

# Submission to the Productivity Commission's Review of Australia's General Tariff Arrangements

The furnishing industry study of the trade and employment impact of tariff removal (Appendix 1) was designed to model the scenario of the Accelerated Trade Liberalisation proposal tabled at the Seattle meeting of the World Trade Organization. The report remains valid for this review as it provides a current analysis of the impact of tariff changes on the furnishing industry. It must be stated however, that quotas, non-tariff measures, and direct export assistance are amongst a range of supporting techniques that are a reality of international trade<sup>1</sup>. However, for most Australian industries few, if any, of these techniques, other than the remaining 5% tariff, are available. Therefore, consideration of the Australia's trade negotiating position through the consideration of tariffs alone is rather simplistic and will limit the possible options and strategies that may be necessary for local industry.

The review of General Tariff Arrangements needs to be considered in conjunction with Australia's industry focus. Australian APEC trade negotiations in previous years have clearly demonstrated a focus on minerals and agriculture. In the previous Early Voluntary Liberalisation Proposals of APEC the Australian furniture industry clearly demonstrated its inclusion would have detrimental effects. However, as furniture was deemed part of the Forest Products group the Australian negotiators would not consider the exclusion of the furniture sector. The key issue here is that in achieving wide ranging tariff changes creates winners and losers. The specific economic assessment of the losses has, in our experience, not been undertaken. Specifically, the job losses that would have occurred in the furnishing industry, had EVSL been successful, were not estimated. Australia's focus on agriculture and minerals is seen in many areas, the most recent in the independent report on Australia's National Innovation System. Unfortunately, this focus can have detrimental consequences on manufacturing and other value adding industries.

Australia's policy appears to be in stark contrast with other nations that develop strategies to increase local value adding. These can include restricting the export of raw materials to ensure maximum value adding. This is identified by the Nov 99 Taiwanese Furniture Industry Association Report (page 4) "However nations of this region (South-East Asia) have gradually moved to protect their forestry resources with several already prohibiting exports of

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<sup>1</sup> Examples of these abound. The opening sentence from the 1999 report of the Taiwan Furniture Association is "It is guided by Taiwan Government". Which means the association is funded by government to (as it states later):

- "putting forward proposals to government
- formulating trade policy
- organizing important capital construction
- holding exhibitions both at home and abroad
- publishing professional magazines, and
- carrying out other activities"

Clearly the Taiwanese government is actively and directly involved in the non-tariff assistance of its local furnishing industry.

pulpwood and more recently restricting lumber exports. As a result, furniture manufacturers can only import semi-processed products”. This provides a stark contrast to Australia where local furniture manufacturers are experiencing significant supply problems due to strong exports of lumber to China.

The furnishing industry report on the impact of trade liberalisation concludes that tariff removal in the foreseeable future will result in a total employment loss exceeding 24,000. The two primary issues of the tariff removal are:

- timing, and
- negative assistance.

#### *Timing*

The furnishing industry is currently undergoing a major initiative with the Department of Industry, Science and Resources, the Furnishing Industry Action Agenda. This initiative is identifying where changes are needed to make the industry world competitive. This will lead to a range of strategies that the industry will work on to achieve its targets. The issue is that time is needed to achieve these outcomes. The reduction in tariffs prior to the achievement of these outcomes will result in a significant reduction in the size and capacity of the Australian Furnishing Industry.

#### *Negative Assistance*

A differential between tariffs on major inputs and finished products has a direct impact on local producers. This is the situation for Australian furniture manufacturers, which use textiles, are a major manufacturing input. The furnishing industry is paying well over market rates for this key input (textiles) because they are protected by high tariffs. Whilst some compensation is provided by the 5% finished good tariff the situation will become significantly worse should the finished good tariff be removed (appendix 2). The assistance provided to the textile industry continues to have negative effects on the furnishing industry. This negative assistance will only be exacerbated if the furnishing industry tariffs are removed.

