THE EC MARKET FOR WOODEN FURNITURE AND RATTAN FURNITURE IN THE 1990'S.

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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. Second, there is the final outcome of the GATT Uruguay-round of trade negotiations, which has its effects on EC trade regimes. Finally a major issue in Europe is the rapid development of closer economic cooperation between the EC and the countries of eastern europe. All of these developments will have serious consequences for suppliers from outside europe and especially for suppliers from developing countries.

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In some cases competition for them will be heavier and new demands will be put upon them 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 make an inventory of the effects of these developments on the EC market for suppliers of **wooden furniture** and **rattan products** from developing countries.

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In chapter one the general market situation and some implications for developing countries are sketched. In chapter two we go further into the consequences of the process of economic unification in the EC. In chapter three (likely) outcomes of the GATT Uruguay-round are described and in chapter four we try to make an estimate of possible effects of developments in eastern europe and the closer cooperation between the EC and these countries. Finally, in chapter five we give general conclusions for suppliers from developing countries

CHAPTER 1. THE MARKET FOR WOODEN FURNITURE AND RATTAN PRODUCTS IN THE EC.

I.1 CONSUMPTION.

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

Furniture expenditure in all EC markets is growing. This growth is partly caused by the growing demand for furniture of higher quality. Wooden furniture expenditure as a share of total non-food consumer expenditure differs from 2,5% to 11% in the EC countries. The lowest rates can be found for Belgium and the United Kingdom.
In many european nations furniture has still a low priority. In France, Germany and Italy however, furniture have more priority than in other West-European countries.

Wooden furniture that is internationally traded can be divided in the following market segments:

- seats, upholstered or non-upholstered
- livingroom/diningroom furniture
- bedroomfurniture

Rattan products can also be divided in these segments. One segment can be added, rattan furniture for the garden.

In general the largest expenditure group is upholstered furniture. Bedroom, living-room and dinning-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 acceptance of the do-it-yourself concept.

In annex 1 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 eighties there was a strong growth in the value of the worldtrade in furniture. This growth caused large trade deficits in the U.S.A, France, The United Kingdom, Sweden and the Netherlands.
During this period imports into the E.C. 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 E.C. countries.

The share of furniture consumption that is imported varies by country:

NL	BE	FR	GE	IT	EN
50%	51%	30%	30%	2,7%	40%

As we can see, in Belgium and the Netherlands import- penetration is very high. There is an increasing pressure from imports, particularly diningroom- and kitchen wooden furniture. This is caused by competition from other west-european manufacturers which use Belgium as a test market.
Italy, with the lowest percentage is a major exporter of furniture.
The bulk of the imports of **wooden furniture** into the EC comes from other EC countries. Main suppliers are Western-Germany and Italy. Romania, East Germany and Yugoslavia are the largest growing eastern europe suppliers. Developing countries have just a share of 2%-3% of total furniture imports into the EC.

	NL	BE	FR	GE	EN	IT
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 8% share is estimated to grow to 30% in 1992.

Cane and rattan products just account for 1%-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 it is combined with furniture of other materials.
Developing countries have a dominant position in the imports of rattan seats. For other rattan furniture products this is different. Italy, Frances and Spain supply together 50% of total EC imports. Major suppliers to the EC among the developing countries of rattan products are Indonesia, the Philippines, Thailand, China ~~and Thailand~~.

a. Taiwan
b. Singapore
c. Hong Kong

Eastern-Europe have just a 2% share in the imports of rattan products to the EC. Indonesia is the main supplier of rattan, accounting for almost 80% of the world trade. The phillipines improved their capabilities in the deliverie of finished products.

I.2.2. Imports from developing countries

The value of the import from developing countries into the developed countries increased from 1983 to 1987 by 130% at constant 83-prices. The E.C. have just a 8%-share in the total importvalue. The leading tradepartners for the developing countries are Japan, U.S.A, Canada, Australia and New Zealand.

Leading suppliers among developing countries are Taiwan (62%), Mexico, Phillipines, Korea, Thailand, Hongkong en Singapore. The growth of imports from the developing countries is influenced by an increase in wage costs in developed countries, curtailment by certain developing countries of the export of raw materials, fall in costs of overseas ransport, benefits granted by the G.S.P and more re effective export promotion activities.

