THE CONSEQUENCES OF EC '92, GATT AND DEVELOPMENTS IN EASTERN EUROPE FOR EXPORTS FROM DEVELOPING COUNTRIES TO THE EC

PRODUCT REPORT: FURNITURE

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TABLE OF CONTENTS

INTRODUCTION

Trading conditions on the European market will change in the next few years as a consequence of several important developments. First of all there is the process of the realization of the internal market of the European Community. Secondly, there is the final outcome of the GATT Uruguay Round of trade negotiations, which will have effects on EC trade regimes. Finally a major issue in Europe is the rapid development of closer economic co-operation between the EC and the countries of Eastern Europe. All of these developments will have important consequences for suppliers from outside Europe and especially for suppliers from developing countries.
In some cases, competition will be heavier, and they will have to meet new demands if they are to be successful on the European market. In other respects Europe will offer them new opportunities and more transparency in marketing conditions.

The aim of this report is to draw up an inventory of the effects of these developments for suppliers of wooden furniture and rattan products from developing countries.

In Chapter I the general market situation and some implications for developing countries are sketched. In Chapter II we go further into the consequences of the process of economic unification in the EC. In Chapter III (likely) outcomes of the GATT Uruguay Round are described and in Chapter IV we estimate the possible effects of the developments in Eastern Europe and closer co-operation between the EC and these countries. Finally, in Chapter V, we give general conclusions for suppliers from developing countries.

CHAPTER I: THE MARKET FOR WOODEN FURNITURE AND RATTAN PRODUCTS IN THE EC

I.1 Consumption

The most important EC markets are Germany, with a market share of 29·7%, Italy (20·8%), France (15·9%), Spain (9%) and the UK (11%). The Netherlands have a market share of 4%.

Furniture expenditure in all EC markets is growing. This growth is partly due to the growing demand for furniture of higher quality. Wooden furniture expenditure as a share of total non-food consumer expenditure varies between 2·5% and 11% in the EC countries. The lowest rates are found in Belgium and in the United Kingdom.
In many European countries furniture still has a low priority. In France, Germany and Italy, however, furniture has more priority than in other Western European countries.

Wooden furniture traded internationally can be divided into the following market segments:

- seats, upholstered or non-upholstered;
- living-room/dining-room furniture;
- bedroom furniture.

Rattan products can also be divided into these segments, though a category must be added, namely rattan garden furniture.

In general the largest expenditure group is upholstered furniture. Bedroom, living-room and dining-room furniture together account for about 50% of the sales. Cane and rattan products account for about 2% of the sales.
There is a general tendency to buy more quality products and more occasional furniture.
A fast growing market is the market for self-assembly furniture, because of the growing acceptance of the do-it-yourself concept.
Appendix 1 gives a brief survey is given of some of the major European markets.

I.2 Imports into the EC and main suppliers

In the second half of the 1980s there was a strong growth in the value of world trade in furniture. This growth caused large trade deficits in the USA, France, the United Kingdom, Sweden and the Netherlands. During this period imports into the EC rose by 102% at constant prices, which is below the OECD average. This increase is particularly due to the growth of intra-EC trade.

I.2.1 Imports into the most important EC countries

The share of imported furniture consumption varies by country:

NL	B	FR	D	I	GB
50%	51%	30%	30%	2·7%	40%

As we can see, in Belgium and the Netherlands import penetration is very high. There has been increasing pressure on imports, particularly dining-room and wooden kitchen furniture, caused by competition from other Western European manufacturers using Belgium as a test market.
Italy, with the lowest percentage, is a major exporter of furniture.

The bulk of the EC imports of wooden furniture comes from other EC countries. The main suppliers are West Germany and Italy. Romania, East Germany and Yugoslavia are the fastest-growing Eastern European suppliers. Developing countries have just a 2% to 3% share of total furniture imports into the EC.

	NL	B	FR	D	GB	I
intra-EC	87%	84%	82%	35%	70%	82%
Eastern Europe	6%	5%	8%	23%	12%	8%

Imports from Eastern Europe are growing rapidly. For example, in France the current 8% share is estimated to grow to 30% in 1992.

