total number of windows and doors is about 500 million square meters, the occupancy of wooden windows is only 0.3%. Compared with the market share of about 30% wood windows and doors in Europe and the history o nearly a hundred years, China is still in its initial step.

At present, although some enterprises in the wood window industry in China are facing difficulties in their current development, more enterprises are steadily advancing. Compared with some European countries, the development of wooden windows and doors in China is still in their initial step, and there is also a big gap between China and European countries.

China's real estate market has been in a fluctuating upward trend for more than a decade, which provides a good growth space for the industry development of China's wooden door industry. In 2017, the market size of China's wooden door industry was about 132.582 billion yuan, up 7.22% from 123.655 billion yuan in 2016. In recent years, the market scale of China's wooden door industry is as follows:

Size of China's Wooden Door Industry from 2007-2017



Data sources: **Zhiyan Consulting Company**

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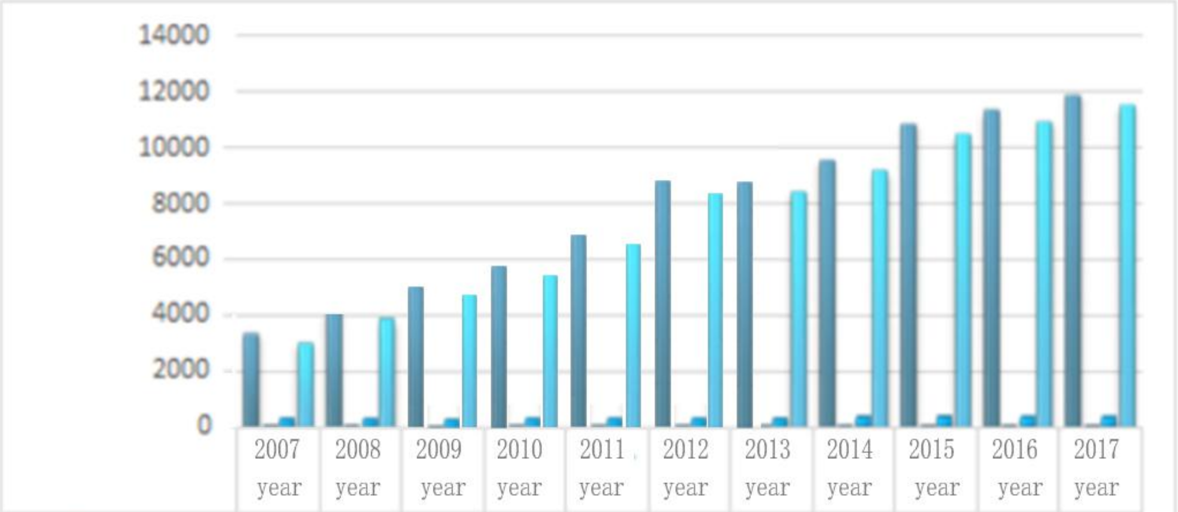
Statistical Table of Supply and Demand Balance of Wooden Door Products in China from 2007 to 2017

According to the "China Wooden Door Industry Competition Pattern and Investment Risk Prediction Report of 2019-2025" published by Zhiyan Consulting Company, the data show that the expansion of demand in the downstream market has pushed China's Wooden Door output to break through 0.1 billion sets in 2015. In 2017, China's domestic Wooden Gate output reached 0.1195 billion sets. In the same period, the export volume was about 3.91 million sets, the import volume was 50,000 sets, and the apparent consumption volume of domestic wooden door is 0.11564 billion sets.

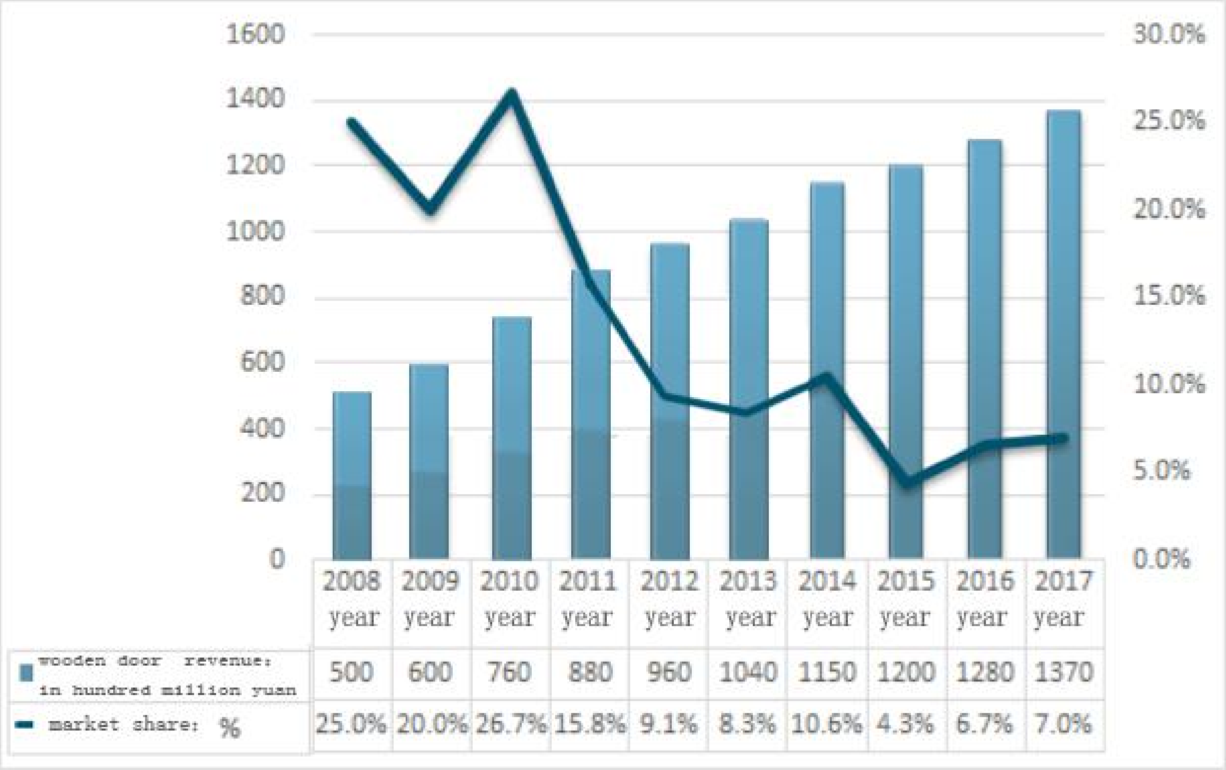


	2007 year	2008 year	2009 year	2010 year	2011 year	2012 year	2013 year	2014 year	2015 year	2016 year	2017 year
:output in ten thousand sets	3400	4200	5000	5800	6860	8850	8820	9580	10910	11380	11950
:output in ten thousand sets	1	1	3	3	2	3	2	5	3	3	5
:output in ten thousand sets	360	317	260	290	292	360	347	372	410	389	391
:output in ten thousand sets	3041	3884	4743	5513	6570	8493	8475	9213	10503	10994	11564

Data sources: **Zhiyan Consulting Company**

The output value of China's wooden door industry increased from 24 billion yuan in 2005 to 137 billion yuan in 2017, with an annual increase of about 10 billion yuan. It is one of the fastest growing industries in the building materials industry. China's average annual urbanization rate increases by one percentage point, adding more than 10 million new urban population, thus bringing huge construction projects and consumer demand.