# **APPENDIX 1**

## **AN ANALYSIS OF THE TRADE AND EMPLOYMENT IMPACT OF ACCELERATED TRADE LIBERALISATION FOR THE FURNISHING MANUFACTURING INDUSTRY IN AUSTRALIA**

Prepared for The Furnishing Industry Association of Australia

by

**Statstrend Services**

Level 7, 24 Albert Road South Melbourne VIC 3205

November 1999

# FURNISHING MANUFACTURING IN AUSTRALIA

## AN ANALYSIS OF THE CURRENT MARKET STRUCTURE, TRADE AND EMPLOYMENT

### EXECUTIVE SUMMARY

An analysis of current trends in the Australian Furnishing Manufacturing Industry has been undertaken. A wide range of factors and issues were examined. They included:

- Employment Size - 81,822 direct manufacturing  
42,150 non-manufacturing sectors
- Establishment structure - Average number of employees is small  
and declining (from 9.1 – 7.6)
- Imports - Increasing rapidly (15% per annum)  
Some sectors are experiencing extreme import growth  
(upholstered lounge furniture 37% per annum). These  
sectors may be in this situation due to tariffs on inputs
- Retail concentration - Increasing
- Exports - Growing at 4% per annum
- Industry Trade Deficit - Increasing rapidly due to the difference between  
import and export growth
- Industry Efficiency - Turnover and efficiency per employee in the  
Australian furnishing industry is low when compared  
to other Australian manufacturing or International  
Furnishing Industries

The analysis undertaken has allowed modelling of the affects of early tariff removal. The modelling has factored in current trends and demonstrated that should tariffs be removed prior to the 2010 commitment there will be employment loss in the Australian furnishing industry. If tariff removal occurs in line with the World Trade Organisation's Accelerated Trade Liberalisation, direct manufacturing employment loss in the Australian Furnishing Industry will be in excess of 12,000 by 2010. The total impact on Australia will be even greater with a total employment loss in excess of 24,000.

Given the structure of the industry it is expected that the employment loss will have a significant impact on small businesses in the industry. Whilst further analysis is required, it is likely the anticipated loss will be in the range of 1,000 – 1,500 small businesses.

**FURNISHING MANUFACTURING IN AUSTRALIA**  
**AN ANALYSIS OF THE**  
**CURRENT MARKET STRUCTURE, TRADE AND EMPLOYMENT**

*Market Structure*

The furnishing manufacturing industry directly employs over 80,000 people within Australia<sup>1</sup>. The industry also employs an additional 40,000 in non-manufacturing sectors of the industry, as shown in Table 2.

**Table 1 Furnishings Industry Manufacturing Employment 1997/98**

<b>INDUSTRY CLASS</b>	<b>ANZSIC code Description*</b>	<b>No. Employment at end of June</b>
2221	Made-up textile product mfg	6632.0
2323	Wooden structural component mfg	18856.0
2921	Wooden furniture and upholstered seat mfg	29916.0
2922	Sheet metal furniture mfg	3286.0
2923	Mattress mfg (except rubber)	3199.0
2929	Furniture mfg n.e.c. (includes shop and large scale furniture)	8485.0
<b>Total Furnishings 2221,2323,2921,2922,2923,2929 (2221 and 2323 included in full)</b>		<b>70374.0</b>
<b>Total Furnishings 2221,2323,2921,2922,2923,2929 (2221 included at 50%, 2323 at 30%)</b>		<b>53858.8</b>
<b>Associated manufacturing</b>		
2769	Fabricated metal product mfg n.e.c. (includes furniture fittings, safes, cabinets, lamps)	21301.0
2329	Wood product mfg n.e.c.	6663.0
<b>(2329 included at 10%)</b>		<b>81822.8</b>

Source: ABS MANUFACTURING ESTABLISHMENTS (a): Summary of Operations by Industry Class: Australia, Preliminary, 1997-98

<sup>1</sup> The Australian Furnishings Industry: An Analysis AEGIS p20

**Table 2 Furnishing Industry Employment including Non-manufacturing Sectors**

	1996/97	1997/98
Traditional Manufacturing Sectors	73,000	81822
Curtain Making / Installation	16,400	17,200
Glass / Glazing	12,300	12,750
Carpet Laying / Blinds Installation	6,600	7,300
Lamps / Lampshades	4,500	4,900
<b>Total</b>	<b>112,800</b>	<b>123,972</b>

Source: ABS/Australian National Training Authority/Applied Estimates

As a value adding industry at the end of a long value chain the industry has an economic multiplier effect of 3:1<sup>2</sup>. That is for every direct employment two additional indirect positions are created resulting in the industry accounting for employment in Australia of 240,000 related to manufacturing sectors and 40,000 for non-manufacturing sectors, a total of 280,000.

