

Egyptian Woodworks Monograph

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Executive Summary

A) *Background Information*

Perhaps one of the largest obstacles inhibiting the growth of the Egyptian furniture and woodworks sector is the lack of updated accurate and comprehensive data on the sector. Furthermore, available data is not accessible to the different groups involved in the industry and its related sub sectors. In this context, the "Woodworks Monograph" project was formulated by the Industrial Modernisation Centre (IMC) in response to the request made by the Chamber of Woodworking Industries. The scope of the assignment involved conducting the following tasks by the consultant (Arab African Centre for Marketing and Consultancy Services – AAC) under the supervision of IMC and the Chamber of Woodworking Industries (CWI):

- 1) The compilation of all available information and data on the furniture and woodworking industry in Egypt during the past 5 years as well as attempting to resolve the existing inconsistencies within collected data.
- 2) The contribution to the improvement of the availability and accessibility of the information about the woodworks sector by identifying information gaps and offering suggestions on how such information may be obtained.

B) *Methodology*

Given the size and complexity of the furniture and woodworks sector, the methodology developed by the project team to achieve the above mentioned objectives involved conducting research on the sector including:

A) **Primary Research:** the collection of first hand information through meetings and interviews with representatives of over 40 government authorities and information providers

B) **Desk Research:** All secondary data sources that are relevant to the scope of the study were collected and investigated. This information included all published data from official authorities and NGOs, relevant studies and reports conducted by other organizations, information available on the Internet and finally the information available at AAC

C) **Analysis:** The information gathered through this research process was assembled in a tabular format to facilitate information retrieval and utilization. Furthermore the compiled data was analyzed and inconsistencies within the gathered information and information gathering techniques were identified. Finally, the project team came up with recommendations for the improvement of information gathering and processing techniques as well as means of filling the information gaps about the furniture and woodworks sector.

C) *Summary of Findings*

Number of Entities

According to statistics gathered from the General Organization for Industrialization – GOFI, the total number of furniture and woodworks factories provided is 2503, with Damietta having the largest number of factories at 565, followed by Sharkeya at 515, Cairo at 481, and Giza at 156. Data obtained from the Industrial Registry on the other hand indicate that the total number of furniture and woodworks factories is 1910, of which 515 are situated in Sharkeya, 506 established in Damietta and 285 in Cairo. It is worth pointing out however, that both these sources only include in their statistics "industrial" entities that comply with the Ministry of Industry's definition for industrial establishments. It follows that workshops and small factories that do not abide with this categorization are excluded from the above mentioned statistics.

Data obtained from the Commercial Registry indicates that the total number of companies producing furniture and woodworks final commodities is 54,097. Furthermore, the total numbers of furniture and woodworks wholesalers and retailers registered at the commercial registry are 8,012 and 37,017 respectively. The number of factories producing intermediate products (feeding industries) is 8213. It follows that the total number of furniture and woodworks entities registered at the commercial registry is **107,339**.

According to the Ministry of Local Development, the total number of workshops registered with furniture and woodworks cooperatives is 89,612. Damietta has the highest concentration of workshops – 23,082, followed by Cairo – 14,163, followed by Dakahleya- 6,973 then Giza – 6,656.

An overall analysis of the data presented by different sources brings to light discrepancies in the data collection and information gathering process, ranging from incoherent methodologies to inconsistencies within the gathered data. Despite gaps and inconsistencies in the information gathered, certain assertions can be made about the furniture and woodworks industry in Egypt. Such include the following:

1. Cairo, Damietta, and Sharkeya are the centers of furniture and woodworks activity in Egypt
2. In terms of number of entities, furniture and woodworks activity is primarily dominated by micro, small and medium sized enterprises – M/SMEs, however an investigation of production capacity is necessary in order to identify the market shares of large producers vis-à-vis M/SMEs.
3. Furniture and woodworks activity is primarily run by the private sector.

