



**Furnishing Industry Association of Australia  
Australia China Free Trade Agreement**

**Paper**

## **Position Paper**

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#### **1. Summary**

Australian Bureau of Statistics data shows that the Australian furnishing industry is a major contributor to the national economy. For example, the sector provides employment for more than 94,000 people and contributes about AUD\$8 billion annually, at manufacturing level, to the Australian economy. This figure grows exponentially at the retail level when Australian manufactured furniture is sold to consumers in this country and (increasingly) overseas. Taking into account wholesale and retail sales and the furnishing industry's contribution to other sectors of the economy, such as transport and timber, the FIAA estimates that Australian furnishing industry contributes about AUD\$25 billion annually to the Australian economy.

The Furnishing Industry Association of Australia, FIAA, is the peak organisation representing the industry in this country and this paper has been developed after extensive national consultations with the industry. The FIAA has introduced major reforms in the sector over the last several years which are assisting the industry to become more world competitive. These include production, training and business reforms developed to assist a traditionally family based industry to restructure, improve the skills of its workforce, enhance business practices and develop more efficient production technologies. As a result, productivity has improved and will continue to improve as the sector becomes increasingly world competitive and the export market grows.

Many of these reforms, such as the Action Agenda and the Australian Furnishing Industry Technology Network, have been and are being implemented in partnership with the commonwealth. The Australian furnishing industry has demonstrated its willingness to confront challenges, its commitment to develop improvements from within and its capacity to overcome difficulties. The industry is at an important stage in its development and it welcomes the opportunity to implement further reforms and improvements on the road to becoming world competitive.

The FIAA is very concerned about the potential negative impacts which could occur in the Australian furnishing industry at this time as a result of an Australia China Free Trade Agreement, FTA. These impacts would also spread from the furnishing industry to other sectors of the Australian economy including industry suppliers and the retail, transport and textiles clothing and footwear, TCF sectors.

For example, furniture manufacturers in China are no longer focusing on cheap furniture products. They are now producing a full range of products, from cheap knockdown to high value furniture. The high value furniture is in direct competition with niche market products from Europe, the United States and Australia. There were more than 50,000 furniture manufacturers in China in 2003, with a total workforce of over five million, and production valued at almost AUD\$43.8 billion, representing over 12% of global production.

FIAA is also concerned about the potential for the Australian furnishing industry to be “marginalised” and “traded off” by Government and/or its officials as the FTA negotiations develop and it has evidence that this is already occurring. For example, the FIAA was invited to attend a briefing with the China FTA Study Taskforce in Melbourne. However, FIAA was invited as a part of the Textile Clothing and Footwear, TCF, Industry not as a significant sector in its own right. Disturbingly this appears to indicate a serious lack of understanding among policy makers about the size, importance and make up of Australian’s manufacturing industries in general and the furnishing industry in particular.

The furnishing and TCF industries are separate sectors with disparate interests, needs and constituents. The Australian furnishing industry also provides significantly more jobs for Australian families and makes a far greater contribution to the national economy than the TCF sector. It was only after FIAA expressed its view that the sector needed to be addressed seriously in these negotiations that a separate consultation with the China FTA Study Taskforce was offered to industry representatives.

FIAA considers it critical that the Australian furnishing industry be addressed in accordance with its position as a substantial contributor to the Australian economy. As the FTA study and negotiations develop FIAA also insists that the Australian furnishing industry be given appropriate access to Government and its officials to allow full and proper consideration of impact of any prospective agreement on the industry.

FIAA has already expressed its view that Chinese furnishing manufacturers have been “dumping” furniture at prices below cost on the world market (including Australia) for a significant period of time. The Government of the United States of America recognises this, has taken action on the dumping issue and recently moved to impose substantial tariffs on Chinese furniture imported into the USA after October 2004.

It is likely that much of this Chinese product, which was originally destined to be dumped in the USA, will now be dumped on the Australian market instead. This process has the potential to intensify under the umbrella of an Australia China Free Trade Agreement and FIAA will be asking for a number of safeguards to be included in the agreement specific to the industry’s needs.