Output Value and Growth Trend Map of Wood Door Industry in China from 2008 to 2017



Data sources: **Zhiyan Consulting Company**

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The production and operation of wooden door enterprises mostly belong to customized production. After developing to a certain scale, the bottleneck of production and production capacity is often an important factor restricting the further development and growth of enterprises. At present, there are many characteristics in the industry, such as small scale, low production efficiency and unstable product quality. The lag of wood door industry standards and customized production restrict the further development of industry enterprises.

Up to 2017, there are about 6,000 enterprises in the industry that initially achieved factory production of wooden doors. The whole industry shows the characteristics of small scale, serious homogeneity and fierce competition in the industry.

After more than ten years of development, domestic wooden door industry has initially changed from small-scale decentralized workshop production to large-scale, brand-oriented and integrated development, and formed industrial clusters. At present, there are six main production bases of wooden doors in China: Pearl River Delta, Yangtze River Delta, Northeast China, Bohai Area, Southwest China and Northwest China. The regional cluster of wooden door enterprises is conducive to reducing production costs and exchange costs, forming economies of scale and scope, promoting industry standardization and enhancing the competitiveness of enterprises in the market.

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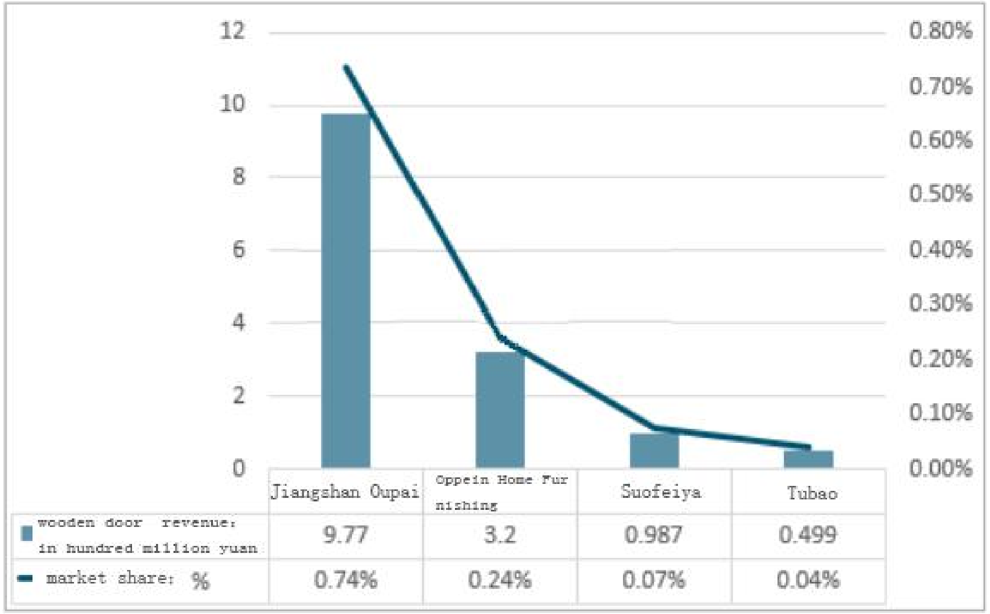
Wooden Door Revenue and Market Share of Key Enterprises in China Wooden Door Industry in 2017



Data sources: **Zhiyan Consulting Company**

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Among them, the revenue of Jiangshan Oupai is close to 1 billion yuan, which accounting for 0.74% of the market share. Jiangshan Oupai is the first listed company in China to enter the wooden door industry earlier. In the competition of wooden door industry, it has certain advantages, including marketing network, low-cost large-scale production, brand advantage and R&D strength, which has promoted the share of Jiangshan Oupai in wooden door market to continue to rise.

Rules and Regulation

1.Import procedures

Import and Export Flow Chart

Record filing and registration of foreign trade operators
Appointment of foreign trade corporation as import-export agent
(if foreign trade operator is not registered or unqualified)
FIEs handling own import-export not required to apply

↓

Customs registration
Customs registration not required if agent is appointed to complete customs declaration

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Application for import-export quotas and licences
(prior to customs declaration)
(applicable to commodities subject to quota and licensing control)

↓

Signing of foreign trade contract

↓

Completion of foreign exchange formalities

↓

Application for inspection of import/export commodities subject to inspection and quarantine

↓

Customs formalities (customs declaration, tariff payment, inspection and delivery)

↓

Verification and write-off formalities

2.Import certificates

Export to China need following documentations for FOB offer: Bill of lading, Packing list, Invoice, Contract, Certificate of origin, Phytosanitary certificate, Inspection certificate of fumigation, etc.

Special attention needs to be paid in the import of wooden doors and windows as bellow:

(1)When packing, we must make a detailed packing list. The standard packing and packing goods must be in accordance with the information.

(2)The owner of the goods shall provide the certificate of origin of the logs and the certificate of plant inspection of the country of origin.

(3)Do a good job of fumigation before shipment so as to avoid the detection of insects at domestic ports.

(4)Documents should be prepared as complete as possible, because some ports in China still have relatively strict requirements for imports of wooden doors and windows.

(5)Price declaration should be based on the actual transaction price.

3.Import taxes

Name:	Windows, French-windows and their frames of other wood

Tariff & Tax Item	Rate	Applicable Rate	Applicable Country
General Duty	70.00%	✗	Non-MFN
MFN Duty	4.00%	✓	Most-favored Nation
Excise Tax	0.00%	✓	All Countries
Import VAT	13.00%	✓	All Countries

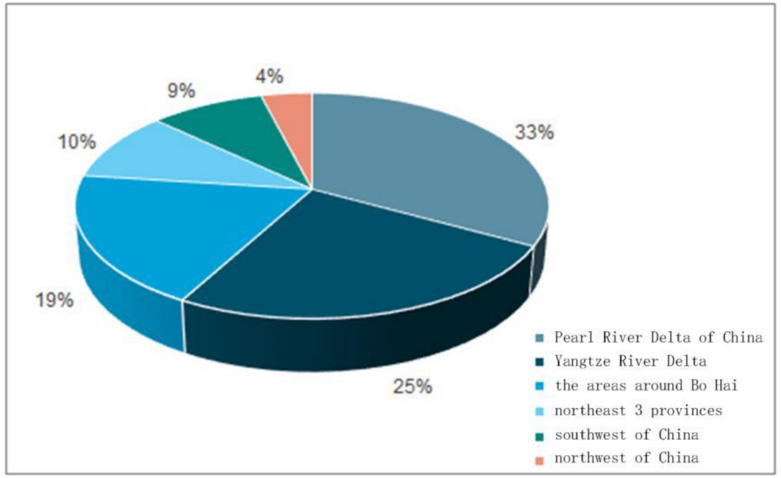
Export Tariff & Tax Item	Rate	Applicable Rate	Applicable Country
Export Duty	0.00%	✓	China
Export VAT	13.00%	✓	China
Export VAT Rebate	9.00%	✓	China

Buying behavior

1.Online VS Offline

The traditional sales mode of doors and windows industry is offline sales: 1. Developing agents and distributors to carry out business sales; 2. Selling through exhibitions or furniture markets; 3. Opening Factory Direct stores to carry out direct marketing sales.
Nowadays, under the influence of e-commerce, many doors and windows companies begin to seek breakthroughs on the network, so in recent years, e-commerce also become one of the main sales channels for doors and windows.