Indonesia in 1985, and the Phillipines in 1986 prohibited the export of raw materials. The effects of this measure on the export of rattan and wooden furniture were however different for the two countries. In Indonesia the effects were positive for the export and employment. (a millon of jobs were created) In the phillipines, the exportvolume dropped with 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 cost of labor combined with the difficulties of importing cane and rattan as raw material has encouraged importers and manufacturers of Germany and Holland to set up joint-ventures or subsidiaries in Indonesia. Dutch importers and manufacturers of cane and rattan furniture are also cooperating with the Indonesians. They have the expertise and act as importers for other european countries. To support the development ,the production of finished rattan products is open to foreign capital. However, there is also a form of rattansmuggle, by manufacturers who continue to import raw rattan.

I.3 DEMAND FACTORS AND TRENDS.

The demand of furniture depends on some macro-economic factors, like the number of potential buyers (influenced by the babyboom), the number of households and marriages, houseconstruction and the general macro-economic situation.(I.3.1)
An other important demandfactor is the popularity of different styles and materials .In this aspect the environmental issue plays a role.(I.3.2) Rattan furniture has some specific demandfactors. (1.3.3)
In a separate paragraph we describe some productfactors, like price, seasonality and size.(I.3.3)

I.3.1. macro-economic demandfactors.

In the first years of the 1980s the amount of **potential furniture buyers** was growing because of the Babyboom. People born between 1963 and 1968 represent the largest group of buyers. In the Netherlands there is also a growing population of older people which has larger real incomes than in the sixties and seventies.

The tendency in western countries to small **households** has a positive effect on the growth of the furnituremarket.The number of persons per household is falling and there is also a tendency towards dual income families.

A survey, covering furniture in french households shows that the size of french homes and the number of rooms with a piece of furniture varies according to the age of the households. It reach a peak with people between 40 and 49 years. Furniture is kept much longer than domestic appliances, and the average age of a piece of furniture is 13 years.

Houseconstruction
In the 1980s in Belgium, France, The United Kingdom , Germany,and the Netherlands there was an increase in new dwellings. The number of new dwellings is believed to have risen in response to the baby-boom generation. However, in Italy the number of new dwellings dropped in the period 1984-1988.
The prospects of the furniture industry in the Netherlands will be influenced by the actually downturn in the housing market.

Demand for new dwellings and offices is declining because of the higher interest rates, risen to over 10% and political discussions about property rental values. So, consumer expenditure, it is expected, will be concentrated on improvements rather than major investments and this is in favor of smaller pieces of furniture.

I.3.2. Design/styles.

General trend in Europe is the increasing importance of modern design and lighter color materials. There is a trend towards mixing of materials. Popular wood is walnut, ash, beech, cherry and pine. The demand for tropical hardwood is small and will decline in the future. For modern styles, alternative surfacing materials are used to a greater extent.
Modern furniture differs from the classic furniture by their functionality and design. Scandinavia is the source of new design ideas. For modern furniture, sizes, colors, and finishing are becoming more important.

In **Belgium** traditional design furniture still account for 60% of the furniture for the livingroom.
In **France** modern and contemporary styles are expanding in volume.
In **Germany** individualism and variety are causing a great demand for single units of furniture.Light colored veneers are fashionable.
In **The United Kingdom** traditional styles remains important. There is also a great demand for life-style furniture. The consumer in this country is more conscious of buying furniture to reflect his own personality or social standing. The demand for tropical hardwood will decline and there is a trend towards light. Wooden garden furniture is less popular compared with metal or plastic chairs and tables. However, furniture still has a low priority. Styles tend to be based on indigenous designs, so the supplier should work closely with the importer on styling.
In **The Netherlands** the people have traditionally a classic taste. There is a trend towards a more decorative furnishing style which express the more individualistic life-style. There is a growing influence of Italy, Scandinavia and France. Traditional furniture, particularly oak, still retain a share of 55%. Most important development is the 'romantic style', which combines traditional and modern design features.

A basic characteristic of the style is the mixing of different materials such as wood, glass, cane, rattan and leather to obtain a distinctive look. Furniture in this style accounts for 10% of the total value of furniture sales.
In **Italy** modern styles dominate and account for 80% of the total furniture sales. There is a significant trend to combine classic pieces with modern design.
The manufacturers who are the most capable of keeping up with market trends in West Europe are the italian manufacturers. They not only cater for Italian tastes but also for european tastes. They are very advanced in terms of design and the use of materials.