Estimation of the Aggregate Number of Furniture and Woodworks Entities in Egypt

Based on the foregoing analysis of the statistics obtained from the various government organizations, it has been observed that:

- 1- There is no single source of information in Egypt that provides comprehensive statistics regarding the total number of furniture and woodworks industrial establishments

- 2- The statistics obtained from the different organizations are overlapping and inconsistent; making it impossible to come up with an accurate figure for the total number of entities operating in the sector

Calculation of the Total Number of Registered and Unregistered Furniture and Woodworking Entities

Source	No. of Entities
Industrial Entities - Commercial Registry	60,465
Difference Between Commercial Registry Statistics & Ministry of Local Development Statistics - Industrial Entities	31,881
Wholesalers - Commercial Registry	8,012
Retailers - Commercial Registry	38,017
Total	138,375

Based on the calculation presented above, the total number of furniture and woodworks entities registered with the Egyptian government is estimated to be **138,375**. It is widely known however; that the sector is dominated by informal entities that are not registered with any of the government organizations mentioned in this report. According to Economist Dr. Heba Handousa, the informal sector represents 77% of the non-agricultural private sector in Egypt. Given that the furniture and woodworks sector is highly dominated by informal activity, it is believed that the informal sector represents at least 40% of the activities undertaken by the industry i.e. **55,350** entities. Based on this assumption, the total number of furniture and woodworks entities would reach **193,725**. It is worth noting however that these estimations are indicative and that in order to reach a more accurate figure that serves as an accurate representation of the size of the sector, extensive research that involves conducting extensive field research is required.

Calculations of the Value of Investment in the Furniture and Woodworks Sector Value of Investment for Registered Factories and Workshops

Interviews with members of the Chamber of Woodworking and other key figures in the sector has revealed that in order to operate, the smallest woodworks workshop requires more or less an invested capital of L.E. 5,000. It follows that the total value of investment within the woodworking industry would at least be **L.E. 691 million** (L.E. 5,000 x 138,375). It is worth noting however, that a considerable number of furniture and woodworking entities operate on a large and sophisticated scale that necessitate investments worth over L.E 10 million. According to members of the Chamber of Woodworks, there are at least 100 factories operating on such a scale. Taking this into consideration would increase investments by L.E. 1 Billion (L.E. 10 million x 100 factories). The estimated value of investment would thus be **L.E. 1,691 million**.

Imports

Egyptian imports of wood and wood products HS 1992 (Code # 44) as reported by the Egyptian government, have increased from US\$ 606,400,000 in 1999 to US\$617,000,000 in 2000. This trend however was dramatically reversed in 2001 when imports decreased by 7.5% due to poor economic conditions. This was followed by another decline of 4% in 2002. Egypt's main sources of wood inputs are in descending order, Russia, Finland, Sweden, Romania and Indonesia. A comparison between Egyptian and Foreign Sources of Statistics for Imports of Raw Wood and Wood Products (HS1996 Code # 44) presented a shared general trend of Egyptian imports over the years, (increase in

imports in 2000, and a decline in 2001). However there is a large disparity in the figures, the numbers provided by the Ministry of Foreign Trade - MOFT being much larger than those presented by United States Statistics Division - UNSTATS. This discrepancy is partly a result of the fact that upon the inspection of the imported product, the Customs Authority usually modifies the prices (adjustment for under invoicing). Furthermore, the Egyptian Customs Authority does not abide with the international coding and documentation systems developed by the United Nations, which also results in a discrepancy in statistics.

Egyptian imports of Wooden Furniture as presented by the Ministry of Foreign Trade (MOFT) from 1999- 2002 have generally been on the rise (US\$ 6.1 million in 1999, US\$ 9 million in 2002) with a decrease in 2001. In general the largest percentage of imports fell within the Other Wooden Furniture Category (US\$3.3 million in 1999, US\$5.3 million in 2000, US\$4.9 million in 2001 and US\$6.6 million in 2002). The second largest category of wood furniture imports is office furniture to be followed by bedroom furniture then kitchen furniture.

Total Egyptian imports of Furniture, lighting, signs, prefabricated buildings (HS1992 Code # 94) obtained from Egyptian sources revealed a decline in total imports during 1999 and 2000 followed by an exceptional increase in 2001 and a small increase in 2002. Noticeable increases were found in the categories of 'wooden furniture' and 'office furniture'. Foreign statistics on the other hand revealed that imports of this product group have undergone a general decline with the 1999 being the only exception. The main sources of imports are the European Union, Europe (other) and North America-NAFTA. While the overall trend appears to be the same, there are large statistics disparities between the two sources of information with the Foreign Statistics (UNSTATS) being much higher than those of CAPMAS and MOFT.

