

WOODEN BEDROOM FURNITURE FROM CHINA

Wooden bedroom furniture includes beds, night stands, chests, armoires, dressers with mirrors, and other wooden furniture designed for the bedroom.¹⁷⁹ These furniture products are often sold together in coordinated groups, known as suites.¹⁸⁰



Fifty-four U.S. producers from 23 states responded to the USITC's producers' questionnaire during the investigation of dumped wooden bedroom furniture from China.¹⁸¹ Of these producers, ten were headquartered in North Carolina, eight in Virginia, four in California, and three each in Arizona, Missouri, New York, and Vermont. In 2001, the U.S. industry recorded shipments \$2.3 billion dollars and employed approximately 33,000 workers.¹⁸² Unlike the cement industry, which is a high fixed cost industry, the wooden bedroom furniture industry is a high variable cost industry. High variable cost industries are expected to adjust capacity and employment more quickly than high fixed costs industries in response to changes in demand.¹⁸³ One thus would expect that the dumping of wooden bedroom furniture would have strongly negative effects on the domestic industry. Producers of such furniture also tend to produce other wooden furniture on the equipment they use to produce bedroom furniture.¹⁸⁴ The production process entails sawing or cutting into shape lumber, veneer, and engineered wood products. These shapes are assembled into furniture pieces, which are then either stained or painted on a finishing line. Numerically controlled production techniques are increasingly employed in the industry.¹⁸⁵

Wooden bedroom furniture manufactured in the United States is sold primarily through unrelated retailers, though approximately 15 percent is sold

179 *Wooden Bedroom Furniture from China*, USITC Pub. 3743, Inv. No. 731-TA-1058 (Final) (December 2004) at 4.

180 *Id.* at I-11.

181 *Id.* at III-2.

182 *Id.* at C-3.

183 *Id.* at II-4.

184 *Id.* at I-13

185 *Id.* at I-13

through related retailers.¹⁸⁶ These unrelated retailers in many cases increasingly purchase furniture from China, other producing countries in Asia, Mexico, and Brazil.¹⁸⁷ Some domestic producers, including some of the largest firms, have also begun purchasing furniture from China in increasing quantities.¹⁸⁸

The furniture industry in China has been booming, with a large share of production targeted toward the U.S. market. For example, the firms responding to the Commission's foreign producers' questionnaire indicated that between 2001 and 2003, China's capacity to produce wooden bedroom furniture had doubled, that shipments to the U.S. market increased by 147 percent, and that exports to the United States accounted for approximately three quarters of these firms' total shipments.¹⁸⁹ This growth has occurred despite information indicating a high incidence of quality problems with Chinese furniture.¹⁹⁰

Original investigations and determinations

On October 31, 2003, a petition was filed alleging that imports of wooden bedroom furniture from China sold at less than fair value were causing material injury to the U.S. industry.¹⁹¹ The petition was filed by an ad hoc association of U.S. producers and six unions: Local 721 of the Cabinet Makers, Millmen, and Industrial Carpenters; Local 2305 of the UBC Southern Council of Industrial Workers; Local 193U of the United Steelworkers of America; Local 2093 of the Carpenters Industrial Union Local; Local 991 of the Teamsters, Chauffeurs, Warehousemen and Helpers Union; and Local 82472 of the IUE, Industrial Division of the Communications Workers of America.

The Department of Commerce investigation found dumping margins ranging from 0.79 percent to a "facts-available" rate of 198.08 percent.¹⁹² The majority of firms received separate rates based on the rates of the firms for which the Department of Commerce performed a detailed investigation. The separate rate was calculated to be 8.64 percent.¹⁹³

The injury investigation at the USITC was hotly contested by the Chinese furniture producers and importers; U.S. retailers such as Crate & Barrel, Marlo Furniture, and Pier 1 Imports; and an ad hoc committee of retailers and manufacturers that imports furniture from China. Even Furniture Brands International, the largest domestic producer of wooden bedroom furniture, opposed the petition. The Commission ultimately decided by a vote of 6 - 0 that the U.S. industry was materially injured by dumped imports from China. The Commission determination cited the following indicators of injury.