A significant feature of the Australian furnishing industry is the average number of employees per establishment. In 'all manufacturing' the average number of employees has dropped from 23.7 to 18.3 over the period of 1990/91 to 1997/97. In all sections of the furnishing industry average establishment size has declined. Therefore, in the furnishing industry the average number of employees has fallen from 10.6 in 1990/91 to 7.8 in 1996/97.

**Table 3 Average Number of Employees per Establishment**

	1990/91	1996/97
Total Manufacturing	23.7	18.3
Total Furnishing Manufacturing	9.1	7.6

Source: ABS Catalogue 8221.0, unpublished data

The small size of firms in the industry is a major obstacle to the implementation of development policies and response strategies to major changes such as removal of tariffs. A significant change in market structure is the way in which retailers are operating. In periods of general market growth all sectors experience growth. In the event of an economic slowdown it is highly likely that any retraction in market share will be most keenly experienced in the smaller retailers.

<sup>2</sup> Source: ABS Cat No. 5137.0.15.001 (1993/94)

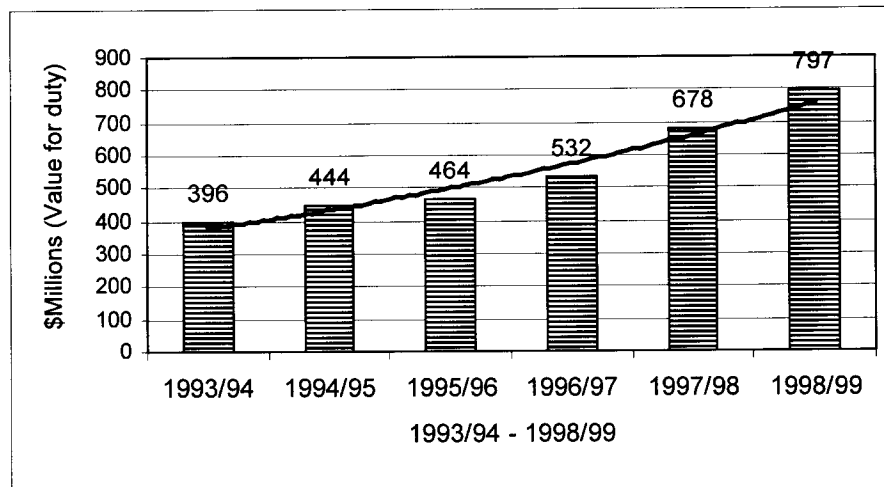
*The growth of the importance of retailers reflects a shift from supply-push mass production to customer focus and orientation. (AEGIS p.57)*

The increasing importance of retailers has a significant role in the market dynamics of the furnishing industry. Not only are retailers becoming more important but also the drivers of the retail sector are increasingly the large retailers. The large retailers also reflect the trend to globalisation of the market place, as they create significant market entry points for local and international suppliers. In a highly price competitive market such as furnishing shifts from local to imported product (or the reverse if supply is available) can be achieved relatively quickly. Therefore, shifts in the price balances will have a direct and an immediate impact on both local suppliers and importers.

### *Imports*

The trend in imports is alarming. In the last five years the average growth in imports has been 15.2% per annum. Also the general trend for this growth is exponential.