Exports

According to the Ministry of Foreign Trade (MOFT) Egyptian exports of wood and wood products (HS 1996 Code 44) have gone through several fluctuations over the period 1998-2001. Exports decreased from US\$ 3.8 million in 1998 to US 2.4 million in 1999 to reach US\$ 3.6 million in 2000 and US\$ 5.8 million in 2001. The data obtained from the United Nations Statistics Division covering Egyptian exports of the

abovementioned product group also indicated that overall, exports have declined throughout the period, from US\$ 4.5 million in 1999 to US 4.2 million in 2000 and US\$ 3.2 million in 2001. The greatest amount of Egyptian exports according to both sources is received by the European Union followed by the Arab region and Asia.

Data obtained from MOFT on Egyptian exports of Furniture, lighting, signs, and prefabricated buildings (HS 1996 Code 94) revealed that exports have witnessed an overall increase between 1998 and 2002. Total exports increased from US\$ 18.31 million in 1998 to US\$ 19.25 million in 1999. This was followed by a decline to US\$ 18.65 million in 2000 followed by a further decline to US\$ 16.5 million in 2001. In 2002 however, total exports witnessed a significant increase to US\$ 21.62 million. The largest amounts went to Arab countries followed by the European Union and North America – NAFTA. According to the United Nations Statistics Division Egyptian exports of the abovementioned product group have increased from US\$ 49 million in 1998 to US\$ 58 million in 2001.

Observations on Imports and Exports Statistics

A general examination of the statistics gathered on imports and exports reveals the following:

1- The system used by the Customs and Tax Authorities and CAPMAS are unreliable, raising questions regarding the accuracy of the data being published. The Customs Authority does not abide with the international coding, classification and documentation systems developed the United Nations. As a consequence, statistics forwarded to the CAPMAS tend to be lacking in

terms of reliability, making statistics published by government authorities are inaccurate and unrepresentative of actual trade flows.

2- A comparison between Egyptian and International statistics on Egyptian trade in wood and wood products (HS 1996 code 44) and furniture and prefabricated buildings (HS 1996 code 94) has indeed revealed great discrepancies with foreign statistics usually presenting Egyptian imports and exports to be much higher than the statistics provided by Egyptian authorities. These discrepancies could also be a result of one or a combination of the following factors:

- a. Under invoicing by exporters and importers
- b. Inaccurate documentation by the government authorities

3- Furthermore, a comparison between the figures reported for the money value of exported wooden furniture and the quantity exported are unreasonable. For example, the export value of wooden furniture (HS Code 9403600000) was US\$6.2 million in 1999. This value corresponded to exported quantity of 4,224 ton. It follows, that on average, the price of 1 ton of wooden furniture exports is US\$ 1,467. This figure is very low not only when the costs of inputs and production are considered but also when a comparison is made with the prices of wooden furniture products sold in both the local and international market. The same phenomenon can be depicted with other kinds of furniture as well. This discrepancy between the quantity of exports and the money value can be

explained by the fact that to evade payment of custom duties, most exporters do not report the actual value of their exports. According to the Chamber of Woodworks, the real value of exports is sometimes 10 times as high as the reported value.

Labor

Number of Registered Workers

According to the General Organization for Industrialization – GOFI, the total number of workers in the sector is 34,765, with Cairo (14,881 workers) having the largest number followed by Giza (4,637 workers) and Alexandria (3,375 workers). According to data obtained from the Industrial Registry, the total number is 10,094 workers of which the number of workers employed by furniture factories (code 3321) is 6,571, almost two times as large as the number of workers in factories registered as woodworks producers (code 3311) which amounted to 3,523. Furthermore, Sharkeya has the largest number of workers in both categories totaling 6,412 workers. Cairo, which ranks second, has a total number of workers of 3,211. Damietta on the other hand has a total of 1600 workers. A possible explanation for the discrepancies in the data presented above is that GOFI's statistics are based on a field survey conducted in 2003. The industrial registry database on the other hand only includes the number of workers declared by the factories during their application for a registration with the industrial registry. It can therefore be concluded that the data obtained from GOFI is more comprehensive than that provided by the Industrial Registry.