186 Id. at III-13.

187 Id. at III-15.

188 Id. at IV-15.

189 Id. at VII-2. One hundred fifty-three Chinese firms responded to the Commission's foreign producers' questionnaire.

190 Id. at VII-7.

191 Id. at 3.

192 69 Fed. Reg. 67316 - 67317. The Department found that one firm, which goes by the names of Tech Lane Wood Mfg or Kee Jia Wood Mfg, did not cooperate to the best of its ability.

193 69 Fed. Reg. 67317.

- The quantity and the market share of the subject imports increased “rapidly and consistently” during the period of investigation. The Commission found that the expansion of the Chinese market share came directly out of the market share of the domestic industry.¹⁹⁴
- There was “consistent and substantial price underselling by the subject imports”. The margins of underselling ranged from 15.9 percent to 61.1 percent for comparable item and style combinations.¹⁹⁵ The Commission found that the lower priced dumped merchandise forced U.S. prices to decline or forced those prices to decline more quickly than production costs.¹⁹⁶
- Despite an expanding U.S. market for wooden bedroom furniture, the domestic industry saw its financial and trade data deteriorate due to the subject imports. According to the Commission, the U.S. industry experienced “significant declines in its capacity, production, capacity utilization, domestic shipments, net sales values and quantities, employment, operating income, operating income margins, and capital investment.”¹⁹⁷

Some of the key data collected by the Commission during its investigation appear in the table below.

Table 25. Wooden Bedroom Furniture from China:
Selected Data Collected by the USITC

Item	2000	2001	2002	2003	January to June	
					2003	2004
U.S. shipment (\$mil.)	2,500.1	2,294.3	2,150.1	1,878.7	960.8	899.2
U.S. market share (percent, by value)	59.8	55.6	48.2	40.3	42.7	35.7
Subject imports (\$mil.)	432.7	565.6	957.9	1,401.9	624.6	871.8
Wages paid (\$mil.)	856.6	740.3	713.6	624.7	325.2	312.8
Operating income (\$mil.)	271.3	109.8	100.7	47.5	30.7	29.2

Note: Import data include sales of Tianjin Manufacturing Company, Ltd, which was found to have a de minimis margin.
Sources: USITC Pub. 3743 at C-3; and USITC Pub. 3667 at C-3.

Estimated revenue impact of unfair trade

The so-called separate dumping margin, 8.64 percent, was used to estimate the impact of dumping on the revenues of the domestic industry. Questionnaire data on imports were used instead of trade data, and appear to understate the subject imports’ value and volume. The data used also yield a higher unit value than domestic shipments of U.S.-produced goods, an unlikely circumstance

194 USITC Pub. 3743 at 18-19.

195 Id. at 21.

196 Id. at 21-22.

197 Id. at 24.

given that the Commission's head-to-head pricing data confirm that the prices of Chinese goods are significantly lower than the prices of comparable U.S.-produced goods. Despite these shortcomings, the model results indicate that annual losses during the period of investigation ranged from \$77 million to \$133 million, for a total three-year loss of \$333 million. The annual revenue losses imply that domestic revenues would have been 3.3 percent higher in 2000, 5.7 percent higher in 2002, and 7.1 percent higher in 2002 if there had been no dumping of wooden bedroom furniture from China.

Table 26. Wooden Bedroom Furniture from China:
Estimated Lost Revenue due to Dumping

Item	2000	2001	2002	Total
Estimated dumping margin (percent)	8.64	8.64	8.64	N/A
Lost revenue due to dumping (\$mil.)	76.8	123.0	133.1	332.9
Sources: USITC Pub. 3743 at IV-6; IV-10; IV-14; and C-3; and author's calculations.				

It is worth noting that the revenue losses likely understate the losses to the domestic industry due to survivor bias. Because of the high variable costs associated with this industry, producers are likely to shut down once the market clearing price for a product falls below average variable cost.¹⁹⁸ The new equilibrium in the following year thus has a lower domestic production base (i.e., less equipment and fewer employees) and a lower domestic market share than would have been the case if dumping had not injured the industry during the prior year.¹⁹⁹

The table below shows two other measures of cost that are normally not considered in the comparative static analytical framework. The impact of lost furniture shipments on other industries, for instance, is assumed to be zero in the conventional interpretation because the factors of production released as a result of the dumping are absorbed in other economic pursuits. The indirect industry multiplier for wooden bedroom furniture is estimated by subtracting the direct industry output multiplier for the nonupholstered wood household furniture manufacturing industry from the total industry output multiplier for that industry. Based on the Department of Commerce's detailed benchmark input-output tables for 1997, the indirect output multiplier for wooden household furniture is 1.23. The indirect effects of the dumping totaled an estimated \$410 million during the 2001-to-2003 period. The financial cost of dumping is equivalent to the increase in dumped imports multiplied by the interest rate. This calculation suggests that the financial cost of dumping was approximately \$12 million during the three full years of the period of investigation.