Geographic coverage of wooden windows and doors in China



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Distribution channels

Multi-Channel Distribution is the Norm in Windows: The distribution of windows is one of the more complex networks among building products. Part of this is due to the complexity of the windows product line based on an unlimited number of sizes, types (e.g. single hung, double hung), frame materials, glass types, hardware etc. This large number of product combinations results in the majority of windows being custom ordered rather than delivered from in-stock inventory. This complexity also drives the channel options for purchases as shown above.

Customer segmentation

When talking about the customer segmentation, the window market is bifurcated into residential and nonresidential users. Residential user segment dominated the market and is expected to continue this trend during the forecast period. Nonresidential sector is anticipated to witness higher growth rate globally. In 2014, buildings construction accounted for 64% of the total construction in China, with the commercial sector leading the market, in terms of the total sales. Rise in investments in residential buildings was reported over the past few years. In addition, the country witnessed an upsurge in urbanization rates, and is estimated to have 221 cities with more than 1 million inhabitants by 2025. The nonresidential market accounted for 54 percent of window demand in 2012. Window demand in the nonresidential market is projected to grow 9.5 percent per year to 328 billion yuan in 2017, boosted by strong growth in the industrial, office, and commercial segments. Demand for windows in the residential market grew 6.2 percent per year to 242 billion yuan in 2019, due to strong construction activity in both new single-family and multifamily housing.

Section 4 Market Information about wooden furniture sector in China

◆ Different components of the relevant sector in China

According to the Industrial Classification and Codes for National Economic Activities issued by the National Bureau of Statistics, the furniture manufacturing industry is divided according to product type into wooden, bamboo/rattan, metal, plastic and miscellaneous furniture manufacturing. Among these, wooden furniture is the largest, accounting for more than 60% of manufacturers.

At present, a wide range of products are available on China's furniture market and can be mainly classified into home, hotel and guesthouse, office, and public institution furniture.

1.Home furniture: Furniture used in the homes of urban residents, including sofas, TV cabinets, tables and chairs, kitchen furniture and bedroom furniture.

2.Hotel and guesthouse furniture: Dining tables and chairs, sofas as well as guestroom furniture for hotels and guesthouses.

3.Office furniture: Desks, chairs, bookshelves and cabinets for use in the office.

4.Public institution furniture: Furniture for use in public-sector facilities, such as medical, sports, cultural and educational institutions.

Mainland furniture consumers can be divided into roughly three groups, namely, avid consumers, luxury/branded goods consumers and average wage-earning consumers.

1.Avid consumers: A very rich group with little concern for price, they usually favour expensive western style, classical Chinese style or avant-garde furniture.

2.Luxury/branded goods consumers: These consumers want furniture to reflect their taste and style. While making their purchase, they would also like to enjoy aesthetics and cultural elements. They are at the forefront of trends in aesthetics, lifestyle and price concepts.

3.Average wage-earning consumers: Representing the majority of consumers, with price and quality as dominating factors, they often shop around when making a purchase.

Market overview

An increasing number of consumers, in particular mid-to-high end consumers and children’s furniture consumers, choose to embrace new living concepts, such as the ‘eco home’. These consumers have a strong preference for environment-friendly furniture, such as odour- and formaldehyde-free products, despite the fact that the price of most of such furniture is higher. According to HKTDC’s consumer survey, over 90% of respondents are interested in using green, eco-friendly materials and are willing to pay a premium of 14% on average in purchasing products made of green materials. In view of this, many furniture and building materials brands have added the idea of eco-friendliness in their brand concept. Examples in the mainland market include ‘smart’ furniture incorporating indoor air purification functions and lightweight honeycomb board furniture. Demand for children’s furniture is on the rise. As living standards improve, parents are increasingly willing to buy suitable furniture for their children to create a good environment for their development. With the full implementation of the two-child policy under the 13th Five-Year Plan, pundits believe that the market has further room for growth. According to preliminary data from the National Bureau of Statistics, the number of children under 15 reached 250 million in 2017, including 17.23 million newborns, representing a birth rate of 0.12%. Among all children’s furniture, wooden furniture takes up the lion’s share, accounting for nearly 90%, followed by plastic furniture.

In the case of children’ s furniture, according to the 2018 survey on trends in child-related spending, more than 90% of parents would like to buy desks and chairs, while another 40% planned to buy bunk beds for their children. Among the many consideration factors in buying children’ s furniture, the majority of parents would give priority to safety and eco-friendliness. Over 77% of parents are worried that non-eco-friendly furniture which generates toxic or hazardous substances would pose health threats to their children.
Green is the underlying trend in the furniture industry and more and more enterprises are using water-based paints rather than traditional solvent-based. Water-based paints refer to coatings that are water soluble or dispersible. The biggest difference between water-based and traditional solvent-based paints is that the former requires no addition of hardener or thinner and therefore do not contain toxic substances, such as formaldehyde, benzene or xylene, which makes them safer and more compliant with environmental standards.
Outdoor furniture is increasingly popular in the Chinese market. Available in an increasing variety, outdoor furniture mainly falls under the following categories: beach beds, rattan chairs, leisure chairs, bamboo chairs, and other outdoor furniture items. Among these, rattan chairs and leisure chairs account for a bigger share. Demand in the outdoor furniture market has been extending from specialized sectors, such as star-grade hotels, restaurants, exclusive clubs, leisure venues and residential communities, to the home sector, including private gardens, rooftops and terraces. Development in the home sector is gathering momentum.
Faced with rising property prices, young home-buyers have limited choice in the size of apartments and are inclined to choose multi-function and foldable furniture for easy storage. Sofa beds are immensely popular because they are ordinary sofas that can be used as beds for overnight guests.

Rosewood is a type of quality hardwood; furniture made of such material is generally regarded as superior. As the rosewood furniture industry thrives, in addition to traditional rosewood markets in the Beijing, Jiangsu and Guangdong schools of craftsmanship, there are now markets for craftsmanship schools from Dongyang in Zhejiang, Xianyou in Fujian, Shanxi and Shanghai. The rosewood furniture industries in Pingxiang in Guangxi and Guangfeng in Jiangxi are also growing fast.

Custom-made furniture is becoming popular in tandem with the growing demand for personalised home products. Furniture makers treat each customer as unique and tailor-make products according to individual needs. At present, a number of large bespoke furniture manufacturers are developing rapidly. Companies such as Shangpin Home Decoration, Suofeiya Home Collection and Oppein Home are now offering bespoke manufacture of different types of furniture, or even furniture for the whole house. Currently, the most popular custom-made furniture items on the mainland are kitchen cabinets and wardrobes, but other items, such as TV cabinets, shoe cabinets, book shelves and wine cabinets, are also gaining favour.

Star-graded hotels are a major source of demand of upmarket furniture. Statistics from the China National Tourism Administration show that the number of five-star hotels on the mainland has increased from 640 in 2012 to 822 in 2017, representing an average annual growth rate of 5.3%. The number of four-star hotels has increased from 1,817 in 2012 to 2,392 in 2017, an average annual growth rate of 1.9%. According to reports, the demand for furniture replacement in four-star and five-star hotels across the country will hit RMB7.7 billion in 2018.