The **environmental issue** in respect of tropical hardwood will have consequences for the materials used for the manufacture of furniture in the future. There is a growing awareness by consumers about the destruction of tropical rainforests. Manufacturers will react to use more non-tropical hardwood and more board-materials and softwood. The consumer will ask for substitution materials. This will lead to new opportunities for furniture made of rattan and cane.

I.3.3. Rattan furniture demandfactors.

The **demand for rattan furniture** depends on changes in fashion in interior decoration and the price of rattan furniture in relation to that of other types of furniture. Rattan is expensive, because its a labor intensive product. Most of the products are handicrafts. The design also plays a important role.
In general we can say that cane and rattan products are popular. It's a more luxury kind of furniture and it is sometimes combined with wickerwork. **France** is the most important market for cane and rattan furniture. Here rattan is very fashionable, especially for gardens, country homes and the hotel sector. **Germany** is the second largest E.C. market for cane and rattan. Light-stained, dark-stained and white painted cane are very popular. In the **United Kingdom** the demand for rattan products is increasing. It is seen by consumers as more desirable and of better quality than it was in the 1970-ies.
In **Belgium** however, rattan products are not popular.

The problem with rattan is the lack of comfort. This may lead to a market slowdown. On the other side, there may be an upturn due to a trend towards the production of more refined cane and rattan of higher quality. Styles in cane and rattan have not changed in recent years. Variations in color, with color washes in whites, blue, grey or pastels are introduced. Brown colored rattan is not popular at the moment. There is a trend towards more refined rattan of higher quality. Upholstering the seats often takes place in Europe.

I.3.4. Productfactors

Seasonality
The sale of furniture has its peak months february, march, april and september, october and november. Imports of rattan will tend to be steady all year with a slight increase of spring.

Size
Standardsizes are not official but for most northern European countries the following sizes are general:
Seat height of easy chairs usually varies between 35 and 44 cm up from the ground. Seat size varies from 45 to 60 cm and the dept from 45 to 65 cm.

prices and margins
Typical costbreakdown in the wooden furniture sector; 40% of total cost are raw materials, 38% of total costs labor.

The gross retail margins are between 52% and 72%. Exclusive shops may have a margin of 100%. Import mark-up is around 30%.
Rattan also have a margin of 100%.

1.4 DISTRIBUTIONCHANNELS.

The different distributionchannels are buying groups, multiple retail chains, departmentstores, independent retailers, hypermarkets, mailorder and direct distribution.

I.4.1. marketshares and characteristics.

Market shares of total furniture sales by type of outlet in 1989:

	NL	GE	UK	IT	FR
Specialist shops/independents	77%	65%	31%	60%	44.5%
Furniture multiples			10%	10%	28%
Department shops	4%	3.6%	7%		4%
Do-it-yourself shops	2%		5%		
Mail order	4%	4%	5%		3%
Hypermarkets/out of town	13%	12.5%	35%	12%	6.4%
Direct from wholesaler/manufacturer		12%		3%	
Other	11%		7%	5%	12%

These percentages are not very exact because of the different subgroups and definitions used by the different furniture associations.

The furniture distribution system in Italy is the most fragmented of the EC and with a minimum of specialization. There is a new growing trend to direct sale by manufacturers.
The structure of the furnitureindustry of the United Kingdom is also fragmented, dominated by very small firms.

Buying groups are very important in Belgium, France, Germany and the Netherlands, where most of the retailers are associated in such groups. Members are not obligated to buy the products selected by the buying groups. Buying groups import direct from exporters.
The name of the buying group does not appear on the goods. However, for manufacturers it is better to sell to buying groups, especially for products for the mass-market. Buying groups give advice on marketing and other business aspects. They also coordinate promotion and advertising campaigns.

Furniture retailers and buying groups distribute furniture directly to the retailers. Wholesalers are not significant. In the Netherlands buying groups hold about 45% of the market and 35% of the retailers are members of buying groups.

Independent retailers are very important in the distribution in the Netherlands. They buy direct from manufacturers or buying groups. Small retailers however, are dependent of their importagents.. An importagent establishes contacts with local exporters and suppliers world-wide, negotiates contracts between them, supervises the fulfillment and helps parties with market information.
The importer in Germany has a powerfull position. Many of them are also involved in larger companies with also interest in manufacturing and some have factories abroad. So the importer becomes the marketing arm of the company.