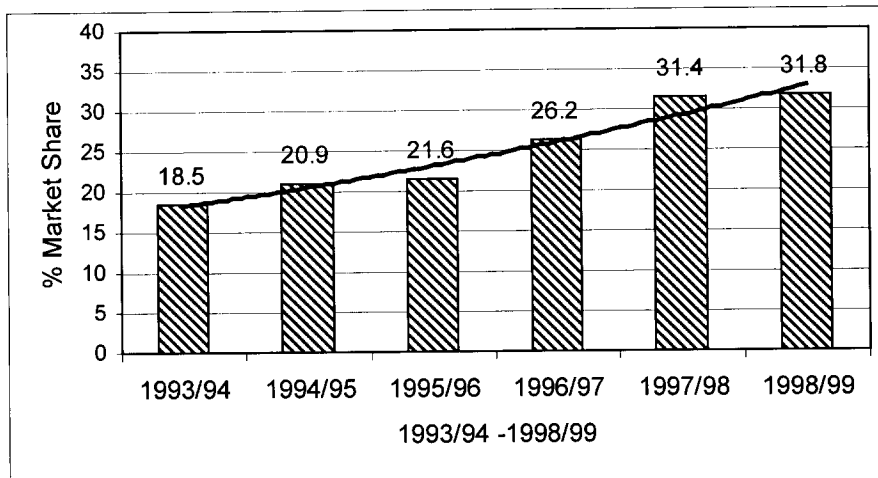
**Chart 1. Furniture Imports 1993/94 to 1998/99**



Source: ABS International Merchandise Trade 5422.0

This growth in absolute terms is reflected in percentage market share held by imports with an increase from 18.5% of the retail market in 1993/94 to 31.8% in 1998/99

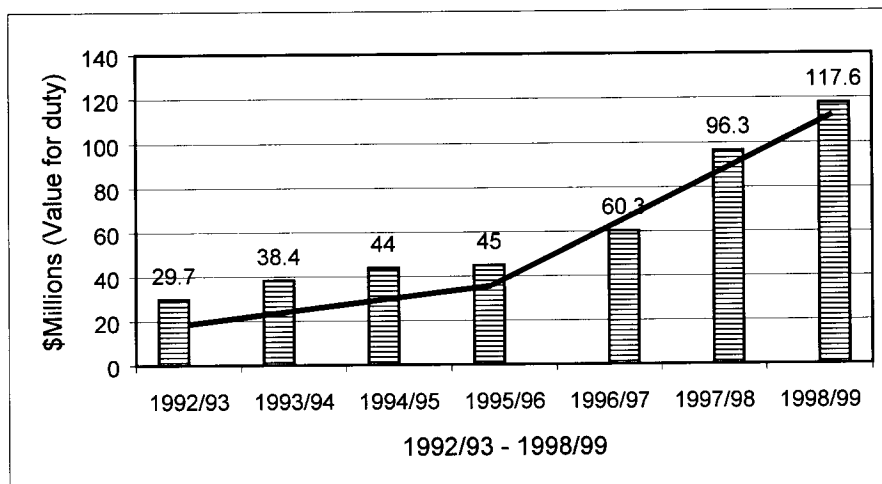
**Chart 2. Imports Share of Total Retail Market**



Source: Combined ABS data

Of particular issue is the massive growth in some sectors of the industry, in particular that of upholstered furniture. In this sector the growth of imports was consistent with the general industry trends and from 1992/93 to 1995/96. During this period the sector experienced a growth of 14.7% per annum. From 1995/96 to 1998/99 the rate in growth of upholstered lounge furniture was 37.3%

**Chart 3. Upholstered Lounge Furniture Imports – Wooden frame upholstered**



Source: ABS Special Report

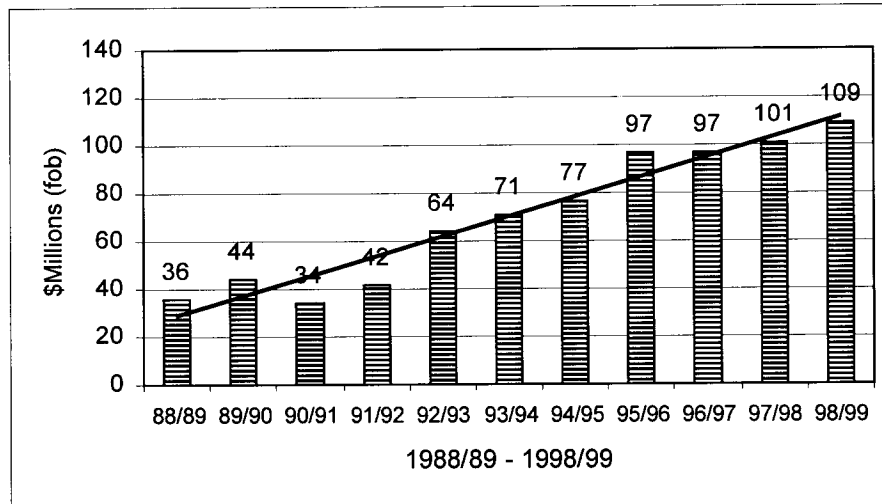
This information clearly shows that furniture imports are highly volatile and where opportunities for growth exist they will result in significant shifts in the supply base. It is interesting to note that the huge increase in upholstered furniture imports closely parallels the tariff differential that now exists with textile imports and furniture imports. As textiles are a major manufacturing input of the furniture manufacturing industry a differential in tariffs on major inputs and finished products can be expected to have a direct impact on local producers.