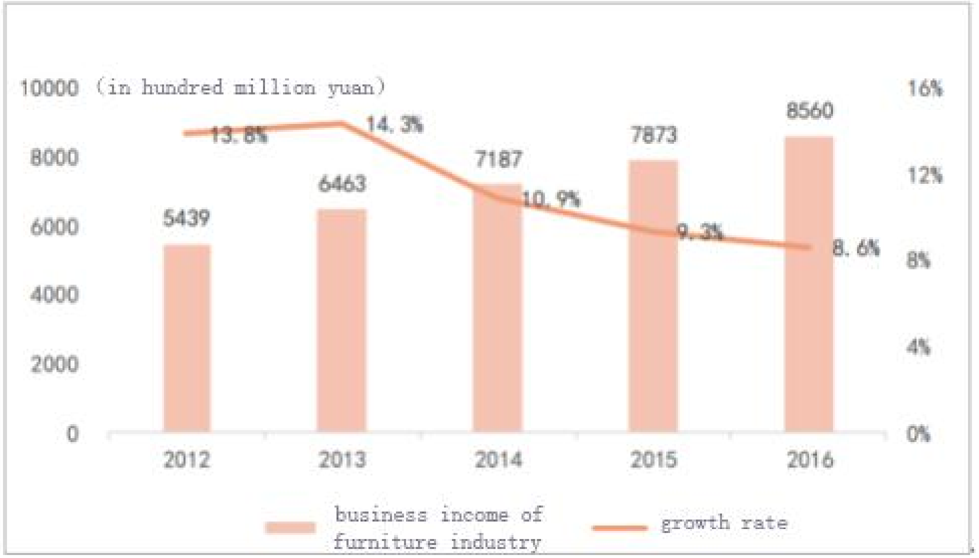
China’s imports of selected furniture products in 2017:

HS Code	Description	2017 (US$ million)	YOY change (%)
94016900	Other seats, with wooden frames	78.1	-9.9
94016190	Other upholstered seats, with wooden frames	102.5	26.7
94036099	Other wooden furniture	394.1	16.3
94034000	Wooden furniture of a kind used in the kitchen	214.1	52.8
94035099	Other wooden furniture of a kind used in the bedroom	185.4	14.3
94032000	Other metal furniture	74.1	26.2
94038990	Furniture of other wooden materials	34.5	39.3

◆ Relevant sector details and statistics

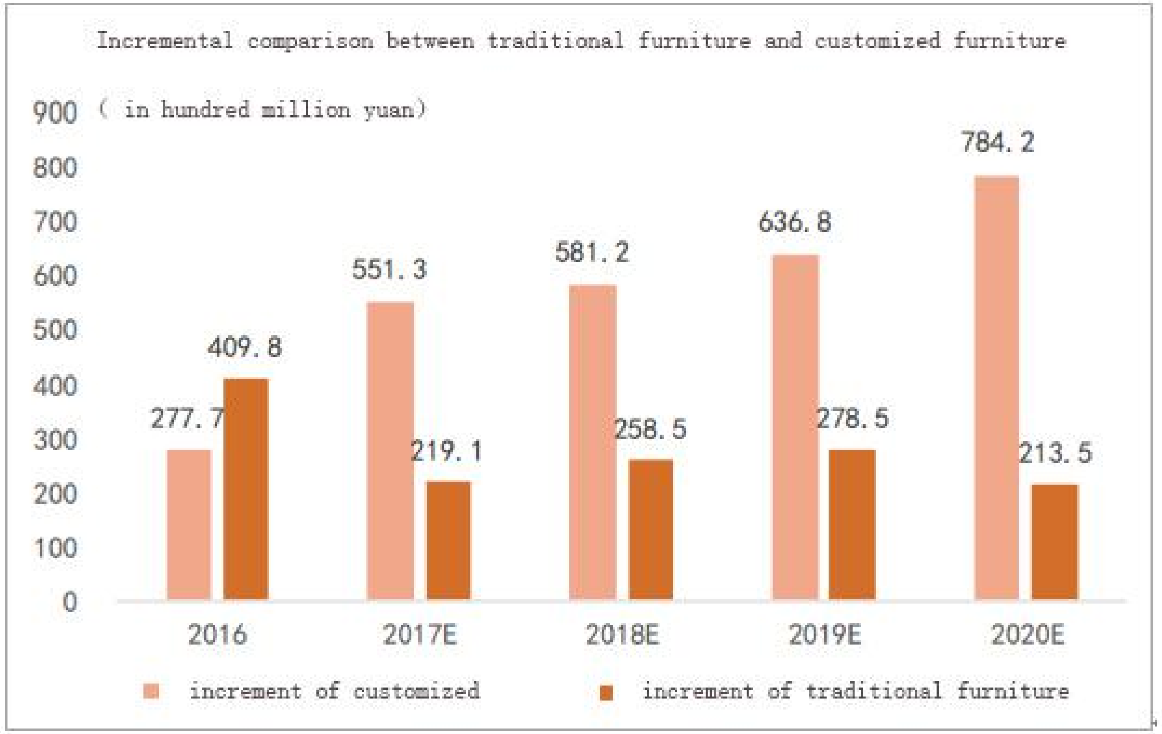
Wooden furniture (solid wooden furniture and man-made board furniture) is the most popular type of furniture in China in recent years, which accounting for about 60% of total furniture revenue according to the statistics of China Forestry Industry Association. In 2015, the national furniture output was 769.613 million pieces, with a main revenue of 787.3 billion yuan. The output of wooden furniture was 253.153 million pieces, accounting for 32.5% and the main revenue was about 472.4 billion yuan. Among them, man-made board furniture revenue is about 283.4 billion yuan. In 2016, the main revenue of furniture in China was 856 billion yuan, wood furniture was 513.6 billion yuan and board furniture was 308.2 billion yuan. According to figures released by the National Bureau of Statistics, in 2017, the total sales of furniture manufacturing enterprises grew 10.1% year-on-year to RMB905.6 billion, while total profits grew 9.3% year-on-year to RMB56.52 billion.