¹⁹⁸ Id. at II-4.

¹⁹⁹ For an example of this dynamic, see Greg Mastel, *Antidumping Laws and the U.S. Economy* (New York: M.E. Sharpe, 1998) at 81-98.

Table 27. Wooden Bedroom Furniture from China:
Indirect Costs and Interest Costs due to Dumping

Item	2001	2002	2003	Total
Indirect industry output multiplier	1.23	1.23	1.23	N/A
1-year T-bill rate (percent)	3.48	2.00	1.24	N/A
Lost indirect activity (\$mil.)	94.5	151.4	163.8	409.8
Interest on borrowed funds (\$mil.)	4.4	4.2	3.2	11.8

Sources: Bureau of Economic Analysis at http://www.bea.gov/bea/industry/iotables/prod/table_list.cfm?anon=97 (data for multiplier); Federal Reserve Bank of St. Louis at <http://www.research.stlouisfed.org/fred2/series/GS1/downloaddata> (interest rates); and authors' calculations.

The only unambiguous gain to the economy from the distorted market that results from dumping is equal to the change in the consumer surplus that does not come at the expense of domestic producers and fairly traded imports. Conceptually, it is equal to area D in the overview graph. The value embodied in this area tends to be small relative to the lost domestic revenue that is assumed away in the conventional approach. In the case of wooden bedroom furniture, the market-wide pure consumer gain over the three year period is \$4 million. How can this value be so small? In practice, the market-wide increase in the consumer surplus due to dumping is equal to the sum of changes in the consumer surpluses of three sources of furniture: domestic production, fair imports, and unfair imports. Mathematically, the pure gains to consumers from having much greater access to Chinese imports are offset in part by declines in the consumer surpluses of U.S.-made furniture and third-country imports. Thus, the net impact on the market as a whole, when measured as the pure gain to consumers, is relatively small – in this case, even less than the interest costs resulting from the increase in imports.

Table 28. Wooden Bedroom Furniture from China:
Summary of Costs and Benefits of Dumping

Item	2001	2002	2003	Total
Lost revenue due to dumping (mil.)	-76.8	-123.0	-133.1	-332.9
Lost indirect activity (mil.)	-94.5	-151.4	-163.8	-409.8
Interest on borrowed funds (mil.)	-4.4	-4.2	-3.2	-11.8
Consumption gains (mil.)	0.9	1.5	1.6	4.0

Sources: Author's calculations.

Long-term impact of the order

The long-term impact of the order is difficult to discern at this point in time. The dumping margin on most major producers is less than the underselling margins. This means that Chinese furniture imports will continue to present a competitive challenge to U.S. producers, at least until there is meaningful appreciation of China's currency, the Yuan. Although contemporaneous data are not publicly available, 2004 data from the Annual Survey of Manufacturing suggest that value added and the value of shipments of the nonupholstered wooden household furniture manufacturing industry rebounded strongly in 2004.²⁰⁰ An executive from one of the petitioning firms claimed in February 2006 that his firm's core line of bedroom furniture has seen double digit growth since the order.²⁰¹ The industry also received approximately \$144,000 in distributions as a result of the CDSOA in 2005. On the other hand, official data demonstrate that the number of employees in furniture and related industries, which include wooden bedroom furniture employment, deteriorated in 2005 and 2006 after recovering in 2004.²⁰²

200 See U.S. Census Bureau, Annual Survey of Manufacturer—Statistics for Industry Groups and Industries: 2004 (December 2005) at 31. Wooden bedroom furniture production appears to account for approximately 20 percent of this category.

201 Sue Schultz, "Furniture Makers Ask for Investigation" news-record.com (February 16, 2006) online at <http://www.news-record.com/apps/pbcs.dll/article?AID=/20060216/NEWSREC0103/302160003/-1/NEWSRECRSS>.

202 Data can be accessed at <http://www.bls.gov/webapps/legacy/cesbtab1.htm>.