### Exports

The industry remains optimistic about exports and trend data suggest that there is opportunity for growth in this area. Over an extended period there has been an average growth of 11% in exports. The trend over the last four years has been lower however, with an average growth of 4%.

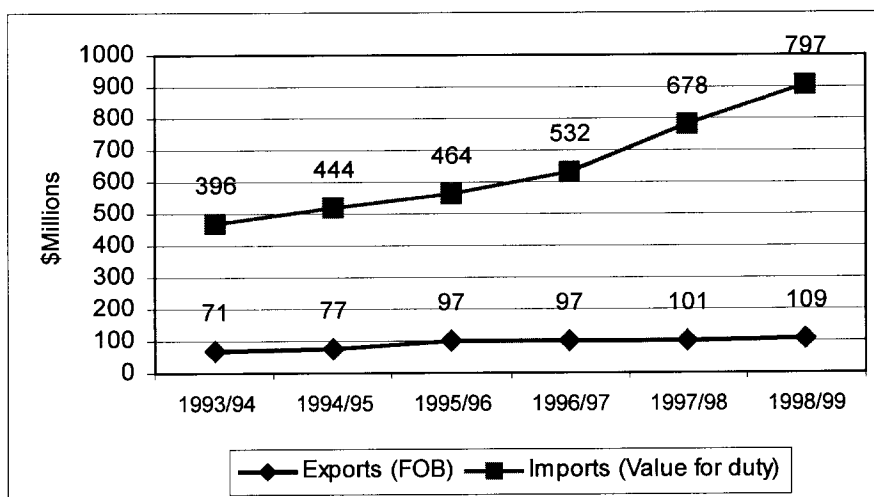
**Chart 4. Furniture Exports – Annual**



Source: ABS International Merchandise Trade 5422.0

The rate of growth of exports is below that of the rate of growth for imports. As such in relative terms the size of the Australian furnishing industry will continue to decline while the trade deficit continues to grow.

**Chart 5. Furnishing Industry Trade Deficit**



Source: ABS International Merchandise Trade 5422.0

Also it must be noted that the rate of growth of exports is declining whilst the rate of growth of imports is increasing. Therefore, based on current trends, the relative size of the trade deficit will continue to increase. If there is continued erosion into the base of local suppliers it is likely that this will act as an inhibitor to their growth in imports.

### *Manufacturing Inputs*

Manufacturing inputs for the Australian furnishing industry are an important ingredient in the competitiveness of the industry. Many inputs are imported, but it would appear that the small average establishment size of Australian furnishing manufacturers and the lack of clustering would suggest that group purchasing and the subsequent price reductions are not currently available. In addition, Australian textile tariffs ensure local textile inputs carry a 20-25% tariff. Imported product is produced without this surcharge and therefore all other things being equal this factor alone would have a major impact of the sectors profitability.

*One important element of the furniture and household goods ordered is the fabrics. These are 90% imported ... but there is little room here for interaction with the producers of the fabrics (AEGIS pg 59)*

Given furnishing textiles are predominantly imported it appears that the maintenance of textile tariffs in Australia is producing little benefit for the Textile Clothing and Footwear industry but is creating a direct cost impost for the Furnishing Industry.

### *Industry Competitiveness & Profitability*

Data suggests that the industry returns relatively low productivity. In short low turnover per employee implies low profitability. As table 5 demonstrates the furnishing industry is well below other industry averages.