China Furniture Industry Revenue in the year of 2012-2016



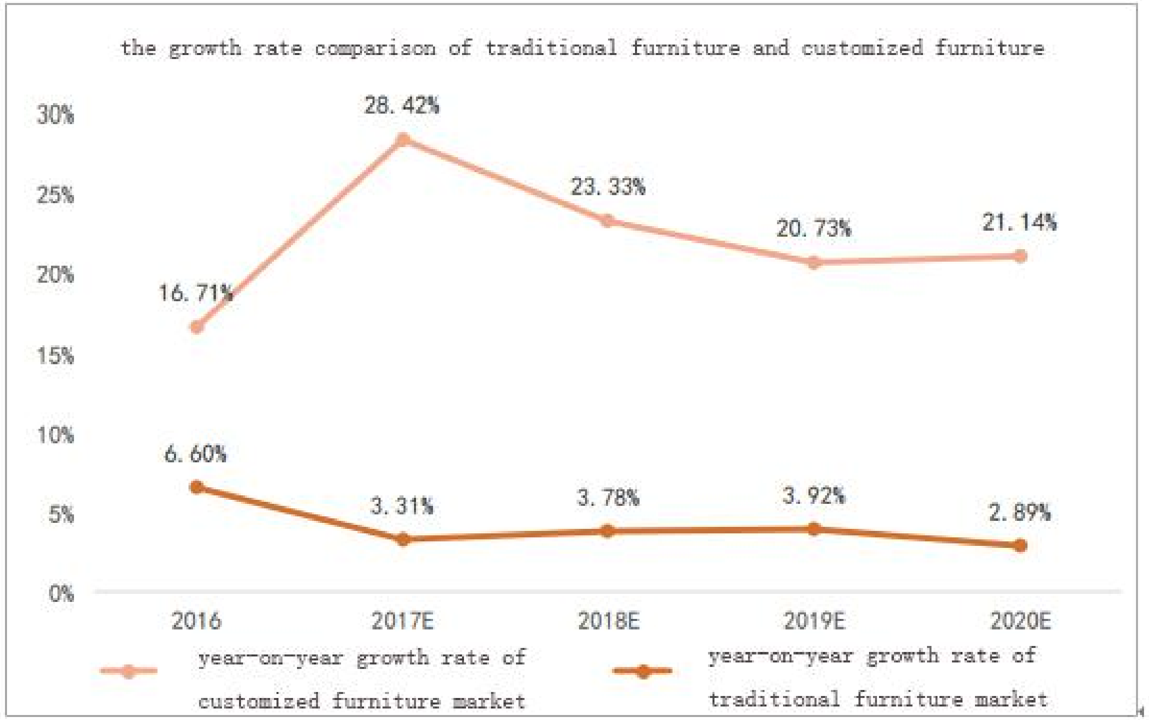
Data sources: **Open Data**

The customized furniture increment in 2020 will be about 3.7 times that of traditional furniture.



Data sources: **Open Data**

The growth rate comparison of traditional furniture and customized furniture

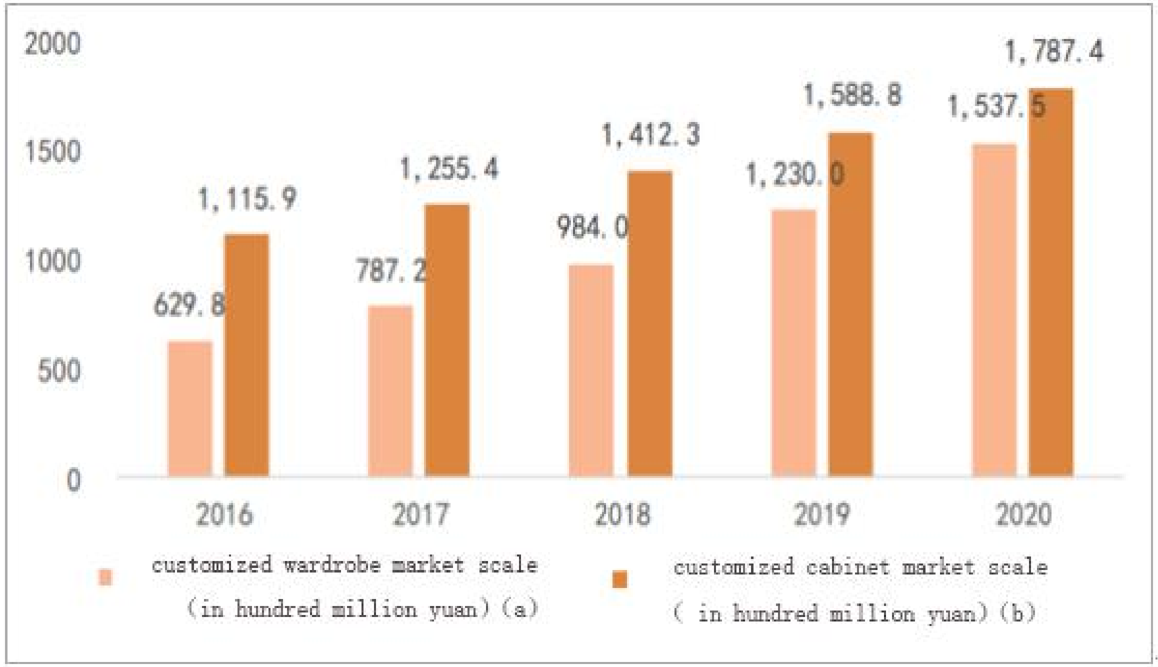


Data sources: **Open Data**

Customized wardrobes and cabinets account for more than 90% of the market share of customized furniture. 1) Customized cabinets are relatively mature. It is expected that the growth center will be 10%-15% in the next few years, with a conservative estimate of 12.5%. The market scale will increase from 99.1 billion in 2015 to 178.74 billion in 2020, which is equivalent to 18 times of that in 2015. 2) Customized wardrobes have a large potential space. It is expected that the growth center will be 20%-30% in the next few years. Conservative estimates will take 25%. The market scale will increase from 50.3 billion in 2015 to 153.75 billion in 2020, which is three times the size of 2015. In 2016, customized wardrobe and customized cabinet accounted for 90% of the market share of customized furniture, and they are basically panel furniture. Therefore, the growth trend of customized furniture and customized cabinet can be equated with the growth trend of customized panel furniture, which will promote the mechanical equipment of midstream panel furniture.

The whole-house customization industry is in the growth stage of industry development. It is expected that the industry will experience rapid expansion, slow growth and gradual stabilization in the next four years. The penetration rate will increase by 8%, 4%, 2% and 2% annually from 2017 to 2020. Accordingly, customized wardrobes and cabinets accounted for 82%, 78%, 76% and 74% of the customized furniture market from 2017 to 2020, respectively.

Customized wardrobe market scale will catch up with customized wardrobe

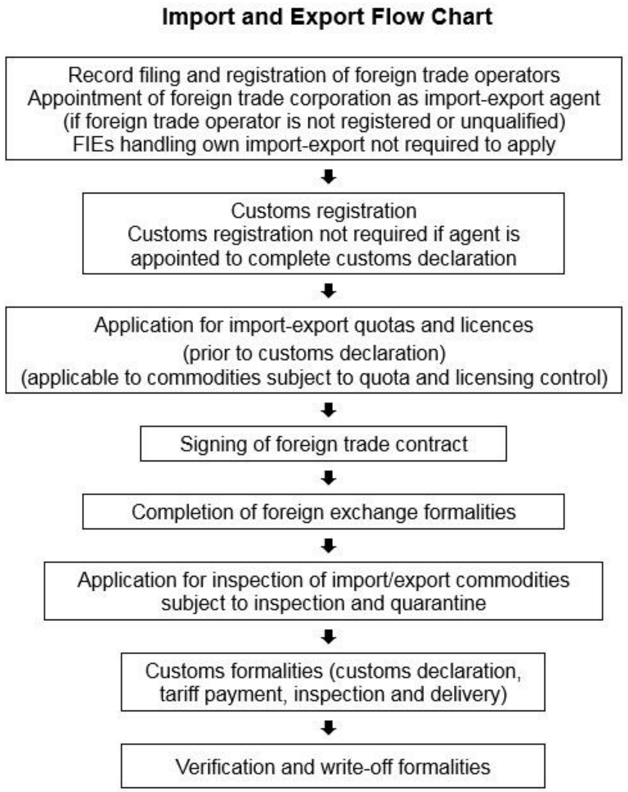


Data sources: **Open Data**

As China' s leading policy of stimulating domestic demand in the years to come, urbanization is bound to drive furniture market growth. Data from the National Bureau of Statistics shows that the urbanization rate in China reached 58.5% in 2017, up 1.2 percentage points over the end of the preceding year. In this urbanization process, wage and salary earners, as well as peasant families who have settled in towns and cities, have become major furniture consumer groups. In addition, it is estimated that by 2020 about 54 million houses will have been renovated under the country' s shantytown reconstruction project, and these renovated houses will also generate demand for furniture. Apart from domestic sales, China' s furniture exports also show sustained growth. According to the 13th Five-Year Plan for the Development of China' s Furniture Industry, the value of China' s furniture exports increased at an average annual rate of 8.8%, from US$38.9 billion in 2011 to US$54.3 billion in 2015. Furniture exports are expected to show an average annual growth rate of 3%-5% during the 13th Five-Year Plan period (2016-2020).