Cane and rattan products account for just 1% to 2% of the value of all furniture imports. Rattan products are often imported as semi-finished products which have to be painted and lacquered. Sometimes they are combined with furniture made of other materials.

Developing countries have a dominant position in the imports of rattan seats. For other rattan furniture products the picture is different. Italy, France and Spain together supply 50% of total EC imports. Major suppliers of rattan products to the EC amongst the developing countries are Indonesia, the Philippines, China and Thailand.
Eastern Europe has just a 2% share in imports of rattan products to the EC. Indonesia is the main supplier of rattan, accounting for almost 80% of the world trade. The Philippines recently improved their capacity to deliver finished products.

I.2.2 Imports from developing countries

The value of the imports from developing countries into the developed countries increased from 1983 to 1987 by 130% at constant 1983 prices. The EC has just a 8% share in the total import value. The leading trading partners for the developing countries are Japan, the USA, Canada, Australia and New Zealand.
Leading suppliers among developing countries are Taiwan (62%), Mexico, the Philippines, Korea, Thailand, Hongkong and Singapore.

The growth of imports from the developing countries has been influenced by increased wage costs in the developed countries, the curtailment by certain developing countries of the export of raw materials, a fall in the costs of overseas transport, benefits granted by the GSP and more effective export promotion activities.

Indonesia (since 1985) and the Philippines (since 1986) have prohibited the export of raw materials. The effects of this measure on the export of rattan and wooden furniture have, however, been different for the two countries. In Indonesia the effects were positive on export and employment (a million jobs were created). In the Philippines, export volumes dropped by two-thirds. The push to make higher-valued products was undermined by the fact that Japan, Korea, Taiwan and China continued to supply logs to manufacturers in developed countries.

The problem of high labour costs and the difficulties of importing cane and rattan as raw materials have encouraged importers and manufacturers on Germany and in Holland to set up joint ventures or subsidiaries in Indonesia. Dutch importers and manufacturers of cane and rattan furniture are also co-operating with the Indonesians. They have expertise and act as importers for other European countries. To support this development, the production of finished rattan products is open to foreign investment capital. However, there is also a form of 'rattan smuggling', by manufacturers who continue to import raw rattan.

I.3 Trends and demand factors

In the first half of the 1980s the number of potential furniture buyers increased as a result of the post-World War II 'baby boom'. The number of older people in the Netherlands is also increasing, and thanks to the many pension schemes in operation these have a larger disposable income than in previous decades.
The tendency towards smaller households in Western countries (1 or 2 people) has also encouraged the growth of the furniture market, as has the tendency towards households with a double income.
Research in France has shown that the size of a house and the number of furnished rooms corresponds to the age of its inhabitants. Both reach a peak in the age group 40-49.
Furniture also lasts much longer than domestic appliances; the average life expectancy for a piece of furniture is thirteen years.

During the 1980s the number of new houses in the trend-setting European countries grew. This was partly a result of the post-war baby boom. However in Italy the number of new houses fell over the last few years. The future of the furniture industry is strongly dependent on such developments in the housing market, and these do not look too good in the EC countries at the moment. The trend is towards the improvement of existing housing stock rather than new house construction. This has tended to lead to an increase in the demand for smaller pieces of furniture.

Design and style

A general trend in Europe has been an increased demand for modern designs and the use of lighter-coloured materials. There has also been a trend towards the combined use of different materials. The most popular kinds of wood are walnut, ash, beech, cherry and pine. Demand for tropical woods is small and will decrease further still. In modern designs the use of alternative surface materials is increasing.

Modern furniture can be distinguished from classic furniture by its functionality and design. Many modern designs originate in Scandinavia and Italy. In modern furniture, aspects such as size, colour and finish have a greater importance.

Furniture preferences vary between countries. For instance, while in Belgium traditional furniture designs still account for 60% of living-room furniture orders, in France the demand for modern and contemporary styles is continuously increasing. In West Germany, a sense of individualism and the need for variety have increased the demand for different designs. Light, 'veneer' materials are the fashion there.

