

# Principal risks affecting the sustainability of the timber industry



Inspiring the next “material revolution” by creating sustainable and high-performance materials from oil palm waste, **Peter Fitch** together with IOI have set up IOI Palm Wood to commercialise this untapped potential.

Sometimes it helps to try and think strategically and to try to identify the key trends that impact businesses, stakeholders and markets over the short, medium and long term. This is often referred to as “risk management”.

## RESPONSIBLE AND SUSTAINABLE FORESTRY PRACTICES

Climate change, the loss of biodiversity and environmental degradation present significant risks to the global economy and the business environment.

Companies are expected to increase their positive impacts on the economy, social development and the environment. In addition to this the timber sector is expected to practise sustainable forestry as a carbon sink, to reduce air pollution, and to protect biodiversity, water and soil.

The demand for sustainable products that have been reliably certified is increasing. The development of

supply chain certification systems such as the Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification (PEFC) and the Malaysian Timber Certification Council (MTCC) will require uptake from product manufacturers and this will be driven by customer demand. The adoption of strict ESG standards by many multinational companies such as Unilever, IKEA, Mars, Nestle, among others, will require due diligence from the supply chain and product

manufacturers. The complexity of these chain of custody and downstream processes will lead to increased costs but should be viewed as necessary to ensure transparency and to build long-term customer loyalty and trust.

The good news for our industry is that the climate footprint of timber is much smaller than other materials commonly used in the production of furniture (Figure 1). For example, in a recent study timber makes up approximately 70% of the volume in a typical furniture item, yet only contributes 25% of the climate footprint of that furniture item. Other materials which represent a lower volume and include metals, plastic, and fabric contribute a relatively higher climate footprint of 30%, 25% and 20% respectively.

Companies large and small are increasingly required to report on their sustainability. This can be for regulatory requirements, stakeholders disclosure or simply because it is the right thing to do. Taking a closer look at the sustainability report from IKEA, a benchmark global leader in terms of ESG reporting, we see in Figure 2 that materials, production and transportation are unsurprising significant contributors to greenhouse gas emissions (GHG). What is probably more surprising is that the consumer

usage and end-of-life contribution is also very high. By 2030, the global population is expected to reach nearly 8.6 billion. This means that more and more people will look for a chance for a better life. In a world that already uses resources requiring more than one planet’s worth, billions of new consumers will put an even greater pressure on the planet. In many parts of the world, consumption is growing at an unsustainable rate. And while many people are escaping poverty, many also lack access to affordable housing. Unsustainable consumption and wastefulness will be one of our biggest challenges: How can we continue to grow and enable more people to live better everyday lives within the boundaries of the resources available on our planet?

**MANUAL LABOUR AND HUMAN CAPITAL**

The timber sector, including furniture manufacturing in Malaysia, is heavily reliant on manual labour, which makes the industry vulnerable to shortages of workers. The risk of labour shortages not only causes lost revenue but also limits future growth. Risks will increase going forward due to growing international regulations and customer interest in ethical labour practices. These issues have already been raised in the plantation, glove, and electronics sectors. These are the higher

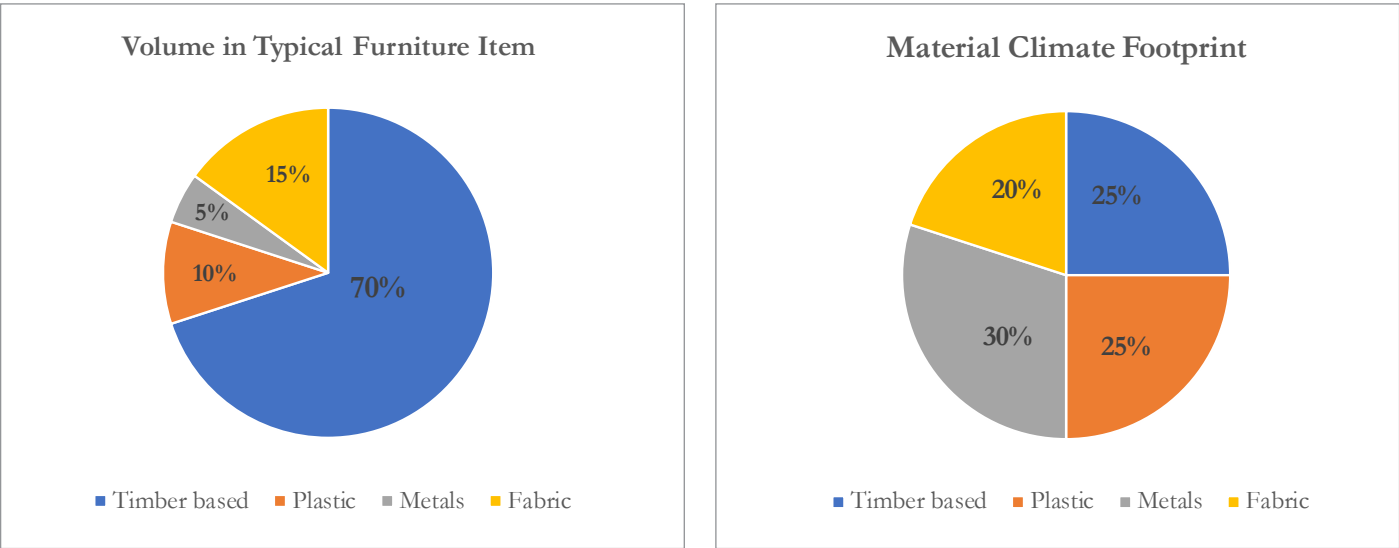
profile industries which are being highlighted at the moment, however the timber and furniture industry will not be spared future scrutiny. All manufacturers should be expected to comply with audits on ethical labour practices, including fair wages, freedom of association, acceptable working conditions and human rights.