Rules and Regulations

1. Import and export procedure



2.Import certificates

Export to China need following documentations for FOB offer: Bill of lading, Packing list, Invoice, Contract, Certificate of origin, Phytosanitary certificate, Inspection certificate of fumigation, etc.

3.Import taxes and rules

After China became a WTO member, tariffs on furniture dropped significantly. Apart from the furniture products listed below, which are still subject to import duties, a zero tariff has been applied to all other furniture items since 2005.

China’s import tariff rates on furniture in 2018:

HS Code	Description	%
94012010	Seats of a kind used for motor vehicles, of leather or composition leather	10
94012090	Other seats of a kind used for motor vehicles	10
94019011	Seat angle regulating devices	10
9404	Mattress supports/articles of bedding and similar furnishing fitted with springs	10

Source: ***Customs Import and Export Tariff of the People’s Republic of China 2018***

Starting on 1 October 2004, the Instructions for Use of Products of Consumer Interest Part 6: Furniture came into force. According to the requirements of the new national standard, all furniture products manufactured after 1 October 2004 must come with a manual providing such information as date of manufacture, materials used, performance, model, structure, specifications, installation, use, maintenance, main technical parameters, and trouble-shooting tips. The standard also requires that all furniture on sale thereafter must comply with the relevant laws, regulations and standards on safety, health and environmental protection. Information on any hazardous or radioactive substances contained in the furniture materials and coatings must also be given.

A number of national standards for furniture were amended or newly formulated in recent years. Standards such as the Testing Method for Burning Behaviors of Furniture and Subassemblies Exposed to Flaming Ignition Source, Determination of Furniture Dimethyl Fumarate Content, Safety and Technical Requirements for Glass Furniture, Furniture Industry Terminology, and Technical Requirements and Testing Method for Connectors Used in Furniture were successively implemented in 2012. General Safety Requirements of Outdoor Leisure Furniture, Seating and Tables came into force on 1 May 2013, while Limits of Harmful Substances in Plastic Furniture became effective on 1 July 2013.

General Technical Requirements for Children's Furniture (GB 28007-2011), China' s first mandatory national standard for children' s furniture, came into force on 1 August 2012 and is applicable to furniture designed or intended to be used by children aged from 3 to 14. In other words, the materials used in the production of children' s furniture are subject to a specific standard different to that of adult furniture in order to protect children' s health and prevent accidents. Focusing on safety and environmental issues, the standard lays down the structural requirements for children' s furniture, such as stipulating that these products should not have edges or pointed parts which may pose safety risks to the user. It also limits the content of hazardous substances in children' s furniture and specifies the flame retardant performance of these products.

The Test of Mechanical Properties of Furniture implemented in May 2014 updates the original standards and introduces stricter parametric test requirements. Seven standards, i.e. GB/T 10357.1-2013 to GB/T 10357.7-2013, have been revised, covering the stability and durability of furniture such as chairs, storage units, beds and tables. These performance tests can help ensure the life span and safety of furniture items. The eighth update, i.e. GB/T 10357.8-2015, fills a void in China's furniture standards. It was put into implementation in 2016 to ensure the safe performance of lounge chairs, rocking chairs and recliner chairs as well as protect consumers' personal safety and rights.

The Code of Management for the Sales and After-sales Services of Rosewood Products (SB/T 11147-2015) came into force on 1 September 2016. The purpose of this standard is to regulate the sales and after-sales of rosewood products. For example, on the sales level, this type of products should be accompanied by information such as tree species, grade and material inspection labels. This standard also lays down detailed requirements on the sales personnel and sales venue for rosewood products and there are also specific requirements on the warranty period. If a piece of rosewood product is involved in repurchase and lease sale, processes such as third-party evaluation and third-party guarantee will be invoked.
The Technical Requirement for Environmental Labelling Products - Furniture was introduced on 1 February 2017. Compared with the previous edition, the new edition requires the classification and disposal of wastes by furniture manufacturers. The direct discharge of sawdust and dust is prohibited. In the course of painting, enterprises must also take effective gas gathering measures and carry out standardized treatment of the waste gas collected.
The General Technical Requirements for Indoor Stone Furniture (GB/T 32282-2016) came into effect on 1 July 2017. It defines the meaning of indoor stone furniture and sets the technical parameters and requirements for matters such as size, shape, position tolerance, external appearance, physical and chemical properties, mechanical properties, limits on toxic substances, logo, user manual, and intellectual property manual.

Geographic coverage

After more than 20 years of rapid growth in its furniture industry, China has now become the world' s largest furniture production base and exporter. According to information released by the China National Furniture Association (CNFA), there are 49 furniture manufacturing clusters in China, covering the six regions of the Pearl River Delta (PRD), Yangtze River Delta (YRD), Bohai Rim, northeastern China, central China and western China. The PRD has the highest furniture industry concentration with the highest production output and strongest integrated support capability. Next come Fujian, Zhejiang, Jiangsu, Shandong and Shanghai, which have an edge in product quality and operations management. In the YRD region, led by Shanghai, the furniture industry is developing fast, with the highest average growth rate in the country. The northern and northeastern regions, with Beijing as the centre, have a sound furniture industry base and rich wood resources. As for the central and western regions, the furniture industry is actively capitalising on the opportunities arising from urbanisation and Belt and Road Initiative.

Furniture (home furnishings) industrial parks, whether completed or on the drawing board, are mainly found in eight central and western provinces, including Jiangsu, Anhui, Henan, Hebei, Hubei, Sichuan, Yunnan and Shaanxi. The development of these industrial parks can help consolidate and improve the industry chain, shorten the production-marketing distance, reduce logistics costs, change the employment distribution pattern, and promote industrial restructuring, specialised division and industrial co-operation between regions. In the face of rising production costs and other market factors, furniture makers are planning to shift inland to the central and western region as well as to Southeast Asian countries.

Selected specialised regional production bases in China:

Location	Specialised base
Dayong, Zhongshan city, Guangdong	Rosewood furniture production base
Longjiang, Shunde district, Foshan city, Guangdong	Furniture materials capital
Dalingshan, Dongguan city, Guangdong	Top furniture export base
Sanxiang, Zhongshan city, Guangdong	Classical furniture base
Anji county, Zhejiang	Home of the chair industry
Yuhuan county, Zhejiang	Western style classical furniture production base
Ningjin county, Shandong	Table and chair capital
Zhuanghe, Dalian city, Liaoning	Solid wood furniture production base

◆ Sales Channels

Traditional furniture enterprises mainly market their products in three ways: first, consignment through distributors in various places; second, renting premises in various places and selling the products themselves; third, displaying and selling products through large furniture malls or furniture marts. Meanwhile, some specialised stores and chain stores with financial clout have emerged. As the internet develops rapidly and e-commerce grows in leaps and bounds, online shopping is becoming an increasingly popular sales channel. According to the HKTDC' s consumer survey, large home centres are the major channel through which consumers obtain information on furniture products.