In addition, FIAA members already exporting to China report significant problems tendering for additional work in the country. This has occurred in spite of repeated assurances from Chinese authorities that the tendering processes would be transparent and above board. These FIAA members report that on all occasions, local manufacturers were awarded the contracts as their price was (coincidentally) always just below that offered by international tenders.

FIAA therefore considers it essential that Australia obtain assurances of a transparent transaction process and dispute resolution arrangements when exporting to China as part of any FTA between the countries.

The FIAA opposes the establishment of a Free Trade Agreement between Australia and China because of:

- The unfair advantage in exchange rates Chinese manufacturers enjoy through the linking of the Chinese currency at an artificially low level with the US dollar, when the Australian dollar is subject to market forces;
- Moves to exacerbate the existing currency exchange anomaly by having Australia follow the precedent already set by New Zealand and “declaring” China a “free market” economy rather than adopt a position which requires China to open its currency to market processes;
- The well established practice of China dumping furniture at prices below cost on the world market (including Australia);
- The overall cost of labour in a developed, free market economy such as Australia compared to that in a developing, non-free market economy such as China;
  - It is recognised that internal costs, including labour costs will increase as the Chinese economy grows and that this will improve competition, but these effects will not be evident for many years.
- The practice in China’s Economic Development Zones of;
  - subsidising industry where manufacturers are funded at low or zero interest rates if they undertake to develop specific facilities and contract to employ agreed numbers,
  - providing reduced tax rates for foreign investors as an incentive to attract investment in new industry.
- The use of prison labour and child in China to produce manufactured goods, including furniture, which is then sold on the open market;
- Environmental compliance issues for Australian manufacturers that do not apply in China, for example CFC foams and renewable forests;
- The impact of the elimination of tariffs on raw material inputs for Australian manufacturers compared to the cost of importing finished items which will result in very significant savings in the cost of imported finished goods;
  - For example, an individual component sourced by an Australian manufacturer costing, say, \$10 and currently attracting a 5% import tariff will deliver the manufacturer a saving of just 50 cents per item in production costs under the proposed FTA, whereas
  - An imported finished item costing, say, \$250 at the same 5% tariff will deliver to the importer a saving of \$12.50 per item under the proposed FTA.
- The high cost of compliance with Australian workplace regulations for local manufacturers that don’t apply in China including;
  - Salary on costs such as superannuation, annual, sick, maternity and long service leave payments,
  - Overtime payments,
  - WorkCover premiums,
  - Occupational Health and Safety considerations, and
  - Employment costs associated with the recruitment and training of new employees and apprentices.

In addition, FIAA raises its concerns about the potentially very high level costs to the Australian furnishing industry which would result from monitoring the application of any agreement should one come into place. These compliance monitoring costs (for example, measure compliance with Australian standards or challenge the dumping of furniture in Australia by Chinese manufacturers) will be prohibitive for the majority

of Australian furniture manufacturers who are small to medium sized business owners and in our view any proposed Agreement must include:

- Significant pre-emptive protections for breaches of the Agreement;
- A provision of funding for the settlement of disputes that may arise about compliance issues and the ownership of intellectual property rights; and
- A clear dispute settlement process, including penalties.

## **2. Background**

The Australian furnishing industry has a history dating back to the early settlers and the local industry manufactures products that are used every day in many different environments. The furnishing industry in Australia is capable of and seeks to match the sophistication of furniture style, design and production evident in countries leading this field worldwide.

### ***2.1 Contributing to a Vibrant Economy***

Australia's furnishing industry is a major contributor to the economic wealth of the Australian economy. The industry employs a workforce of over 94,000 people and supports thousands more in a large supplier employment multiplier effect. The industry is also a major contributor to GDP and provides many of the products that add to Australia's exceptionally high standard of living. In 2003/2004 approximately 15,000 firms directly employed 94,527 workers comprised of 62,127 jobs in manufacturing and a further 32,400 in associated roles. Manufacturing output exceeded \$8 billion. The three main sectors of the industry are residential furniture/furnishings, commercial (office or corporate) and hospitality (hotels, motels, resorts, etc). Residential makes up about two thirds of production output.