**Table 4. Turnover Per Person Employed**  
Furniture Industry Vs Other Industries

<b>\$000's</b>	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Furnishings	102.0	101.0	103.0	106.0	109.0	107.7
Floor Coverings	175.1	199.1	167.8	209.5	207.7	212.6
Household Appliances	161.1	156.3	154.3	175.0	162.0	170.4
Textile, clothing & footwear	116.3	124.6	125.2	129.0	129.0	127.4
All Manufacturing Industries	192.1	201.8	207.4	217.6	220.4	223.3

Source: ABS Manufacturing Industry 8221.0

The low productivity of the furnishing industry is further demonstrated by international comparisons of the industry value adding.

**Table 5 Furnishings Value Added \$US per Employee - Selected OECD Countries**

<b>Country</b>	<b>Value Adding per Employee \$US</b> <small>(average 1984, 1991 &amp; 1994)</small>	<b>Trend (1984 - 1994)</b>
Finland	43,813.00	increasing
Canada	37,830.00	increasing
Sweden	34,794.00	static
Germany	34,186.00	increasing
Norway	33,545.00	increasing
Italy	32,204.00	increasing
United States	31,819.00	increasing
Netherlands	30,240.00	static
Denmark	28,966.00	increasing
Austria	25,752.00	increasing
United Kingdom	21,964.00	decreasing
Australia	20,800.00	decreasing
<b>AVERAGE</b>	<b>31,326.08</b>	

Source: Organisation for Economic Co-operation and Development, 'Main Industrial Indicators' 1998, 'Structural Analysis Database' 1998 and 'Input-Output Database' 1998.

Low profitability of the furnishing industry makes it vulnerable to changes in prices and competitive practices. Particularly in terms of the time taken for the industry to respond.

## ***Impact of Accelerated Trade Liberalisation***

The small size of firms in the industry is a major obstacle to the implementation of development policies and response strategies to major changes such as removal of tariffs. This coupled with the combined factors of retail concentration, exponential growth in imports and the industry's low profitability and levels of industry value adding ensure, that a 5% price differential in the immediate future will have a direct impact on the rate of growth of imports. This is particularly the case given the likely-hood that tariff differentials on inputs such as textiles will remain

Given the potential growth of imports in sectors such as upholstered products, which has an import growth rate of 37%, there can be no question that the capacity for significant changes in imports exists. Any tariff reduction on finished goods will also further increase the pricing differential on inputs such as textiles and further increase the purchasing disadvantage of local suppliers to their international competitors.

Currently the Australian furnishing industry operates with the protection of a 5% tariff on imports. Should unilateral decision such as Accelerated Trade Liberalisation being discussed at the World Trade Organisation be reached, then the tariff related to furnishing imports will be removed in 2003. This will result in an additional increase in rate of import growth. As import penetration is far from saturation point and the demonstrated capacity and availability of imports is high, the increase in the rate of imports will be between that of the current industry average (15% pa) and that of sectors with the highest growth rates such as upholstered products (37%pa). On the basis that the rate of growth of sectors such as upholstered products are in part due to the textile tariff differential it is unlikely that entire rate of import growth will reach this level. Therefore, the rate of import growth will be in the range of the mid-point of the second quartile (the lower end of the mid-point between the industry average and the upper end of import growth rates. This would result in a new rate of import growth of between 20.5 – 26%, the mid-range occurring between 22 – 24.5%. To take the conservative end of the range results in a new import growth of 22% per annum. It must be pointed out that this rate of growth is additional to concurrent patterns and trends that might be expected to occur such as currency fluctuations and the like. To model on the effective implementation it has been assumed that should there be agreement to early removal of the remaining tariff (effective 2003), that this would impact immediately. Therefore, the impact of the tariff changes on employment has been factored in to commence in full in the calendar year of 2003. The trade impact of these effects is shown in Table 6.

The industry has made a commitment to achieving a sustained export growth. If the industry is successful in achieving its stated export target of \$500 million by 2010 this will result in an annual rate of increase of exports of 15% for the target period. Given the rate of growth of exports for 1995/96 to 1998/99 has been 4% this is an optimistic target. However, utilising this to provide the best-case scenario it does impact on the net trade result generated by the tariff reduction. The trade impact of the industry export targets is shown in Table 7.