Multiple retail chains are significant in The United Kingdom and Germany. Central buyers for multiple retail chains are very expertised and potential suppliers have to know very well what their production capacity and competitive position is in the market before they sell to multiple retail chains. Poor initial presentation decline their marketing perspectives.
In this channel pricecompetition and copied products play a major role so this channel is not often used for selling high-quality products and craftsman builtproducts.

Buyers for **department stores** take the same place as buyers of multiple retail chains.Today, consumers demand more choice than can be offered by departmentstores. Departmentstores are losing their marketshare because of the competition from large furniture specialists.

Hypermarkets or superstores are large specialized stores, normally situated out of the town with large parking facilities. They will dominate in the future. Their growing popularity is caused by the ease of acces, a wide choice of products,low prices because of discounting (sometimes 25% below the recommended prices) and their large range of accessories and promotion activities. Self assembly products are marketed mainly by this distributionchannel. Selling by this channel is only recommended when prices can be competitive and when there is a large supply. IKEA, the largest furniture retailer in the world, is the best example of this distributionchannel.

Mailorder have specific problems for manufacturers and should not be used before other channels have been tried.

Direct distribution is used by litle manufacturers who can sell their products on the local market by advertising. This can be quite successful by their low overheadscosts and low prices.

In the Netherlands the **furniture boulevard** is very popular. It is a concentration of 6-10 furniture retailers working together in one location. These boulevards account for 20% of the furniture retail turnover.
The popularity of small specialized shops, where quality and prices are high, will increase in the future and also the very large shops.
In the Netherlandsh half of the specialist shops are part of buying groups. There is even a stronger increase in the number of multiple outlets. In Germany the specialist up-market retailers are also doing well and their number is growing.

I.4.2 Developments in distributionchannels and the furnitureindustry.

The growing importance of buying groups in the distribution of furniture, the increasing collaboration between them (national and international) and also the increasing tendency to form chains will lead to new forms of competition. There is also growing internationalism in the retailsector. A good example is IKEA.
These trends together with the new sort of consumer (consumercultures are increasingly interlinked, mayby just because of the international orientated strategy of retailers and manufacturers) will be in the advantage of the retailers. Retailgroups which are succesful within their homemarket will also be succesfull in the european market.
The european 1992 market will lead to more **concentration** in the furnituremarket and both retailers and manufacturers will profit from economies of scale. This means fewer suppliers and lower prices.

Manufacturers have to adopt the demands of the retailers and powerfull international buying groups will exert pressure on the manufacturers. The stategy of the retailer will be focused on the european scale and **just-in-time production.** A further domination over the manufacturers by retailers is expected.
The ideal manufacturer has about 100 employees. To face the competition small companies will have to specialize further. An important key-word for succes is flexibility which also means computerized production systems with lower costs, quality control and investments in design and innovation.
If a company wants to be competitive in the european market it has to guarentee stability of service and delivery. **Deliverytime** will be six to eight weeks within Europe. Speed will be critical for the success of a company. Price will be less important.

I.4.3 Implications and requirements for developing countries.

Developing countries have to recognize the importance of working competitive. Furniture organizations of Western-Europe are very skeptic about possibilities to collaborate with manufacturers in developing countries. Multinationals invest in joint-ventures, but they are not engaged in the furniture market.
The banning of tropical timber exports to all countries and the rise in wage costs in the Far East (Taiwan, Singapore, Hongkong) have led to a relocation of furniture factories by large trading companies to Thailand, malaisia and Indonesia.

Most furniture manufacturers in developing countries are still small- and family businesses. Many require modernization. Out of date production systems, poor finishing and the typical small production-units are some of the difficulties of developing countries to export. Manufacturers have a tendency to commit themselves to orders which they do not have the capacity to fulfill. If developing countries want to export to Western-Europe, sharpening of skills is required in management, marketing, product design and quality standards and quality control of production.
In particular for the standard parts of production, developing countries need to mechanize production. Safety standards and the awareness for the environment are also of growing importance.
The market for quality products in Europe is growing and products will be developed at high speed. Product testing has to be a part of the design process, so when a product is presented it has to be tested already.

Developing countries should orientate themselves more on the **designfunction**. They have to work to design specified by importers and retailers. It is an advantage to develop speciality furniture. Product development must take account not only of market trends and consumer demands, but also of health and safety requirements.
More advanced developing countries should specialize. In this way the available raw material will be used in the most appropiate way and not squandered. Manufacturers have to study the advantages of strict materialcontrol and productlabelling in the factories in relation to consumer concern with environmental issues.