### ***2.2 Furnishing's National Context in Australia's Manufacturing Industry***

The furnishing industry's importance to Australia's manufacturing industry base is immense. Furnishing's core manufacturing sectors employ over 62,000 and generate \$1.9 billion in wages in salaries, \$7.7 billion in manufacturing turnover and \$2.8 billion in value added. This represents 7.3 per cent of manufacturing industry's employment, 5.1 per cent of wages and salaries, 3.5 per cent of manufacturing turnover and 3.8 per cent of value added.

## **3. The Position of the Industry Today**

### ***3.1. Globalisation***

Global players are the new force in the furnishing industry and are poised to take the mantle from traditional home based manufacturers. These large efficient, technology driven companies are aggressive in their quest for new global markets.

These companies have entered Australia and have found the local market exposed to volatile economic cycles with many small manufacturers struggling to meet supply in peak cycles and financially exposed in troughs due to over supply and

lack of creditable market intelligence and almost total dependence on domestic supply.

The new international players are characterised by sophisticated supply chains utilising state of the art technologies and efficient integrated business practices. They are aggressive in their marketing and often rely on global supply of components to make them competitive in the market. Access to cheaper labour and abundant capital in Asian countries has given manufacturers in those economies an enormous advantage.

The new entrants to the market have consolidated their resources, globalised and merged markets as barriers to trade have been lowered. There has been a significant increase in copying/merging of designs and use and promotion of niche Australian timbers product.

Whereas once Australia had a leading edge based on a highly skilled and trained workforce using reasonably efficient equipment it no longer exists. Any manufacturer in the world can now purchase sophisticated technologies to produce quality goods in low lead times using Australian niche timbers.

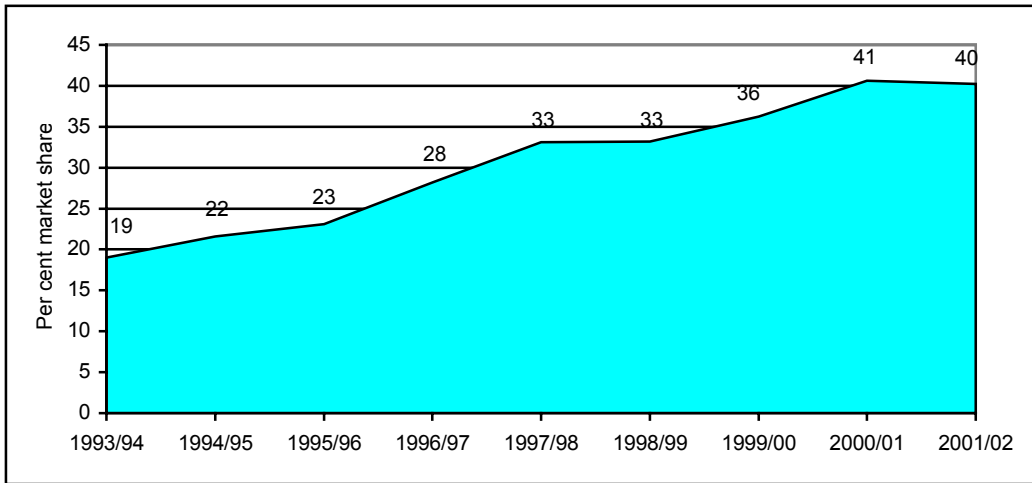
The current level of imports will have a dramatic and long term effect on Australian manufacturers if they continue at the same growth rate. As a consequence increasing numbers of manufacturing facilities are being rationalised or have been forced to relocate off-shore. Imports will also make local manufacturing vulnerable to any major market downturn in the broader economy due to oversupply with lower demand.