In the UK, traditional designs remain important and there is also a demand for furniture that expresses the specific lifestyle of its owners - their personality and status. UK preferences in garden furniture are increasingly for metal and plastic chairs rather than wooden ones. Furniture bought in the UK is often styled after UK designs, and for this reason producers outside the UK must work closely with UK importers.

In the Netherlands, buyers have always had a taste for classic furniture. There is a trend towards more decorative styles that better express the increasingly individualistic lifestyle of the average Dutchman. The influence of furniture designs from Italy, Scandinavia and France is increasing, but traditional - and largely oakwood - furniture still accounts for 55% of the market. The fastest-growing design is the 'romantic' style, which employs combinations of traditional and modern designs. The recurring theme in this style is the combination of different materials, such as wood, glass, wicker, cane and leather, in order to create a unique appearance. This kind of furniture has a 10% market share in the Netherlands.

In Italy, modern styles account for 80% of market sales. There is a trend towards combining classic pieces of furniture with modern materials and patterns. Italian manufacturers seem best able to follow the market trends in Western Europe, catering both to Italian tastes and to those of other Western European consumers. They are well skilled in design and materials applications.

As a consequence of increasing environmental awareness and a resultant concern about the destruction of tropical rainforests, there has been a tendency to replace tropical woods with hardboard, softwood or other materials, especially when the hardwood comes from areas lacking a sophisticated reforestation plan. This could offer new sales opportunities for cane and wicker furniture.

Cane furniture

Demand for cane furniture depends on the changing fashions in interior decoration and on its price compared with furniture using other materials. Cane is expensive, because it is a labour-intensive product. Most cane furniture is hand-made. The design also plays an important role here.

Wicker and cane products are a kind of luxury furniture. France is the most important Western European market for wicker and cane. Here, cane is a fashionable product, used for garden furniture, in country houses and in hotels. West Germany is the next largest EC market for cane and wicker furniture. Light-stained, dark-stained and white-painted wicker furniture are all popular. UK demand for cane furniture is growing. But in Belgium cane furniture is unpopular.

The trouble with cane furniture is that it is not all that comfortable. This has been partly alleviated by the trend towards the use of more refined and better qualities of cane and reed. Cane and wicker furniture styles have not changed much over the last few years. New colours have been introduced, with combinations of white, blue, grey and pastel colours. Brown is no longer so popular. The upholstering of seats often takes place in Europe.

Other demand factors

Furniture purchases peak in spring and autumn. Cane imports are more or less steady over the whole year, with a small rise in the spring.

There are no official standards with regard to sizes. The following figures apply to most Northern European countries:

- seat height for easy chairs:	35cm - 44cm above ground
- seat height for other chairs:	45cm - 60cm above ground
- seat depth:	45cm - 65cm

For wooden furniture, raw materials represent 40% and labour 38% of the total costs. Gross high street margins vary from 52% to 72%, with exclusive shops marking up by up to 100%. Importers' margins are around 30%. Cane has a retail trade margin of 100%.

Furniture from developing countries can best be transported in 20ft x 40ft (6·15m x 12·31m) containers if damage is to be avoided. The objects should be well protected. Since furniture takes up so much space in transportation, transport costs are an important consideration for those deciding whether or not to export. These transport tariffs are decided by 'conferences', or groups of shipping companies.

The humidity of the wood is of great importance to the final quality of the product. Account has to be taken of the relative humidity in the furniture-importing country, as the wood will otherwise split. Western European countries cannot tolerate a wood humidity of more than 10%. Adequate drying techniques and continuous humidity control are vital, also in the construction process.

I.4 Distribution networks

In the five largest EC countries, specialist furniture stores are the most important retail outlets. Only in the UK are out-of-town hypermarkets more important. In France, specialist furniture chain stores are also an important outlet.