Dinning room furniture, living room furniture and bedroomfurniture gives the best opportunities to exporters from developing countries. They can use the most simple distributionchannel, retailing a whole range of non-upholstered products. Also the growing market for self assembly products in West Europe offers opportunities.
Exporters of developing countries should not export upholstered products. These are too much dependent of the specific design in the different countries. Most technical developments are taking place in the non-upholstered furniture sector and developing countries have the advantage to posses the timber normally used for these products.

Regular **deliveries** are essential. Deliveries form overseas should be within three months form the date of order. 30 or 60 days are allowed to check the furniture for possible effects.

Packaging and transport
Developing countries have to export furniture in containers of 20 ft to 40 ft to prevent damage. For good packaging contents must be protected and the quality preserved.
Standard packaging for furniture have not been introduced in Western Europe. A consequence is that sometimes good packaging materials are wasted and damage is still not prevented. The United States regulations for packaging should be adopted.

Transport costs for furniture from developing countries are a major factor in the decision to export or not. Tariffs are set by conference lines and are followed by other companies. Contracts with these conference lines give a discount of 10%

Without **marketing** exporters will not know the real value of their products. Prices in Europe often are higher then in the U.S.A.
Although there is a recent growth of furniture trade-fairs in developing countries, it remains very important to participate in furniture fairs in Western-Europe and to approach important buying groups.
An other important promotion activity is to make brochures. Brochures should give information about the products ,quality, functions and finishing. A company with 50 employees can spend 1,5% of the turnover to make a good brochure.
An other possibility is advertising in trademagazins. However, for developing countries this is not the best way to promote their products.

Developing countries should have central marketing organizations which are able to translate the needs of international trade into specifications for finished furniture. Manufacturers have to know about the qualitystandards and actual designs which are popular in the importing countrie.

Very important for the capability to export furniture for developing countries is the **seasening/drying of wood**. They need to control the moisture content of wood before using it for the production proces. The moisture contnet should be in equilibrium with the the atmospheric moisture in the countries where the furniture is sold. If this is not the case, finished furniture products can split. For export to West-European countries furniture should be manufactured from timber with moisturecontent of about 10%.
Many developing countries have their own kiln-drying facilities, but many use air-drying. This takes a long time and stock is tied up. The rate of drying cannot be controlled exact. An other problem is that moisture can be absorbed again in tropical countries when the wood is in the factories.

CHAPTER II. CONSEQUENCES OF THE REALIZATION OF THE INTERNAL MARKET.

Important aspects of the realization of the internal market are the abolishment of all tariffs between member states, harmonization of the technical standards which will replace national rules and the harmonisation of taxes.
This chapter is divided in two parts, naimly:

II.1: EC import restrictions for Eastern Europe and the developing countries.

II.2: Effects of regulations introduced or prepared by the commission.

II.1. EC import restrictions for Eastern Europe and the developing countries.

There are no restrictions on trade between member states and no restrictions on imports from the U.S.A. and the E.F.T.A. members. For other developed countries there is a dutie of 5,6% and one of 4,4% for parts of seats. Imports from developing countries enter free under G.S.P.
Developing countries have to declarate that at least 35% of the value-added product has been manufactured in the home countrie if they want to obtain the G.S.P.status.
If the countrie of origin is a member of the E.C. certificates of origin are not required. In Germany a certificate is required from countries benefiting the G.S.P. when the value of the import exceed DM 2000.
Hong kong, the Republic of Korea,Singapore, and Taiwan had their G.S.P. status lifted in 1989 because of their economic growth. These countries profited from the expansioning furniture market in the western countries in the eighties.
Developing countries benefiting the G.S.P.status are imposed to ceilings. When a countrie exceeds the ceiling a member countrie of the E.C. can make a request to the commission and the general tariff of 5,6% can be introduced.
In 1991 for the 9401 code there is a ceiling of 14.618.000 ECU. for every developing countrie.
For the 9403 code there is a ceiling of 69.126.000 ECU.
For code 94038000, other furniture of **rattan** there is a ceiling of 2.315.000 ECU.
There are no quota's exept for some handmade furniture.

Romania and Yugoslavia have some different agreements. These countries also have obtained the G.S.P.status. For Yugoslavia there is a ceiling of 9.368 tons and one of 8.243 tons for codes 9401 and 9403 respectively.
With Romania the E.C. agreed some tariff contingents. If these are exceeded the EC immediatly impose the tariff of 5,6% For 9401 there is a contingent of 14.681.000 ECU and for 9403 41.475.000 ECU.