In recent years, furniture hypermarkets have been developing rapidly. Many of these hypermarkets have developed in various places across China as single-brand chain operations. There are also hypermarket clusters, i.e. a high concentration of different types of furniture hypermarkets within the same region, as well as general merchandise stores, which not only sell furniture but also other household supplies and even building materials. Where product mix is concerned, many chain hypermarkets are also general merchandise stores. Red Star Macalline is currently the leading mainland home mart operator. The focus of different sales channels varies. For instance, large furniture marts mainly offer home furniture but also sell office furniture. Specialised stores generally sell their own brand, with the majority of these stores being larger domestic production enterprises and famous foreign brands, such as IKEA from Sweden, the first foreign brand to set up specialized stores on the mainland. This sales format is often adopted by foreign furniture companies.

In recent years, to make furniture part of consumers' everyday life, some branded mart chains have created 'shopping districts' by such measures as bringing in famous foreign brands, setting up home experience stores, building commercial complexes or establishing furniture villages. This way, they have successfully raised brand awareness and increased sales several fold.

The O2O e-commerce model is gaining popularity in China’ s furniture market. O2O refers to the linking of online sales and marketing with offline business operation and consumption. There are now different types of O2O e-commerce operators on the mainland and the O2O model takes various forms in practice.
Qumei is a typical example of furniture manufacturing enterprise and e-commerce operator. The company uses its website as its sales platform, showcasing images of various products and accepting online orders from consumers. Consumers may also opt for offline experiences by visiting dealers’ stores and placing orders there at online prices. This not only allows furniture brands to carry out sales and marketing but also boosts product sales within a short time, therefore speeding up cash flows and reducing inventory pressure.
Another type of furniture e-commerce is conducted by traditional furniture sellers. Easyhome, for example, has developed the Juran.com.cn website to move the offline experience stores online. It targets consumers who like the brand but wish to select products online. Some O2O e-commerce operators start as pure online brands and open offline experience stores afterwards. In other words, they build up their e-commerce platform by extending their coverage from online to offline channels. Meilele.com is an example of such practice.

Fairs & Conferences

1.in wooden house sector to be held in China in 2019

Expo information in 2019				
No.	**Expo name**	**Time**	**Place**	**Website**
1	The 11th Shanghai International Assembly Building Exhibition (Shanghai)	July 17th - July 9th, 2019	Shanghai New International Expo Center	
2	Beijing International Wooden House, Wood Structure, Wood Products Industry Expo	June 19th - June 21st, 2019	Beijing International Exhibition Center	http://www.shengchan.org/zh_view.asp?id=957
3	2019 China (Mile city) International Log Cabin & Matching Facility Expo	Sep.29, 2019 - Oct.10, 2019	Taiping Lake Forest Park, Mile city, Yunan	
4	The 10th Beijing International Exhibition of Wood Structure Architecture and Decoration Supporting Facilities in 2020	March 28, 2020 - March 30, 2020	National Agricultural Exhibition Center, Beijing	

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2.Wooden windows and doors exhibitions to be held in China in 2019

Date	Exhibition	Venue
17 September 2019	Shanghai International Wooden Gate Exhibition	Shanghai New International Expo Center
5-8 November 2019	Beijing International Window and Door Curtain Wall Expo	China International Exhibition Center (New Pavilion, Beijing)
17 April, 2020-19 April, 2020	Chengdu Door and Window Exhibition	Western China International Exhibition City
2 March, 2020-5 March, 2020	The 30th China International Door & Decorative Hardware Expo.	Beijing International Exhibition Center

3.Furniture exhibitions to be held in China in 2019

Date	Exhibition	Venue
19-22 March, 2020	China (Shenzhen) International Fashion Home Design Week and Furniture Exhibition	Shenzhen Convention & Exhibition Center
28-30 March, 2020	2020 China Guangzhou International Home Production Equipment and Ingredients Exhibition	China Import and Export Commodities Fair and Exhibition Hall in Guangzhou

Government associations

- SHANGHAI TIMBER TRADE ASSOCIATION (http://www.shtimber.com/xiehui/xiehui.asp): It was established in April 2003. It is a cross-sectoral, cross-ownership, non-profit social group legal person voluntarily formed by enterprises, institutions and organizations related to wood circulation, processing and industry in the city and its surrounding areas. It has Rosewood Professional Committee, Multilayer Solid Wood Flooring Professional Committee and Staircase Professional Committee. Membership Council, Coniferous Professional Committee, Wooden Professional Committee and Marketing Branch.
- CHINA TIMBER & WOOD PRODUCTS DISTRIBUTION ASSOCIATION (https://www.cnwood.org/): This group was established in 1985 with the approval of the Ministry of Civil Affairs. It is a national, professional and non-profit social organization formed voluntarily by enterprises, institutions, organizations and individuals related to wood and wood products (including bamboo and bamboo products, the same below). It consists of wood market, wood doors and windows, wood flooring, engineering wood, wood bark, wood preservation, mahogany and other professional committees, as well as credit working committees of timber enterprises.

- BEIJING FURNITURE INDUSTRY ASSOCIATION (http://www.bfta.org.cn/): It was established in 1988. It is a professional organization of furniture industry and related enterprises such as production, management, scientific research and teaching in Beijing. It is a social group legal person approved by the registration authority of Beijing social groups.
- CHINA NATIONAL FURNITURE ASSOCIATION (http://www.cnfa.com.cn/): China Furniture Association (CFA) is a national industry organization composed of enterprises, institutions, social organizations and individuals in the production, operation, scientific research and teaching of Chinese furniture industry and related industries. It is guided by the National Light Industry Federation in its business. The association represents the interests of the industry, reflects the wishes and requirements of its members, serves its members, safeguards the legitimate rights and interests of its members, conveys the intention of the government, and plays a bridge and link role between enterprises and the government.
- CHINA DOORS AND WINDOWS MARKET ASSOCIATION (http://weeke.com.cn/)

Future Market Trend

In view of the current development situation and the contradiction between supply and demand, wood processing enterprises need to improve the comprehensive utilization rate to deal with it. For a long time, the basic research on the relationship between wood properties of artificial forests and tree cultivation, processing and utilization has been very weak in China. The application of new and high technologies in wood functional improvement has remained at a broad level of research, so that the existing plantations in China can not meet the market demand on one hand, but on the other hand, they can not be fully rational according to their wood properties. Utilization has not played its due role in alleviating the contradiction between supply and demand of wood.

Therefore, improving the comprehensive utilization rate will become the main trend of industry development. Improving the comprehensive utilization rate means developing efficient wood processing and utilization technology, non-wood resource utilization and recycling technology of discarded wood, in order to improve the comprehensive utilization level of wood and non-wood resources and ensure that limited wood resources meet the increasing demand of wood market. Through the application of new technology and technology, the quality of forestry industry will be improved, the utilization rate of forest harvesting and the comprehensive utilization rate of wood will be continuously promoted, and the limited resources will be fully utilized.