### **3.2. The Macro Economic View**

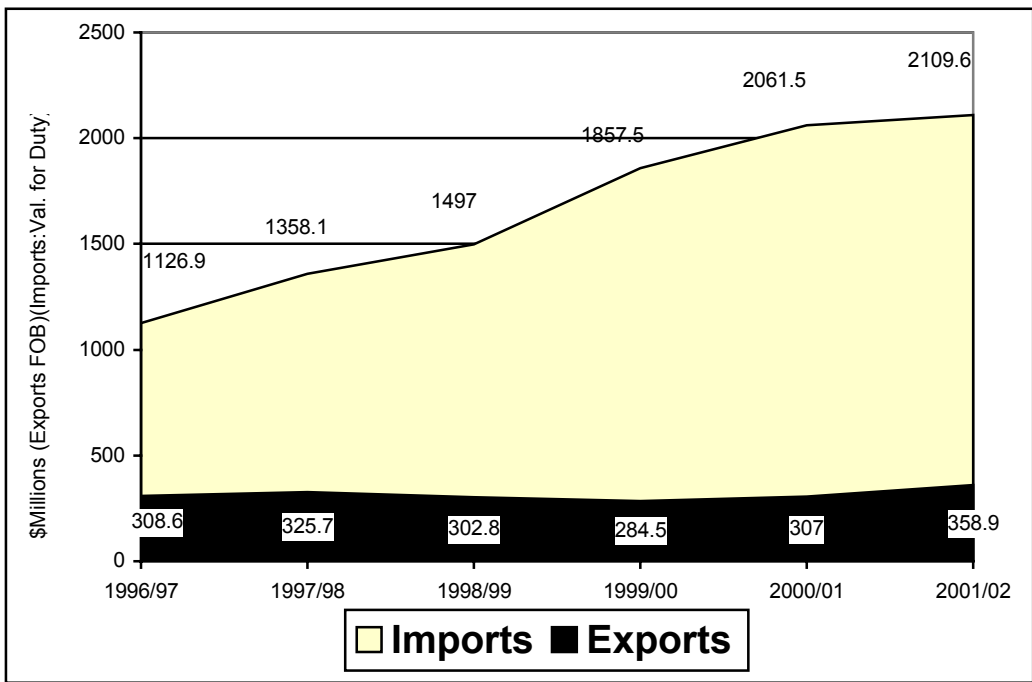
#### Industry Data

<b>Employment</b>	Manufacturing sector employment 64,527 Non-manufacturing sectors employment 32,400 Indirect employment 185,000
<b>Manufacturing Turnover</b>	At \$7.7 billion. Growing at 2.6% compound
<b>Wages &amp; Salaries</b>	At \$1.9 billion. Growing at 4.4 % compound
<b>Value Added</b>	At \$2.8 billion. Growing at 2.9% compound
<b>Establishment size</b>	54% of manufacturing establishments employ less than 20 people
<b>Imports</b>	\$2.1 billion p.a. Rapid growth
<b>Exports</b>	\$359 million p.a. Static

**Estimated Imports Share of Total Retail Market**



**Furnishing Trade Deficit Core and Associated Industry Classes**



**3.3. The Micro View**

If the Australian manufacturers are to grow and compete in the domestic and world market there will be a need for a divergence of larger players utilising the skills and services of specialised smaller operators.

The supply issues (raw materials, especially timber) must be aggressively attacked with the development of niche markets based on product differentiation, quality, service delivery and “the green factor”.

The industry via the FIAA must immediately address the lack of skilled employees ranging from management supervisors to shop floor operatives.

The industry must also address the increasing concentration of power with large retailers. This has led to a loss of brand and image by local manufacturers. Manufacturers, in the main, have no individual identity in the market place, and hence have lost the opportunity to differentiate and protect themselves.

The industry must also facilitate and stimulate the growth of companies exporting.

### ***3.4 Improvement in Production Efficiencies***

A great deal of quality information was collected by the FIAA as part of the production Efficiency project under the Action Agenda. The data highlighted seven main areas where significant efficiencies could be made to improve production. As a consequence a number of showcase projects are currently being conducted with the outcome that the results will be published for the industry to review and implement where appropriate.