There will be no real changes in this regimes in 1992. These tariffs and ceilings however are not realy discriminating. The decision of the importer of west-Europe to import from Eastern-Europe or from developing countries will depend on other more important factors. (see I.4.3)

Non tariff barriers
One non tariff barrier that will be more important in the future is the measure designed to protect the tropical rainforests. After 1995 only furniture made from wood from officially aproved forest will be allowed to entry in the E.C. markets.

II.2. Effects of regulations introduced or prepared by the Commission.

quality and labelstandards
National label and qualitystandards will be harmonized by the E.C.under standards of the de C.E.N. (Comitee Europeen de normalisation) Members of the U.E.A. (Union europeene de ameublement) are discussing specific sectors and decide about the future E.C. standards. The relevant technical committee is C.E.N. 207. If a product meet the standard of one E.C. country it will be saleable in all the countries of the E.C. This is ment by 'mutual recognition' of other standards.

Till now there is no obligation to adopt nationally the european standards. The main points of the Internal Regulations of the C.E.N. are to withdraw conflicting national standards, to adopt I.S.O. standards, making european standards binding to all E.C. members and standstill arrangements. An advantage of adopting I.S.O.standards that all countries use the same technical language as the rest of the world.

Important for the free movement of goods are product specifications. Each country has its own testcentre. Tests are undertaken by retailers or manufacturers on a voluntary basis. Standards methods of test have to be used. Agreed mutual recognition of the competence of the national testing bodies will avoid the need of retesting the goods when sold in markets other than then the home market.

In the Netherlands labels are used for upholstered furniture, but to give specific information about the materials used and about the maintenance of the furniture is still voluntary. There are specific quality requirements for materials, but there are just a few for furniture. The Dutch furniture association has his own guarentee system. 1145 retailers are members.

The european Commission has mandated a project for establising bar-codes for furniture products. There are also expert groups working on common fire test standards. Flammability of furniture is also an issue. The Britisch Fire Safety Regulation to improve consumer safety is, although not meant as such, a barrier to trade.

A major consequence of elimating these technical barriers is that countries with lower standards which did not work together before with countries with higher standards will see an increase in their production costs. Product quality is higher in West Germany than it is in the Southern European nations.

Developing countries should adopt qualitystandards and label-standards of the C.E.N. if they want to export furniture to Western-Europe. Furniture organizations of developing countries have to communicate therefore with standard organizations of West-Europe.

productliability

One of the most recent measures for consumer protection is a decree which makes the furniture manufacturer liabel for faulty goods (DPR 24,1988,No244) and is based on an E.C. directive.

harmonisation of taxes

The furniture market in Europe is in favor of harmonising VAT-levels. Actually there is a lot of border shopping in countries with lower VAT rates. Harmonising VAT levels will not have consequences for the imports from developing countries.

CHAPTER III. CONSEQUENCES OF THE GATT NEGOCIATIONS.

III.1. Outcomes of the negociating group on tropical products.

Selected tropical products including woods are included in a round of tariff reductions, initiated by Korea and supported by members of the A.S.E.A.N. All duties on unprocessed tropical products would be eliminated and all duties on semi-procesed and processed products would be reduced. This round is started because of the growing concern about the tariff-escalation.
In this line is also the offer of the Community in 1990 , which provide tarifcuts for natural resource based products:
-100% for industrial raw materials.
-35% for industrial semi-processed products
-50% for finished tropical products.
However this will only be adopted when other participants come forward with contributions. Developing countries which have a dominant supply position for raw materials have to restrict their export. The level of reciprocity for beneficiary countries and other contributions of developing countries related to market acces in general have to be made also.
For all wooden furniture, exept for rattan products, this offer means a reduction from 5,6% to 2,8% or 4,2%.
Rattan products are exluded.

CHAPTER IV. CONSEQUENCES OF THE DEVELOPMENTS IN EASTERN EUROPE.

Till now imports from Eastern-Europe into the EC account for about 8% of the total imports. Imports are expected to grow. Imports wooden furniture from Eastern-Europe are dining- and livingroom furniture and upholstered seats. Romania is the largest supplier. Imports into the EC of **rattan furniture** products account for 2% with Yugoslavia as the major supplier. This is not really significant.