The total number of workers employed by workshops registered with furniture and woodworks cooperatives is 204,052. The hierarchy of governorates in descending order is Damietta (56,174 workers), Cairo (32,448 workers), Giza (14,928 workers) followed by Dakahleya (14,499 workers), Alexandria (11,607 workers), Gharbeya (10,630 workers) and Sharkeya (10,387 workers).

As with the number of entities, the available statistics covering number of workers employed by the furniture and woodworks sector can not serve as an actual representation of the labor force available to the sector. In this context, the following calculation has been made to come up with an indicative figure that would guide policy makers and businessmen in their planning and business development activities.

Estimation for the Total Number of Workers in the Furniture and Woodworks Industry

Interviews with owners of factories and workshops have revealed that on average each woodworks factory or workshop requires at least 5 workers in order to operate effectively. Furthermore, there is a considerable number of medium sized and large factories that employ larger numbers of workers (15 to over 100 employees). Based on the calculation made by the project team, the total number of furniture and woodworks entities was estimated to be **193,725**. It therefore follows that the number of labor employed by the sector is at least **968,625** (number of entities x 5 workers).

Graduates from Industrial Schools and Vocational Training Centres

Data provided by the Ministry of Education indicated that the total number of graduates from **industrial school** related to furniture and woodworking increased from 90,959 in 1998 to 92,476 in 1999 and 94,072 in 2000. This was followed by a decrease to 91,786 in 2001 to be followed by a significant increase to 95,289 in 2002. According to the Ministry of Local Development, the overall number of **vocational training centres'** graduates with training in carpentry and furniture (5,989) is much larger than the number for trainees in inlaying and finishing (858). Furthermore, the total number of trainees has generally been declining with few fluctuations in the middle. In total, the number of trainees declined from 350 in 1995-1996 to 209 in 2002-2003. The number of graduates from the **faculty of Applied Arts– Interior Design and Furniture Section** also declined from 360 graduates in 1999-2000 to 155 in 2002-2003.

Value of Taxes charged on the Furniture & Woodworks Sector

According to the Ministry of Finance, the total value of taxes paid by the sector increased gradually from L.E. 39 million in 98/99 to reach L.E. 54 million in 2002/2003. The total amount of taxes paid by the wood furniture industry is higher than that paid by other furniture sub sectors. In 1998-1999 the total amount paid the wood furniture was L.E. 23 million while taxes paid by furniture (other) amounted to L.E. 16 million. The same trend prevails over the designated period with the wood furniture sub sector paying L.E. 32 million in 2002-2003 and the furniture (other) sub sector paying L.E. 22 million. Furthermore, the total number of furniture and woodworks tax payers are 108,825 entities while the estimated number of furniture and woodworks producers and traders is at least 193,725 (as indicated in section 2.13.2 of this report). It follows that 56% (if not less) of the sector bears the tax burden of the whole sector.

Government and Household Consumption

According to the Ministry of Planning, during fiscal years 2000-2001 and 2001-2002, local production of wood furniture and wood works represented 98% of total consumption (imports represent less than 2%). Household consumption represents the largest market segment totaling L.E. 1,550 million in 2000-2001 and L.E. 1,756 million in 2001-2002. Household expenditure on wood furniture and woodworks is expected to rise even further in 2002-2003 and 2003-2004 to reach L.E. 1,851 million and L.E. 1,947 million respectively. The second largest market segment is Intermediate Agents amounting to L.E. 236.7 million in 2000-2001 and L.E. 270 million in 2001-2002. It is forecasted that the value devoted to intermediaries will rise to L.E. 313.3 million and L.E. 329.5 million in 2002-2003 and 2003-2004 respectively. Government expenditure has also increased; from L.E. 30 million in 2000-2001 to L.E. 35.1 million in 2001-2002.