Small, independent retailers are increasingly joining buying consortia. These are becoming more and more important, especially in Belgium, France, Germany and the Netherlands. Members are not obliged to buy from the consortium, but to do so is usually more profitable. The consortia often import directly from the exporting countries. Their name does not appear on the products. These deals are often also advantageous to the producers, especially to those manufacturing mass products. The consortia often give marketing and other business advice. They also co-ordinate promotion and sales campaigns. In the Netherlands, buying consortia enjoy a market share of 45%, and 35% of the independent retailers are associated with them.

Nevertheless, large numbers of small retailers remain dependent on their import agents. These make contact with the producers in the exporting countries, negotiate contracts, oversee the implementation of the contract and provide market information. In Germany, for example, the importers still hold an important position. Many are part of larger organizations with manufacturing interests or their own factories abroad. In this instance the importer forms the marketing division of such an organization.

The small, specialist shop, where quality comes first and prices are high, still forms an important part of furniture retailing. In most European countries their numbers, especially at the upper end of the market, are growing.

Furniture chain stores are important in France, the UK and Italy. Their central buying departments possess a great deal of expertise. In this market outlet, price competition and product imitation play a significant role. For these reasons it is less suited to the distribution of high-quality and artisan products.

Department chain stores also have well-staffed buying departments, but offer less choice of furniture than customers want. Furniture takes up considerable storage space and department stores need this space for selling all their other products. For this reason, they are not an important furniture sales outlet almost anywhere in the EC.

Hypermarkets and furniture precincts situated outside built-up areas are enjoying a growing market slice. This can be attributed to their greater accessibility, large range of products, low prices (due to lower costs), large assortments of accessories and intense advertising activity. 'Do-it-yourself' furniture (IKEA, for example) is predominantly sold through these outlets. Suppliers to these furniture hypermarkets must be able to offer competitive prices and to work in large volumes. Furniture precincts, usually combined ventures in which a number of retailers agree to work under one roof, are rapidly increasing in popularity.

Post-order firms are unsuited to the furniture industry. Direct distribution to the local market by the manufacturer, without the intermediation of a retailer, can be advantageous in that the reduced overheads can keep the final prices low. However, only manufacturers near enough to the EC market can consider this option.

Tendencies

The increasing importance of buying consortia and the rise of furniture chain stores and hypermarkets can be regarded as new forms of competition. We can also speak of the internationalization of furniture retailing (see IKEA). In general, retail groups enjoying success in their own markets have a good chance of success on the wider European market.

Implications for developing countries

Western European furniture trade organizations are sceptical about the possibilities for collaboration with manufacturers in the developing countries. Few multinationals are active in the furniture market. Nevertheless, an increasing number of joint ventures are being undertaken. The banning of exports of tropical hardwoods in some countries and wage rises in countries such as Hong Kong and South Korea has resulted in the displacement of manufacturing concerns into countries like Thailand, Malaysia and Indonesia.

Most furniture manufacturers in developing countries are still small family concerns. They are seldom modernized. The final finish of their products is often unsatisfactory. These kinds of factors reduce the chances of successful export marketing. Occasionally, manufacturers take on export orders for which they do not have sufficient manufacturing capacity. If more exports to Western Europe are desired, more knowledge and understanding of management, marketing, product development, product quality standards and quality control will be necessary.

The market for quality products is growing fast in Europe. New products will be developed at great speed. The design process must include tests so that by the time the

product is launched the quality of its construction has been amply proven.
Producers in developing countries will have to give more thought to designing their own products. At the moment they work mostly according to designs provided by the importers and retailers, but there are advantages to creating their own special designs. In this, care must be taken to take into account not only market trends and the demands of consumers but also health and safety requirements.

Manufacturers, especially in the more developed of the developing countries, can therefore certainly afford to specialize. In this way, the available raw materials can be used more efficiently, thus reducing waste. Monitoring the use of raw materials is desirable. A special 'environmental label' could be considered.

As far as distribution is concerned, the range of non-upholstered products is the most straightforward. The growing market in ready-to-assemble products (in wood or cane) also offers opportunities, and means a considerable saving in transport costs.