E.C. agreements with Hungary, Tsechoslowakia, bulgaria and Poland have led to an elimination of quota's on manufactured goods. These countries also obtain the G.S.P. status. This means that they have the same rights as developing countries.
These agreements together with the low wages in Eastern-Europe could lead to a competitive supply to the EC.

Lower barriers for trade to the European market is compensated by investments of western companys in joint-ventures and by accepting western aid by training of managers and environmental research.

Before obtaining the G.S.P. status, cheap furniture was dumped on the E.C. market, without paying importduties. West Germany, for example was used as a transit platform for Eastern-European furniture. In this way the lower barriers for trade will not cause for a real change.
The low labourproductivity is one of the barriers to export and imports will not grow rapidly if these countries have not the production- and managment technics as in western-Europe.

East-Germany has an advantage in this aspect. However, manufacturers in East-Germany are running at half capacity. The Eastern-German population now wants furniture from Western-Germany which is one of the causes for the enormous growth in the furniture industry of Western-Germany. Investments in the Eastern-German industry by companies of western-european countries has not happened as expected because the redistribution of property has not been completed.

Consequences of the developments in Eastern-Europe for the furniture industry in Western-Europe are not clear. There will not be more export possibilities for the EC in the short run because there is no spending power in Eastern-Europe.

implications for developing countries

Imports of Eastern-Europe, especialy Romania, Yugoslavia and Eastern-Germany are growing and are expected to grow in the future. However, imports of developing countries are also growing. The level at which developing countries can be competitive for **wooden furniture** will not depend on the growing imports of Eastern-Europe but much more on their orientation towards quality and design-aspects. Importers and companies from Western-European countries will only work together with countries where the quality demanded can be achieved.

Imports of Eastern-Europe are more directed to the market of self assembly products and developing countries should orientate themselves more to the market for specialist products as already said in 1.3.4. In this way competition of Eastern-Europe won't be a concern.

For developing countries Eastern-Europe is not a competitive supplier of **rattan** products to the EC. The developing countries posess the raw material and also the experience to process rattan furniture. Manufacturers of Western-Germany and the Netherlands have already set op joint-ventures in Indonesia. No company in Italy , the most important producer of Western-Europe in rattan furniture made a significant move to transfer factories overseas. There will be no reason for western-European manufacturers of rattan to work on the basis of subcontractse with Eastern-Europe.

CHAPTER V. CONCLUSIONS AND RECOMMENDATIONS.

Furniture expenditure is growing in all EC markets. People buy more quality products and more self assembly furniture.
Products of cane and rattan are popular in the West European countries. Here also we find a trend towards more refined rattan products of higher quality.
In respons of the environmental issue there will be a shift in the use of materials. Consumers will ask for non-tropical hardwood. This is also in the advantage of countries which produce rattan products.

The european furniture market is a market where competition and concentration are increasing and where retailers (in particulary the large buying groups) decide how and what furniture manufacturers have to produce. Economies of scale will lead to lower prices. Production at high speed will become one of the most important factor in the european market for furniture.

For manufacturers of developing countries it will be difficult to be competitive in the european furniture market. As we have seen in chapter 1.4.3, they have to orientate themselves to product design specified by retailers in West-Europe. However, not only market demands are important for the product development. Manufacturers will also have to meet quality requirements and safety requirements of the EC. The delivery time will also be a more important aspect for them.

Developing countries should not orientate themselves to produce standard parts of wooden furniture. They will not be competitive in the EC market with low prices. It is better to orientate at the higher segments of the market and to try to manufacture higer quality products.
Although there are some possibilities for the market of self assembly products, it will be more difficult for developing countries to get a marketshare in the european market, because of the highly competitve prices.
Participating in furniture furniture fairs in West Europe and approaching buying groups are important activities for manufacturers of developing countries to promote their products.

These requirements are also for manufacturers of **rattan furniture**. Italy is a competitive western-European country for developing countries, manufacturing rattan furniture. However, demand for rattan furniture in western europe is still increasing and also in Italy there is an increase in the imports of rattan furniture of developing countries.

The desicion of the importer to import fom developing countries will not depend on tariffs. Future EC regulations for quality and label standards however, will have to be followed by developing countries.

The outcome of the Gatt-round will not have consequences for countries exporting cane and rattan products. Tariffcuts for tropical products could be in favor of the developing countries, but tariffs are so low that it will not be a significant factor for importers of West Europe.