**Table 6. Net Value of Imports (\$mill) based on 98/99 import data and current and projected growth rates**

	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
6.1 Import Growth rate 15% (Current)	797	917	1,054	1,212	1,394	1,603	1,844	2,120	2,438	2,804	3,224	3,708
6.2 Import Growth rate 22% (after tariff removal 2003)	797	917	1,054	1,212	1,442	1,760	2,147	2,619	3,195	3,899	4,756	5,803
6.3 Net Import Trade Differential (6.2 – 6.1)	0	0	0	0	48	157	303	499	757	1,095	1,532	2,095

Source: ABS Special Returns

**Table 7. Net Value of Exports (\$mill) based on 98/99 Export data and current and projected growth rates**

	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
7.1 Export Growth rate 4% (Current)	109	113	118	123	128	133	138	143	149	155	161	168
7.2 Export Growth rate 15% (Industry Target)	109	125	144	166	191	219	252	290	333	383	441	507
7.3 Net Export Trade Differential (7.2 – 7.1)	0	12	26	43	63	87	114	147	184	228	280	339

Source: Industry estimates and targets

**Table 8. Turnover per Employee (\$) per annum, based on projected productivity increases**

	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
8.1 Annual Productivity Increase 1.1% (Current)	107,700	108,885	110,082	111,293	112,518	113,755	115,007	116,272	117,551	118,844	120,151	121,473
8.2 Annual Productivity Increase 2.75% (Industry Target)	107,700	110,662	113,705	116,832	120,045	123,346	126,738	130,223	133,804	137,484	141,265	145,150

Source: Industry estimates and targets

**Table 9. Employment Gain/Loss (persons) resulting from Net Trade Surplus/Deficit due to Change in Tariff Policy**

	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
9.1 Net Trade Balance (\$mill) (7.3 – 6.3)	0	12	26	43	15	-70	-189	-353	-573	-866	-1,252	-1,755
9.2 Employment Gain/Loss (At current productivity increase of 1.1%pa) - (9.1 x 8.1)	0	110	239	388	130	-616	-1,645	-3,034	-4,876	-7,291	-10,422	-14,450
9.3 Employment Gain/Loss (At targeted projected productivity increase 2.75%pa) - (9.1 x 8.2)	0	108	231	369	122	-568	-1,493	-2,709	-4,284	-6,302	-8,865	-12,093

Source: ABS 8221.0

### *Employment affects*

The turnover per person employed in the furnishing industry is currently \$107,700. There has been an increase in the turnover per person employed (Table 4), at a rate of 1.1% per annum from 1992/93 to 1997/98. The industry has made a commitment to achieving a higher sustained growth in productivity. This commitment is to increase the current rate of growth by a factor of 2.5. This target will result in a 2.75% annual increase in turnover per employee export growth and an anticipated turnover per employee of \$145,000 by 2010. The comparison of turnover based on current growth rates and anticipated growth rates is shown in Table 8. Both turnover rates have been correlated with the net trading position to produce amount of employment gain or loss that will result from the impact of tariff removal. This is shown in Table 9.

With the above factors taken into account and based on the modelling described it is clear that there will be significant employment loss in the furnishing industry if tariffs are removed earlier than the commitment given to 2010. If the proposals put forward through the APEC Early Voluntary Sectoral Liberalisation are enforced through the World Trade Organisation, Accelerated Trade Liberalisation proposals, it is anticipated that the result will be a loss of direct manufacturing employment in the Australian Furnishing Industry of 12,093 by 2010.

### *Conclusion*

The conclusion of this analysis is that the affect of early tariff reductions will be significant on the furnishing industry and will lead to a direct loss of manufacturing employment in excess of 12,000 by the year 2010. This accounts for an employment decrease by 15% on today's levels. The industry will need to monitor and plan for the possibility that this reduction may have a catalytic affect and so reduce the industry's productive capacity that it signals the end of the industry's potential to become a globally competitive player.

The total loss to the Australian economy is likely to be far greater. As an industry, which has a significant employment multiplier effect (2.942:1 – see footnote 2), a simple translation generates and expected job loss of 35,578. Based on the components of the employment multiplier effects it is clear the loss in the furnishing industry will affect both the first round effect and the industrial-support effects. However, it is possible that the reduction in local employment may have minimal consumption effect. Assuming the most conservative case this would still generate a 2:1 (actually 1.958:1 – see footnote 2) employment multiplier effect resulting in a national employment loss of at least 24,000.