Exporters in developing countries would do better not to risk exporting upholstered products as these are too dependent on the specific designs required in the various importing countries. The most important technological developments have taken place in the non-upholstered furniture sector. Developing countries have the advantage here of having access to the necessary wood.

Predictable delivery times are essential. Delivery from the exporting developing country must take place within three months of the order having been placed. A period of 30 - 60 days may be used for testing the furniture products.

Marketing strategies are essential for successful exports. These include visits to European furniture fairs and the use of brochures which include product details (quality, design, functions). Advertising possibilities exist in specialized magazines.

No less important is the presence within the developing country of marketing organizations able to translate international furniture trade demands into product specifications. The manufacturers must also be aware of the quality standards and designs typical of the importing countries.

CHAPTER II: CONSEQUENCES OF THE REALIZATION OF THE EC INTERNAL MARKET

Introduction

The European Community (EC) is the denomination of what used to be called the European Economic Community. The term EC also applies to the European Common Market. The EC has twelve members, namely, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom.

At the moment, the EC is implementing the unification of the twelve members into an economic and political union. It is envisaged that this union will lead to a stronger EC. One of the most essential plans will be the removal of trade barriers within the EC. This will allow a free flow of trade to save time and costs in transportation. The economic union, as well as the political union, will allow the member countries to adjust their economic and social systems, reducing differences between the members. Harmonizing laws and regulations, creating uniform standards and quality requirements, simplifying administrative procedures and erecting social and monetary structures will clarify the EC.

The objectives of such a harmonization are to facilitate trade between the EC members, stimulate economic activities through enlarged economies of scale, raise competition and economic growth and allow a free flow of capital, goods, services and individuals. The deadline for the realization of the internal market is 31 December 1992.

This chapter addresses the consequences of the measures being taken to ensure a free market within the EC for the import of wooden and cane furniture from developing countries. Two aspects are the most important in this respect:

The EC import regime for wooden and cane furniture from developing countries: import duties and non-tariff hindrances

The general import duty levied on wooden and cane furniture in the EC is 5·6%. Developing countries may take advantage of the General System of Preferences (GSP). Import duties under the GSP are 0%, provided at least 35% of the added value of the

product has been created in the exporting developing country. Imports under GSP require a certificate of origin.
Ceilings exist to the levels of duty-free imports under the GSP. These are 14618000 ECU for the tariff group 9401, 69126000 ECU for the tariff group 9403 and 2315000 ECU for the tariff groups 9403,8000. Should imports from a developing country exceed these limits during a given year, an EC member may ask the European Commission to reintroduce normal import duties. In this case all imports above the specified ceiling then have to pay the usual import duty of 5·6%.

The realization of the EC internal market will have no consequences for this import regime. However, the GATT Uruguay Round negotiations will probably lead to lower import duties for furniture (see Chapter III). It must not be forgotten that the current import duties on furniture are so low that they play no crucial role in the choices made by the trade between imported or home-produced furniture products.

With regard to non-tariff hindrances, an EC measure to protect tropical rainforests will have important consequences in the future. After 1995, only furniture constructed from wood originating from areas approved by the EC will be allowed to be imported.

The consequences of measures in preparation or being implemented by the European Commission within the framework of the 'EC 1992' programme: quality and label standards

National quality and label standards will be 'EC-harmonized' by the C.E.N. (the Comité Européen de Normalisation). Members of the U.E.A (the Union Européenne de Ameublement) are participating in the creation of the new European standards. The technical committee concerned is known as C.E.N. 207.

Up to now there has been no obligation to introduce these European standards at national level; the objective of the C.E.N. is to remove, as far as possible, any contradictions between the different national regulations and standards. Besides this it is aimed to include the international norms of the I.S.O. (the International Standard Organization) within the EC definitions.