For Eastern Europe lower barriers for trade with West European countries are created. However, because of the low labor productivity and the absence of the production capacity the import growth into the west european market will not be very high in the first few years. The level of competition of Eastern Europe in the West European markets however will not have major consequenses for imports from developing countries. If manufacturers of developing countries orientate themselves more on the market for higher quality products they should be able to mantain their growing marketshares.

ANNEXE 1: BRIEF SURVEY OF MAJOR EUROPEAN MARKETS FOR WOODEN FURNITURE AND RATTAN PRODUCTS.

GERMANY

consumption

In western Germany upholstered furniture is the largest product group. It accounts for 26% of the sales. Consumption of bedroom and kitchen furniture is increasing. Dinningroom furniture expenditure in value decreased becase of the cheap imports of eastern europe.

production

The german furniture industry is growing enormous because of the growing incomes and the growing demand for furniture, particulary from Eastern Germany. Reel growth of the furniture was about 5%-7% in 1990. The kitchen sector has boomed. 25% of the kitchen furniture is exported.

imports

Most of the furniture imports coming from Eastern Europe is upholstered seating and dining/living room furniture. Romania is the largest supplier of Eastern Europe.
Other main suppliers are Italy, Denmark, The Netherlands, Belgium and East Germany.
Thailand and China are the largest suppliers among the developing countries, providing mainly cane and rattan products. However, more then 80% of rattan imports comes from the EC.

ITALY

consumption

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

production

Real growth of funitureproduction in 1989 was 3,5% and is expected to grow with 3%-4% a year. Italy has become the largest european exporting countrie for upholstered furniture, livingroom furniture and seats.
Italy is a major producer and exporter of finished rattan products. The value of exported seating of rattan was seven times the value of imports in 1988.

imports

Imports of livingroom and bedroomfurniture are increasing. Fast growing imports are the imports of wooden framed saeting and seating of cane.
Main suppliers are West Germany, France, the United Kingdom and Yugoslavia.
Italy imports a large amount of raw rattan. Leading ~~suppliers~~ of seating of rattan are China, The Phillipines and Yugoslavia.

FRANCE

consumption

Consumption expenditure increased in the period 1984-1988 with 16% at constant prices. Growing markets are bedroom and livingroom furniture and ocasional furniture.

production

Real growth at constant prices was 6% in the period 1884-1988. Continued growth is expected for kitchen furniture. The rattan furniture market has about 3% of the total french furniture market.Production capacity is declining because of the lack of specialized workforce and machinery to upgrade the quality of the furniture.

imports

Imports of diningroom-, kitchen-, and bedroom furniture are increasing.
Main suppliers of the EC are Italy (40%), Germany and Belgium. Romania is also a large supplier. Major suppliers of developing countries are Taiwan and China.
Imports of rattan products from Spain, Italy and The Phillipines and Indonesie are increasing.

THE UNITED KINGDOM

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

production
The real growth level of production in the period 1984-1988 was 27%. Bedroom furniture showed the main growth. There is a downturn in the furniture industry from 1989.

imports
Main suppliers of the EC are West Germany and Italy. Sweden is the most important non-EC supplier.
Major suppliers of Eastern Europe are East Germany and Yugoslavia.
Main suppliers of rattan products are Italy, Spain and the Phillipines.

THE NETHERLANDS

consumption
Consumer expenditure increased in the period 1984-1988 with 44,7% at constant prices. This increase is mainly caused by the growing demand of quality furniture.

production
The real growth of the furniture production in the 1984-1988 period was 28,9%. However, the growthrate slowed down from 14% in 1986 to 5% in 1988. In 1990 the furniture production grew with 4%.
Homeproduction of rattan products accounts for one third of total consumption of cane and rattan furniture. Owing to Indonesia's ban on export of raw material there are no real prospects of the domestic production of rattan products.

imports
West Germany accounts for 45% of the import. The United Kingdom, France and Italy are also growing importers. Imports of eastern Europe (in particulary east Germany and Romania) are also fast growing.
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 are increasing. The growth in the period 1988-1989 of 25% of rattan and bamboe imports is particulary caused by growing imports coming from Indonesie and the Phillipines. Developing countries account for 66% of the total value of imported rattan produkts.

BELGIUM

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

production
Real production increased in the period 1984-1988 with 28%
Domestic kitchen furniture and upholstered seating are teh largest production markets.
Production of rattan furniture is almost non-existent.

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