Past evidence highlights that very few companies will utilise this valuable information to instigate the changes that are needed. Other studies also show that the need for continual change is ever present and that companies need extensive training in initiating and maintaining on going “continuous improvement programs”.

#### ***3.4.1 Uptake of new Technologies and Methodologies***

Evidence from the two recent visiting specialists has highlighted the need for Australian companies to embrace the uptake of new technologies and methodologies. These initiative must however be implemented after extensive analysis and audit of the individual companies current technologies and methodologies. Both specialists promoted the notion of integration of “systems” within companies rather than the division of operations verse production.

#### ***3.4.2. Uptake of new innovations and design***

If Australian manufacturers are to differentiate their product from imported product in areas other than price then they must embrace innovation and design. Evidence highlights that niche markets can be created successfully in the three markets. An extensive promotion, education and marketing program of the customers and the supply chain must accompany this initiative.

#### ***3.4.3. Extensive training and education throughout the whole industry***

The future of the industry relies heavily on the ability to introduce and develop a culture built on training and education. It also needs a major strategy to attract new highly motivated and well-educated and trained personnel to the industry.



Growth in the industry will be based on personnel training and re training in new and innovative methodologies in management, operations and production.

#### **3.4.4. Development of Market Awareness Strategies**

It is obvious that as the impacts of the projects above evolve significant effort should be directed towards developing market awareness activities. These activities should not be seen as peripheral but as complementary and run in parallel with those listed above.

##### **3.4.4.1. Export Activities**

The FIAA has a number of State based export sub committees. These committees have developed strategies and activities to promote export awareness and promoted members product both in Australia and overseas.

The FIAA have also begun the process of developing key marketing materials (electronic and hard copy) which will assist in marketing the Australian industry.

Evidence suggests that many FIAA members are not export ready. They lack quality business plans and in some cases struggle to meet local supply demands.

##### **3.4.4.2. Labels**

The industry is facing increased competition for local demand by imports. To win back local customers the industry will have to undertake a range of activities to increase awareness and demand for the Australian product. Key areas that Australian product can differentiate itself from imports is in the areas of:

- Quality;
- Source of raw material “green” philosophy;
- Country of origin; and
- Design factors.

These activities should include appropriate labelling of manufacturers’ product. The labelling should include information such as:

- The name of the manufacturer;
- The country of origin;
- Fitness for Purpose;
- Warranty;
- Bar codes; and
- Other industry information such as “green” information.

##### **3.4.4.3. Alliance Programs**

The FIAA have a number of key organisations in both the private and government sector that it must develop closer working relationships. These

organisations are critical to the collection and dissemination of ideas to assist the industry to grow its knowledge of the market.

#### **4. Identification of the Key Result Areas**

If the industry is to grow in a profitable way, there are three areas that growth can occur in.

##### ***4.1. The Domestic Market***

The data shows that the overall potential growth in the domestic market. In relatively small in percentage terms, approx 5% pa. The data also shows that imports are winning a significant part of the market and it must be assumed that they will also win a significant part of any future growth.

##### ***4.2. The Import Market***

The statistical data provides strong evidence that imports are rising rapidly. The market segments in which imports are impacting most significantly is in the lower price lower quality end (assumption). To remain competitive most Australian manufacturers utilise some imported product in the production of their own product. It is most probable that the level of imported components will increase over the next few years

If Australian manufacturers continue to compete head on with importers in the lower end of the market, and the market is determined by price the Australian manufacturer will lose out. The Australian manufacturer cannot compete with the low labour rates of Asia.

It is logical then that Australian manufacturers should reduce market exposure where there is direct competition with importers in the low price end of the market. They must develop markets where they can beat imports on quality, price, design and delivery.

##### ***4.3. The Export Market***

The number of FIAA members who are involved in export activities is very low. Those who are involved in exports have developed niche markets in specific countries and some are utilising network organisations.

A significant number of members are currently considering exporting but are either not prepared in either a manufacturing or business sense. If Australian manufacturers are to grow exports significantly they must first make the necessary improvements in their local supply and then work collectively or in networks to enter niche world markets.