### *Addendum*

It is likely that the employment loss in the furnishing industry will have a significant impact on small businesses. Given the average number of employees per establishment is currently 7.6 (and declining) it would suggest that the number of establishments with lower than 7.6 is very high. As such it is reasonable to expect that the employment loss will directly impact on these businesses and given their very small nature force their closure. Simple translation of enterprise size into forecast employment decline yields an expected loss of 1,590 small businesses. As this full and direct translation will be mitigated by some reduction in size of other establishments, the real loss is likely to be lower, and in the range of 1,000 – 1,500 small businesses. We would recommend that further analysis of this issue should be undertaken.

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## APPENDIX 2

# Calculation of the level of compensation to input tariffs provided by finished good tariffs.

**Formula** % input tariff x (Equalisation Factor) x % Cost Mark-up = % finished good tariff

Proportion of input tariff that equates to compensation by finished goods tariff  
Where the company has a gross margin of 33% (% mark-up on cost of 50%)

Table 1 Equalisation factor where Gross Margin = 33%

25% textile tariff	20% textile tariff
25% x Equalisation Factor x 1.5 = 5%	20% x Equalisation Factor x 1.5 = 5%
<b>Equalisation Factor = 13%</b>	<b>Equalisation Factor = 17%</b>
<b>Conclusion</b> If textiles account for more than 13 - 17% (depending on the type purchased) of the wholesale cost there is not adequate compensation	

Proportion of input tariff that equates to compensation by finished goods tariff  
Where the company has a gross margin of 25% (% mark-up on cost of 33%)

Table 2 Equalisation factor where Gross Margin = 25%

25% textile tariff	20% textile tariff
25% x Equalisation Factor x 1.33 = 5%	20% x Equalisation Factor x 1.33 = 5%
<b>Equalisation Factor = 15%</b>	<b>Equalisation Factor = 19%</b>
<b>Conclusion</b> If textiles account for more than 15 - 19% (depending on the type purchased) of the wholesale cost there is not adequate compensation	

An initial premise (shown as item 3) provided a common example of the value of textile costs in comparison to the wholesale cost. In this example it was about 33%. This is common industry experience and can be provided from a number of perspectives including standard meterages required to cover a sofa etc.

In the best possible scenario (as shown above in Table 2 in the case of a 20% textile tariff the maximum amount that could be attributable is 19%.

## Conclusion

Clearly the level of finished good tariffs does not provide sufficient compensation (or coverage) to completely address the negative impact of textile tariffs on upholstered furnishing items.

## APPENDIX 2

# Terms and Premises for the Calculation of the level of compensation to input tariffs provided by finished good tariffs.

### Initial premises

1. Finished good tariff is on the wholesale value
2. Wholesale value is unaffected by retail mark-up (margins)
3. Wholesale value is derived at by the following formula

$$\text{WS Value} = \text{Direct Inputs} \times \text{Gross Margin}$$

### Typical example:

Direct Input (a)	Textile	\$ 100.00
Direct Inputs (b) and labour	Timber, assorted materials	\$ 100.00
Gross Margin	33% of wholesale price	\$ 100.00
<b>Wholesale Value</b>		<b>\$ 300.00</b>

4. Equalisation factor. This is the percentage of the wholesale price, at which an input tariff is exactly compensated for by a finished good tariff.
5. If the input value (in percentage terms) is above the equalisation factor, the finished good tariff does not provide full compensation for the input tariff
6. If the input value (in percentage terms) is equal to or below the equalisation factor, the finished good tariff does provide full compensation for the input tariff
7. Textile tariffs occur within a range (between 20 – 25%) therefore equalisation factors will also be calculated within respective ranges
8. To simplify the formula Mark-up on Cost will be used instead of Gross Margin
  - a. Gross Margin of 33% = 50% Mark-up on Cost
  - b. Gross Margin of 25% = 33% Mark-up on Cost

**Formula** % input tariff x (Equalisation Factor) x % Cost Mark-up = % finished good tariff