EXECUTIVE SUMMARY

This report describes the evolving European Community market for value-added wood products and recommends measures that Canadian companies must adopt to establish or retain a stable business position. The four leading regional markets are emphasized – France, Germany, Italy and the United Kingdom. These account for more than 75% of the European Community sawnwood market and for 75% of coniferous imports and 63% of non-coniferous imports.

A broad interpretation is given to the definition of value-added wood products to include anything that improves the value of the products supplied. Thus, material that is kiln-dried for improved quality – over and above what is required to meet phyto-sanitary requirements – is included, as is better-graded joinery, square-edged material and material in metric sizes demanded by the market. The report is based on a review of past research on market opportunities, an analysis of European market structure and trends, interviews with key actors and observers in the regional markets, and an analysis of opportunities in relation to required investment or operational changes by Canadian mills.

After doing an overview of the European market and of the key characteristics of the four target countries, the report discusses competitor strategies, and the opportunities and requirements for market development. The main conclusions are below.

- *Customers demand higher-valued products.* Canadian exporters will face increasing competition from European and Southern Hemisphere suppliers of lower-end products. Therefore, it is necessary to move into higher-valued products where local and Southern Hemisphere production cannot compete. At the same time, concern for total quality is driving customers to demand better prepared wood products – a trend to which Canadian exporters must respond with higher-valued products.

  There are also marked trends toward increased direct purchase at all stages of the distribution chain, as well as increased 'buy-in' of components, rather than making them. These also offer new opportunities for suppliers of value-added products.

- *Canadian suppliers can compete.* There are definite opportunities for Canadian value-added products in all markets and in a range of end uses, but particularly in the form of upgraded raw materials for the woodworking industry.

- *The market is accessible.* Canadian wood products are welcomed in the market. The markets are transparent and there are no hidden barriers to entry.

  The Single Market legislation should help, rather than hinder, access to European markets for Canadian suppliers. Furthermore, in many cases current commercial requirements exceed the projected standards.

The principal recommendations on how to realize the opportunities are below.

- *Improve offerings.* Timber products are in the mature stage of the product life cycle. To re-enter the growth phase, the offering of wood exporters – that is, the combined package of physical product, service, pricing and financing – must be upgraded.

- *Offer required grading and sizing.* European clients want metric sizing and well-sorted products that meet European industry standards. They are prepared to accept less, but there is a price penalty for this.

- *Create customer loyalty.* The distances involved and the vagaries of exchange rates make it difficult for Canadians to compete consistently on price. It is therefore important to move into offerings that are less sensitive to price and that encourage buyers to be loyal to their suppliers.