Product specifications are also crucial to the complete free movement of furniture within the EC. At the moment, each country has its own test centres at which products are tested and checked. Theses tests are carried out by producers and traders on a voluntary basis. European standardization of test norms and procedures will be realized at an increasing pace throughout the 1990s. In the long term this will result in the complete mutual recognition of test results. This will in turn mean that products accepted in one of the national markets of the EC will also be allowed onto the other national markets. In the Netherlands, upholstered furniture comes with a label giving information on the materials employed and the best methods of its care. These labels are applied on a voluntary basis. The Dutch Furniture Association has its own guarantee system, to which 1145 retailers are associated.

The European Commission has launched a project to introduce barcodes on furniture. A group of experts is working on joint regulations for the fire safety of furniture.

The most important consequence of the harmonization of these sorts of technical standards and norms within the EC is that unfair competition between EC member producers no longer takes place.

The most important consequence for exporters outside the EC is that in the future they will be dealing with just one set of European standards and norms instead of a large number of different regulations. Exporters from developing countries would be well advised to align their efforts with C.E.N. quality norms and label regulations.

Product liability

Within the framework of its consumer protection policy the European Commission has also tightened up the regulations with regard to product liability. Under the new regulations consumers can more easily hold manufacturers - including those outside the EC - liable for defects in the products they supply.

Tax harmonization

Value-added tax rates presently vary greatly between the EC countries. A compromise was recently reached in which the minimum tariff would be 5% and the standard tariff would be a minimum 15%. Furniture falls into the standard tariff category. This VAT does not discriminate against products from countries outside the EC, as it applies equally to products manufactured both within and outside the EC.

Implications for developing countries

The disappearance of borders within the EC will lead to capital concentration (monopolization) in the EC furniture market. Economies of scale will take place from which both manufacturers and retailers will profit. The number of suppliers will fall and so will prices.

Manufacturers will increasingly have to adapt their operations to the demands of retailers (including powerful international buying consortia). The retailers will adjust to operating within a European scale. 'Just-in-time' production and trade will become important.
If they are to meet the demands of increasing competition, smaller manufacturers will have to specialize further. A great degree of flexibility will also be expected of them. This will involve the use of computerized production systems, lower costs, quality control and more investment in design and product development. Predictable delivery and service times must be guaranteed. Delivery times of 6 - 8 weeks are demanded within Europe. Speed will become a crucial issue to every manufacturer. Price will become a less important factor.

Not only the smaller manufacturers in Europe itself will have to meet the demands just described. Producers in developing countries too will have to largely fulfil the new requirements. Adequate information exchange with the importer then becomes absolutely crucial. Market trends must be followed quickly. Exclusivity in design, materials use and colour can then overcome the disadvantage of being situated so far from the market.

CHAPTER III: THE RESULTS OF THE GATT NEGOTIATIONS

Introduction

The GATT system was established in 1947 by 24 Western countries and now has a membership of 105 countries. GATT's aim is to liberalize world trade, a process involving the abolition of import barriers such as tariffs and quotas. In the course of successive rounds of international trade negotiations following World War Two, the tariffs for raw materials and industrial products were lowered and occasionally abolished. At the same time, however, non-tariff trade barriers introduced to protect sensitive products grew rapidly in the 1970s and 1980s. Quotas especially, such as the Multi Fibre Agreement, and the use of technical standards are popular means with which to hinder imports. The recent round of trade negotiations, the so-called Uruguay Round, has as its specific aim the removal of many of these non-tariff barriers, but has been prolonged various times as the result of conflicts between GATT members.

EC imports of furniture from the developing countries will be affected in a number of ways by the (possible) outcomes of the current GATT Uruguay Round of talks.
The following negotiating points are most relevant to the furniture trade:

Tropical Products

One of the GATT negotiating groups is considering tropical products. In 1990 the EC had already proposed to this group that the general import duties for a number of tropical products, including a number of furniture categories, should be lowered. The proposal specified that for a number of tropical products the EC would reduce its import duties from 5·6% to 2·8%. Cane furniture does not fall under the EC proposal. Once again, it must be remembered that current import duties are so low that they make no significant impact on the competitiveness of furniture imports to the EC.
It is moreover still uncertain whether an agreement will be reached within GATT over tropical products because the US has made this conditional upon a successful agreement on other, for the US important, issues such as agricultural products and the service sector.

