

The End of the Dumping Saga... Or is it?

by Andrew Brod

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The Great Furniture Dumping Case of 2003-04 is over. In November the U.S. Department of Commerce announced its final anti-dumping duties on wood bedroom furniture imported from China. Last month the U.S. International Trade Commission made its final ruling on the case, authorizing the U.S. to start collecting the duties.

The anti-dumping petition has roiled the industry, pitting manufacturers against retailers and importers. Lines were drawn in the sand. A few long-standing retailer-manufacturer relationships were ended. And some manufacturers were soured against the American Furniture Manufacturers Association when it didn't join the petition. The AFMA's ambivalence about the petition was underscored this fall when it changed its name to the American Home Furnishings Alliance and started accepting importers as members.

The anti-dumping process started in late 2003, when a group of domestic manufacturers called the American Furniture Manufacturers Committee for Legal Trade filed a petition with the U.S. government. The petition alleged that Chinese makers of wood bedroom furniture were "dumping" their products on the American market, i.e. selling them here for less than "fair value." As I've noted previously in this magazine, dumping is largely a bogus concept from the perspective of economics, but the law is very much on the petitioners' side. As the old saw goes, the scandal isn't what's illegal but what's legal.

The petition triggered a year's worth of investigations and announcements. First the Department of Commerce determined that the petitioners represented enough of the industry to pursue the anti-dumping action. Then last January the ITC issued a preliminary ruling that the domestic industry had been injured by these imports. In June, Commerce ruled that the injury had been caused by dumping and levied preliminary anti-dumping duties, which it later revised. That set the stage for the announcement of final duties in November and the ITC's final ruling last month.

There are three categories of Chinese manufacturers in the rulings. The first category is made up of seven "mandatory respondents," the large Chinese manufacturers that were required to submit detailed information to U.S. investigators. The mandatory respondents were each assigned a specific anti-dumping duty. The second category is the "Section A" manufacturers, which are all assigned a duty equal to the weighted average of the mandatory respondents' duties. The third category includes all other manufacturers, which are assigned the "all-China" duty of 19.8 percent.

Consequently, the Section A duty is perhaps the most informative single number in the case, because it's the average duty affecting all imports other than the relatively small segment that's hit with the high all-China rate.

When the preliminary duties were announced, roughly 80 percent of all imports of wood bedroom furniture from China were to be hit with an average duty of 10.92 percent (the

Section A rate), later revised upward to 12.91 percent. The remaining 20 percent fell under the all-China duty. But duties as high as 198 percent tend to disappear, as buyers shift their purchases to manufacturers not saddled with such a high tariff.

The upward revision of the Section A duty led many observers to expect the final duty to go even higher, but Commerce fooled them and went the other way. The final Section A duty is 8.64 percent, and that number actually overstates the average duty because its calculation excludes that of mandatory respondent Markor, whose final duty was so low (0.79 percent) that it was deemed by Commerce to be unrepresentative of the dumping situation.

The all-China rate is still 198 percent, but now only about 10 percent of all imports are manufactured by companies in that category. Look for that share to fall even further. After all, a company's furniture has to be pretty darned wonderful to retain its customers after its prices triple. Therefore, within a few months there will very little wood bedroom furniture imported from China carrying a 198 percent duty. The average duty on *all* imports will be about 8.64 percent.

This is a long way from the anti-dumping duties requested by the petitioners, which ranged from 158 to 440 percent. The petitioners have to feel like a guy who wins a lawsuit but is awarded a measly 100 bucks in damages. And sure enough, Vaughn-Bassett CEO John Bassett and the other leaders of the petitioner group tend to emphasize the ruling that dumping took place; they have less to say about the duties.

The simple fact is that this ruling will not significantly change the competitive environment in which Vaughn-Bassett and other domestic manufacturers operate. The ruling will change some of the names, but the basic fact of stiff foreign competition will remain. And many names won't change because the duties are small enough that Chinese manufacturers will still enjoy a clear cost advantage. The advantage has been shrunk, but not by much.

What *has* the anti-dumping ruling changed?

The most significant change will be the identities of some foreign importers. There has been some movement to source from Vietnam and other Asian countries, but so far there's been no headlong rush out of China. Of course, within China the companies receiving the all-China rate are essentially out of the picture now. Many have already started focusing on other product lines or other export destinations. Ironically, the American petitioners claimed that the Chinese government exercised undue influence on Chinese manufacturers, and yet it will be *our* government's anti-dumping ruling that will exert the most influence on this segment of the Chinese furniture industry.

Another result of the anti-dumping ruling may be that we haven't seen the last of this protectionist strategy in the furniture industry. Bruce Blonigen, an economics professor at the University of Oregon, has analyzed data on anti-dumping petitions and finds that the filing of such petitions tends to increase an industry's likelihood of filing more of

them. This is because experience with anti-dumping petitions reduces the costs of filing them in the future. In other words, industry groups tend to learn the ropes by going through the process.

However, Blonigen also finds that the anti-dumping duties that result from those petitions tend to decrease as more of them are filed, because the greater ease of filing also leads to the filing of weaker cases. If this general result turns out to be prescient for the furniture industry, future actions by the Committee for Legal Trade may matter even less than this one will.

Unfortunately for the cause of open trade, the Department of Commerce is very receptive to anti-dumping petitions. The chances that such petitions will succeed are greater than in the past, and the average duties that result from them are rising. In separate research, Blonigen attributes the latter in large part to the procedures used by Commerce, including its technique of using cost data from uninvolved countries to estimate production costs in so-called “non-market economies” accused of dumping. It’s a game that’s rigged against developing economies like China.

The U.S. approach to dumping may backfire on itself in some respects. The Byrd Amendment of 2000 requires the U.S. government to distribute the revenues generated by anti-dumping duties to the petitioners. This might seem reasonable, but the World Trade Organization has ruled that it violates international-trade rules by punishing foreign producers twice, first by hitting them with duties and then by distributing the proceeds to their competitors. Because the U.S. has so far refused to repeal the Byrd Amendment, the WTO has ruled that other countries can now hit the U.S. with punitive tariffs on a wide range of American exports.

Fortunately, not all domestic reactions to “dumping” will hurt us more than they hurt our competitors. Some will do nothing. A Michigan Congressman has introduced a bill requiring that country-of-origin information be more prominently displayed on imported furniture. The idea is that consumers have the right to know where the furniture they buy is coming from. And fair enough. But it’ll change very little. There is basically no evidence that consumers care about such things. Consumers look for value, and they tend to leave their politics in the parking lot when they go shopping.

Whether we like it or not, that basic fact of consumerism is what renders this anti-dumping ruling mostly meaningless. Sure, we can squeeze the balloon in one place, but it’ll just bulge out somewhere else. When consumers want something, the odds are that business will find a way to give it to them. That used to be called the American way.

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