Estimates for the Value of Tourist Industry's Consumption

Estimates of the value of furniture and woodworks consumption by the tourism industry indicate that during the year 2002 and 2003 the total value of expenditure on hotel furnishing and refurbishment was around L.E. 1.2 Billion of which L.E. 612 million was allocated to furnishing newly established rooms and L.E. 598 million was spent on refurbishment of existing rooms. It is worth pointing out that statistics covering the tourism industry's consumption of furniture were not available. The project team has therefore come up with the above mentioned estimates based on the capacity of hotels operating in Egypt.

International Industry for Furniture

World furniture production is estimated to be worth around US\$180 billion a year. Around 60% of world's furniture production takes place in just seven industrialized countries: the US, Germany, Italy, France, the UK, Japan and Canada. The European Union produces an estimated \$65 billion a year, while the United States is the biggest single producer with around \$45 billion output. Italy, Germany and Japan are trailing with amounts almost equal to \$17-18 billion. France, the UK and Canada all record output levels between \$5-7 billion.

Furniture production in emerging countries currently amounts to only 21% of the world total value. However, there are three countries (China, Mexico and Poland) where production is increasing rapidly thanks to recent investments in new plants especially designed and built for exports. The leading importers of furniture are the United States, Germany, France, the United Kingdom, Japan and Canada. The major exporters are Italy, Canada, Germany, China, the United States, Poland and France.

Conclusions & Recommendations

The process of collecting, analyzing, and distributing data and statistics by information and statistics agencies, associations, and government departments is conducted through traditional techniques (using manual files systems, storing cabinets etc.). We are thus still very far away from using a 'paper-less' form of information collection and distribution. It is worth noting that according to recent estimation, "January 2003", 90% of total statistics and information are produced by the government and government affiliated associations and agencies. Presidential resolution no. 2915 issued in 1964 is still the main resolution that governs data and statistics collection and publication. This resolution stipulates that the only legally recognized source of statistics is the Central Agency for Public Mobilization and Statistics – CAPMAS. It follows that no ministry or governmental department, public or private sector can issue or distribute any data without previous consent from CAPMAS. This resolution imposes very high degrees of restriction and hinders the development of data and statistics collection and distribution process in Egypt.

Against this background and in an attempt to improve the availability and reliability of data, the National Democratic Party 'Policies Secretariat' appointed a team

of experts who are currently studying the means and methods of modifying existing laws and regulation. The outcome of this will be compiled into a draft to be presented to parliament in the next session as part of the new 'Freedom of Information Act'. An approval of this draft will hopefully bring forth more accurate and comprehensive data especially with regards to taxes, customs, licenses, information from the Commercial Registry the Investment Authority, the Ministry of International Cooperation etc. The development of more accurate and comprehensive data will place Egypt in a position where it is able to make sound decisions with regards to all aspects of society.

Discussions with key figures in the information sector including H.E. Dr. Ehab Elwy the Head of the Central Agency for Public Mobilization and Statistics - CAPMAS, Dr. Raafat Radwan, the Head of the Information and Decision Support Centre – IDCS and Dr. Mostafa M. Mostafa, Consultant at the National Institute for Planning revealed that there is a general awareness of the importance of conducting sectoral studies based on the compilation of first hand information. These officials however confirmed that this study undertaken by the IMC and the Chamber of Woodworks is the first initiative of its kind not only on the level of the furniture and woodworks sector but on the level of the Egyptian industry as whole. It should therefore serve as pilot project to be replicated in other major industrial sectors.

In this context, the project team proposes the development of a strategy for collecting and compiling data on the furniture and woodworks industry that is based on the joint vision of the governmental bodies, representatives from the private sectors and NGOs. Such a strategy necessitates the establishment of a committee that includes experts from the tax and customs authorities, finance and monetary sectors, as well as industrialists and business associations etc. It is perceived that this strategy would result in the formulation and implementation of a pilot project for the furniture and woodworks sector that introduces state of the art data collection and sharing techniques. Such an initiative should eventually be applied on the level of the industrial sector as a whole.

The development of any industrial sector requires the implementation of a set of information related activities to assist it in becoming more competitive in the local and international market. In other words, the compilation and processing of general information should serve as a first stage to be followed by the development and implementation of a comprehensive prioritized research plan. Areas requiring further investigation and research include the production capacity of the sector, the used furniture market, the ship building industry, the impact of demographic patterns on furniture and woodworks consumption, feeding industries etc.