General tariff reductions

In another negotiating group working in the GATT Uruguay Round, the subject under discussion is the general reduction of import duties for all industrial products. The current proposal is for a 33·3% reduction in this duty. If an agreement is reached on this proposal it would mean that the furniture industry would pay a reduced EC import duty: down from 5·6% to around 4%.

CHAPTER IV: CONSEQUENCES OF THE DEVELOPMENTS IN EASTERN EUROPE

Introduction

Since 1989 the countries of Eastern Europe have been trying to transform their centrally-planned economies into free market economies, an enormous effort beset with problems. Since the beginning of the political and economic reforms in Eastern Europe the EC has gradually modified its co-operative policies towards these countries, which raises the question as to whether the changing economic relations between Western and Eastern Europe will have important implications for exports to Europe from the developing countries.
There is no simple answer to this question; new developments are still emerging in Eastern Europe and it remains difficult to evaluate the economic strength of these countries following the transformation of their economies.

Furniture imports from Eastern Europe accounted until recently for 8% of the total furniture imports into the EC. As far as wooden furniture is concerned, the products are largely aimed at the living room and are largely upholstered. Romania is the largest supplier. Eastern Europe accounts for only 2% of total cane furniture imports into the EC; Yugoslavia is the most important supplier.

EC agreements with Hungary, Czechoslovakia and Poland have led to the elimination of quota on manufactured goods. These countries enjoy GSP status and therefore pay next to no import duties. This means that they are in largely the same position as many developing countries. Together with the relatively low wage costs in Eastern Europe, this could lead in the long term to an advantageous trading position for the Eastern European furniture industry.

Romania and Yugoslavia have separate agreements with the EC. These countries too have GSP status, though with ceilings. Should these ceilings be exceeded, the excess amount is subject to the normal 5·6% import duty.

Before the Eastern European countries received GSP status, they dumped cheap furniture onto the EC market on a large scale. Former West Germany was often employed as an intermediary. After the unification of Germany the situation can well be said to have been reversed; West German furniture is enormously popular in former East Germany. However, lack of purchasing power means that for the time being Eastern Europe will not provide a large market for Western European furniture.

Implications for developing countries

Eastern European furniture will not represent a threat to export prospects from developing countries for the time being. Competition will mainly be about quality and design, and EC importers will only work with exporting countries able to meet these requirements.

There are good opportunities for both Eastern Europe and for developing countries in ready-to-assemble furniture (in wood and cane). The developing countries may be advised to develop their own special designs; this is the best way they can deal with Eastern European competition.

As far as cane furniture is concerned, Eastern Europe is not in competition with the developing countries. The latter have the raw materials and the know-how with which to make these products. This is why German manufacturers have set up joint ventures in - amongst other places - Indonesia. Italian firms, the most important Western European producers of cane furniture, have not taken this step. All in all, it seems that Western European joint ventures with developing countries will not be replaced by subcontracts in Eastern Europe.

CHAPTER V: CONCLUSIONS

Orders for furniture are increasing in all the EC markets. Quality products and ready-to-assemble products are both increasing in popularity. Prospects for cane and wicker furniture are not bad. This market too is demanding ever higher standards of finish and quality.

Increasing environmental awareness in Europe will generate a shift in the use of raw materials. Consumers will increasingly reject the use of tropical hardwoods. This could be to the advantage of cane and wicker furniture producers.

Competition and capital concentration in the European furniture market is increasing. This is also taking place in the retail trade. They decide which pieces of furniture are to be made, where, and how, to an ever-growing degree. Production is also being speeded up.

Up to now, producers in the developing countries have been accustomed to having to orientate themselves to the product specifications and designs of Western European retailers. However, other important product development considerations exist, including EC quality and safety requirements, and delivery times.

The developing countries must not restrict themselves to the production of low-cost, standard furniture components. They can also try to make higher-quality products and orientate themselves towards higher-price market sectors.