One of the ways to mitigate the over-reliance on low-cost labour is through digitisation and the embracing of the Fourth Industrial Revolution (IR4.0). Alongside Malaysia’s pledge to transform into a high-income nation by 2030 through socioeconomic transformation via the use of technology, it has become an urgent priority that we prepare ourselves for this radical change. We should strive to create a better working environment which is less labour-intensive, yet futuristic whilst dispelling the 3D — dirty, dangerous and demeaning — misconception in order to attract local workers. Our workforce needs to be equipped with the aptitude for the changing nature of work.

**THE NEED FOR BUSINESS RESILIENCE**

The timber industry needs to remain resilient in the wake of challenges from supply chains, pandemics, anti-tropical timber lobbies, regulatory compliance, global competition, alternative materials, and others.

Figure 1: Timber is still the most environmentally friendly material for furniture production





## IKEA Climate Footprint 2020

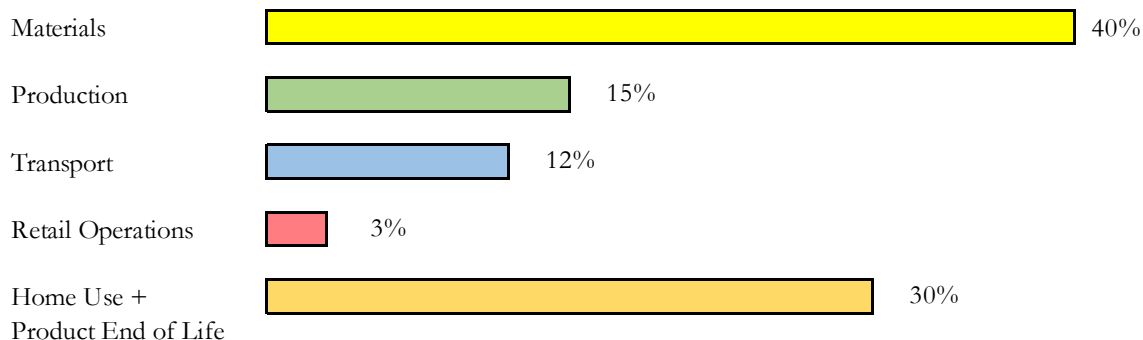


Figure 2: IKEA calculated its total GHG to be 25 million tonnes. CO2 equivalent percentages have been rounded

Probably the best way to mitigate these risks to our business is to remain engaged with our stakeholders. Some examples on how we can leverage this relationship is by listening and taking note from our:

**Customers:** Our business growth depends on customers who support our products.

**Employees:** Human capital is one of our biggest assets and we need to invest and develop this asset to ensure business success and a transformation to IR4.0.

**Communities:** Our business should provide measurable support and benefits to the communities where we operate.

**Suppliers:** Our suppliers should ensure ethical and sustainable production and procurement processes, together with good health and safety practices. They provide critical inputs for our business to function.

**Regulators/Industry Associations:** By engaging with government, non-government and industry associations, we can position the industry to catalyse common interests in order to create effective policies and best practices within the industry.

**Shareholders:** Business strategies should be geared towards creating sustained value for both shareholders and investors, done through strategic investments, thus ensuring business continuity and growth.

There are many challenges within our industry but by mitigating the risks and engaging with our stakeholders, we find that the future also has many opportunities. P



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