

Canada's Furniture Industry Seeks Chinese Tariffs

By Michael J. Knell

Canada's furniture manufacturers are asking that safeguard tariffs be imposed on imports of household furniture from China, claiming that their sudden rise over the past few years has done significant material harm to the industry.

The process began at the end of October when the Canadian Council of Furniture Manufacturers (CCFM) filed a complaint with the Canadian International Trade Tribunal (CITT), a quasi-judicial body that governs international trade disputes and other issues.

"This industry is in crisis and if nothing is done, we estimate we will lose 10,000 jobs and the manufacturing capacity that implies by 2007," said David Hanna, president of the Ontario Furniture Manufacturers Association, one of the three regional factory groups under the CCFM umbrella. The others are the Quebec Furniture Manufacturers Association and Furniture West.

If that inquiry shows furniture imports from China have caused material damage to the industry, the CITT could recommend safeguard tariffs or quotas, giving Canadian producers time to adjust to a changing competitive environment. This is significantly different from an anti-dumping complaint, which alleges imports goods are being sold in the domestic market either lower than cost or lower than their price in their market of origin.

Although rarely used, safeguard measures are used to protect an industry from sudden surges in imports, and any tariffs or quotas imposed are normally temporary, lasting no longer than three to five years. Canada's furniture industry is seeking tariffs of up to 75 percent in the first of a three-year surtax on household furniture made in China. However, the CITT isn't bound to accept that and makes its recommendations independently.

In late December, the CITT sent a questionnaire to all Canadian furniture manufacturers seeking detailed data on

eight industry sub-sectors. The surveys must be returned to Montreal-based Fasken Martineau, a law firm specializing in international trade and other business matters.

The CCFM has until Jan. 9, 2006 to submit the results of the survey to the CITT. At that point, the CITT has 21 days to decide whether to investigate. Should the investigation proceed, a recommendation must be made to the federal government 90 days later—sometime around the beginning the May.

"The CCFM believes it can show the rapid increase of Chinese imports over the past five years is causing a market disruption to the Canadian industry and that it is suffering material injury because of this development. The industry hasn't had sufficient time to adjust to this new reality," the council said in a written statement.

"Statistics show the Canadian market is increasingly monopolized by imports, mainly from China. Since 2000, imports have risen by an average of 200 percent while over the past three years, China has replaced the United States as the main source of imported residential furniture on the Canadian market and imports continue to register record figures in every quarter," the CCFM said.

The CCFM complaint focuses on the three major household furniture categories defined under the North American Industry Classification System.

Import/export data published by Statistics Canada shows imports from China represented about 5 percent of the Canadian apparent market for household furniture in 1998. Since then, imports from China have grown at an annual rate averaging 35 percent until last year, when goods from China held a 19 percent apparent market share. Indeed, China has replaced the U.S. as the country's

largest source of imported household furniture.

The council forecasts for the next three years that imports from China will grow by at least 30 percent annually and will have a 35 percent apparent market share in 2007. In value terms, the council said, imports from China



will grow from C\$120 million in 1998 to C\$727.4 million in 2004 to C\$1.6 billion in 2007.

According to Statistics Canada, upholstery imports from China advanced 20.8 percent in the first half of 2005 over the same period of 2004 while case goods imports rose 27.9 percent. Meanwhile, upholstery imports from the U.S. were flat and case goods imports declined 6.5 percent during the same period.

These pressures have also meant that the growth of furniture imports has exceeded the growth of Canadian furniture exports by a wide margin over the past couple of years, suggesting that instead of being a net exporter, Canada will have a trade deficit in household furniture for the first time at least in this century.

While imports from China have been growing, the Canadian furniture industry has also been challenged by the sudden upswing in the value of the Canadian dollar, making its ability to compete in its single most important market, the U.S., considerably more difficult. During most of 2005, the Canadian dollar has traded at the 82 U.S. cent mark, substantially higher than the 68 U.S. cents at the beginning of 2003. This means Canadian furniture producers are not only losing ground in Canada but in the U.S. as well.

China also continues to build furniture manufacturing capacity at a tremendous pace. "The production capacity of the Chinese industry is immense and still has major development potential. There is no reason to believe imports will abate. On the contrary, our domestic market is increasingly threatened," the CCFM said. "Canadian producers are losing major market share at home. The industry is in crisis."

In recent months the CITT has recommended safeguard protections for two other Canadian industry sectors, barbeques and bicycles, which face similar problems to

Canadian household furniture producers.

"In a safeguard action, the industry has to prove a loss of jobs, a loss of sales, a loss of margins, and a loss of customer base," the OFMA's Hanna said. "For many Canadian factories, their 2004 sales were just awful."

Many leading Canadian furniture producers have reduced their work forces in recent months including Shermag, Palliser, Durham, and Dorel. At least two Canadian factories, those of case goods maker Roxton Furniture of Waterloo, Quebec, and La-Z-Boy Canada in Waterloo, Ontario, have shut down permanently.

"If something isn't done, it's entirely possible that Canadian factories will become custom producers filling niche markets in the not-too-distant future while retailers will buy all of their mass-produced goods from China," Hanna said.

The industry needs to create new tools to improve competitiveness. For example, a new research, development, and technology transfer fund and research partnership in Quebec has been started. "What the industry needs is time to adjust, which is exactly the objective of the filing we have made with the CITT. The industry has always proven itself resilient when it's given time to react to changing realities. We did it after the introduction of free trade in the early 1990s, and we'll do it again," the council said.

Opposition to the complaint is being mounted. The Retail Council of Canada, a trade association and lobby group that includes approximately 400 furniture stores among its 9,000-strong total membership, will seek intervenor status if hearings are held. The RCC maintains that the tariffs will place too great a burden on consumers and will damage Canada's trade relationship with one of the world's most important economies. A group of Canadian importers has also formed a common front to fight the action and have retained their own legal counsel. ■

art hanging systems

Arakawa

toll-free: 888.ARAKAWA
www.arakawagrip.com

photo: courtesy of www.dutchpaintings.com

Arakawa's Gallery System improves the display efficiency of museums, galleries & frame shops by reducing the time required to install, position and remove framed art. By eliminating expensive patching & repainting repairs, the Arakawa Gallery System helps curators focus on the product instead of on maintenance.