In addition to improving the utilization rate, vigorous development of wood saving substitution will also be one of the development directions of the industry. In this regard, it is necessary to further strengthen the research and development of new technologies, new technologies and new products for wood saving substitution, improve the protection ability of wood, promote the application of advanced technologies such as wood drying, anti-corrosion, anti-moth and so on, prolong the service life of wood, and focus on wood saving substitution in key industries and key areas such as electric power, railway, industry and mining, packaging and housing construction.

Summary

Although the government controls domestic wood production by such means as logging quotas and harvesting permits, China's wood market has enjoyed gradual changes as a result of market liberation. Entry into the WTO has pushed China to open its wholesale market to foreign distributors. As a result, competition in China's wood distribution will become more severe than before.
China's strong demand for wood products will continue to grow in the coming years, driven by the rapidly developing construction, furniture and panel sectors. More wood fiber will be consumed by the wooden window and doors industry, driven by the increasing demand for high-quality wooden window and doors. The gap between domestic supply and demand will grow, and wood products will continue to be imported to meet the gap.

Additional topic:

1.Why China is interested in Latvia timber supplies? What are the main reasons of interest?

Compared with Russia, the price of timer is cheaper in Latvia.
In order to protect forest resources, China has promulgated decrees prohibiting cutting down trees. In that case, China has a high reliance on wood imports from almost all exporting regions. Since Nordic forest resources are abundant, timber quality is good, timber price is also moderate, so China has great interest in European timber supplies.

2.Imported timber species from Europe

The main types of wood imported from Europe by China are Finland pine, European beech, maple, oak, red cedar, white poplar, cedar, hemlock and mahogany. The most frequently imported timer are spruce, pine and fur.

3.Reasons why China is interested in European timber supplies.

In recent years, European sawn timber is growing rapidly in China market, mainly for the reasons as follows: Nordic forest resources are abundant, timber quality is good, timber price is moderate.

4.Key timber products that Chinese market wants to source from Nordic market

The most popular timber product which Chinese is willing to source is Nordic furniture. Nordic furniture is characterized by its simplicity, chic shape and fine workmanship.

5. Glue laminated timber beams

Glued laminated beams are a kind of material that embodies the scientific concept of environmental protection. With the expansion of the construction market, it is more and more difficult for people to obtain complete timber. In this case, glue laminated timber solves this problem. It is becomes very popular in the construction market in China.

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6. Which groups of sawn timber are of most interest (pallet timber, construction materials, cladding boards, value added products, etc)?

Construction materials , cladding boards and value added products are very popular in China market. Although timber resources are not sufficient in China, the timber industry is in the process of further optimizing and transforming.

7. What kind of structures would be most welcome in residential sector: modular, square log, timber frame, CLT or round log houses?

At present, light-frame construction is mainly used in residential sector in China. When talking about building a wood house or private villa, Chinese are more likely to choose log houses and modular house. In recent years, assembled wood house is one of the key development direction supported by Chinese government which is in line with our sustainable development concept of green development, energy saving and environmental protection.

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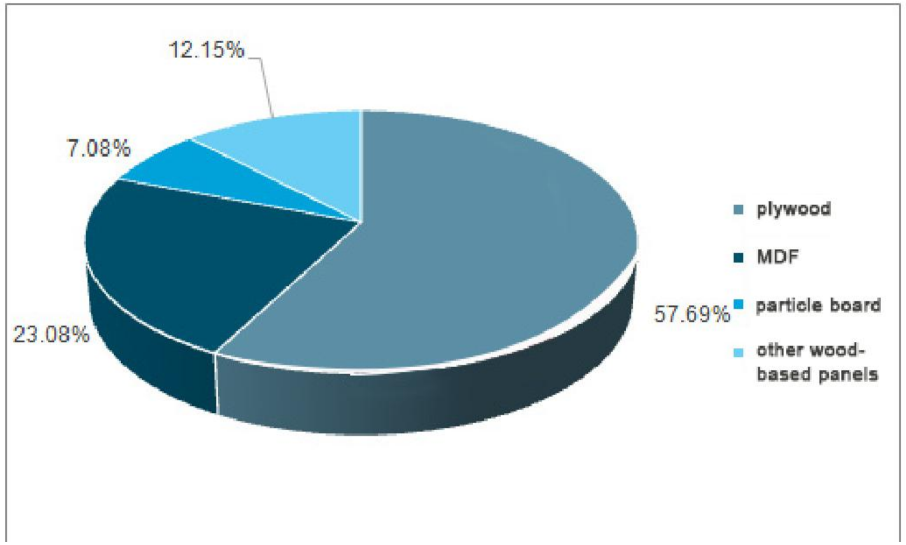
8. What is a market capacity for the engineered wood panels like particle board, MDF, plywood in China? What is the dynamics for this segment?

The main driver for the massive increase in Chinese wood products manufacturing has been the dramatic increases in furniture production and exports. This has also driven the dramatic growth of particle board, MDF and plywood production in China.
At present, among the three main types of woode-based panels, plywood production is the highest, followed by MDF, particle board production is the lowest in 2018.



output of particle board, MDF and plywood

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9. What are the main applications for wood panels? Do Chinese consumers are familiar with birch plywood? What are the main applications for birch plywood? Are there any market growth potential for a birch plywood in China?

Wood panels are most frequently used in furniture, construction and packaging industries. The product finds high demand in application areas such as doors, exterior staircases, external cladding, flooring, interior staircases, shear walls and timber porter frames.

Birch plywood is a popular fine-grained wood. It is commonly used for home improvement projects, particularly cabinet making, desks, and shelves. It is also popularly used in making children's toys (especially dollhouses), playground fixtures, and sports and musical equipment.

With the healthy and rapid economic growth, China has become a strong traction to promote the market demand for birch plywood.

The quality of Chinese birch plywood products is constantly improving, and their comprehensive competitiveness in the international market is becoming stronger and stronger. China is not only a big exporter of birch plywood, but also the world's largest producer of birch plywood. With the expansion of China's infrastructure construction and the strengthening of the development of the central and Western regions, the market potential of birch plywood is huge in recent years.

10. What does a Chinese consumer expect from the plywood supplier? What is the key birch plywood selection driver for a Chinese consumer - physical properties, prices level, quality level, service level?

When talking about the plywood supplier, Chinese consumer cares much about the quality. Because Chinese attach great importance to environmental protection and health. So we are more likely to buy eco-friendly plywood.

Since brich plywood has good structural properties, fine texture and excellent quality and also super adaptability under different temperature and humidity. Brich plywood has the most stable performance among many woods as the plywood. Under the background of decreasing brich resources, there is a considerable part of brich plywood which is imported from abroad.

11. What are the main substitutes for birch plywood in China market?

The main substitutes for birch plywood are beech plywood, basswood plywood, aspen plywood, maple wood plywood, pine wood plywood, eucalyptus wood plywood, etc.

12. Is there any plywood certification mandatory in China market?

There are some certifications like FSC and PEFC certifications.

13. Is there any practical or emotional advantage for North Europe origin plywood in the China market?

European plywood has a strict standard and is normally eco-friendly.

14. What does a contract mean for a Chinese business?

The contract is essentially an agreement, which can restrict and guarantee the buyer and seller's interests to some extent.

15. How long it usually takes time to start a business (trading) in China for a European company?

I usually takes about one three months to register a company in China. First, it determines whether you meet the requirements for starting a business in China. Then prepare some information papers and submit various materials to the relevant departments for approval.

12 June, 2019

THANK YOU!

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