The developing countries can also try to gain a place in the market for ready-to-assemble furniture. There are opportunities here, especially in cane furniture, as this market sector is virtually undeveloped and there is little competition. It would also mean enormous savings in transport costs.

For cane furniture manufacturers in developing countries the most important competitor in the EC is Italy. Demand for cane furniture is increasing; even in Italy the amount of cane furniture imported from developing countries is growing.

EC import duties do not significantly affect the competitive position of the developing countries. However, EC regulations on product labelling, product quality and product liability are important. A possible tariff reduction for industrial products within the GATT Uruguay Round will not significantly affect the position for EC furniture imports.

As far as Eastern Europe is concerned, low labour productivity, small production capacities and the restructuring of the entire industrial sector mean that for the time being furniture imports from Eastern Europe will not threaten the competitive position of manufacturers in developing countries.

APPENDIX 1: A BRIEF SURVEY OF MAJOR EUROPEAN MARKETS FOR WOODEN FURNITURE AND CANE PRODUCTS

GERMANY

Consumption

In Germany upholstered furniture is the largest product group. It accounts for 26% of sales. Consumption of bedroom and kitchen furniture is increasing. Dining-room furniture expenditure decreased in value because of cheap imports from Eastern Europe.

Imports

Most furniture imports from Eastern Europe are upholstered seating and dining/living-room furniture. Romania is the largest supplier from Eastern Europe.

The other main suppliers are Italy, Denmark, the Netherlands, Belgium and former East Germany.

Thailand and China are the largest suppliers amongst the developing countries, providing mainly cane and rattan products. However, more than 80% of rattan imports come from the EC.

ITALY

Consumption

Consumer expenditure increased in the period 1984-1988 by 15% at constant prices. Major and growing markets are in bedroom and living-room furniture. Furniture has a high priority in consumer spending.

Imports

Imports of living-room and bedroom furniture are increasing. Fast-growing imports are in wooden-framed and cane seating. The main suppliers are Germany, France, the United Kingdom and Yugoslavia.

Italy imports large amounts of raw rattan. The leading suppliers of rattan seating are China, the Philippines and Yugoslavia.

FRANCE

Consumption

Consumption expenditure increased in the period 1984-1988 by 16% at constant prices. Growing markets are in bedroom and living-room furniture and occasional furniture.

Imports

Imports of dining-room, kitchen, and bedroom furniture are increasing.
The main suppliers within the EC are Italy (40%), Germany and Belgium. Romania is also a large supplier. The major suppliers in the developing countries are Taiwan and China.
Imports of rattan products from Spain, Italy, the Philippines and Indonesia are increasing.

THE UNITED KINGDOM

Consumption

Consumer expenditure increased in the period 1984-1988 by 36% at constant prices. Leading markets are in kitchen furniture and upholstered furniture. However, expenditure at constant prices declined in 1989.

Imports

The main suppliers within the EC are Germany and Italy. Sweden is the most important non-EC supplier.
The major suppliers from Eastern Europe are East Germany and Yugoslavia.
The main suppliers of rattan products are Italy, Spain and the Philippines.

THE NETHERLANDS

Consumption

Consumer expenditure increased in the period 1984-1988 by 44·7% at constant prices. This increase was caused mainly by the growing demand in quality furniture.

Imports

Germany accounts for 45% of imports. The United Kingdom, France and Italy are also growing importers. Imports of Eastern Europe (in particular former East

Germany and Romania) are also growing quickly.

The developing countries enjoyed a phenomenal growth as suppliers to the Netherlands.

In the first half of the 1980s trade in rattan and cane declined, but from then on imports increased. The 25% growth in the period 1988-1989 of rattan and bamboo imports was attributable to growing imports from Indonesia and the Philippines. Developing countries account for 66% of the total value of imported rattan products.

BELGIUM

Consumption

Consumer expenditure increased in the period 1984-1988 by 28% at constant prices. Furniture still has a low consumer priority.

Imports

Germany is the main supplier. The Netherlands and France are also major suppliers.

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