



Testimony

For Release
on Delivery
Expected at
10:00 a.m. EDT
Wednesday
May 8, 1991

Few Wood Furniture Firms Moved to Mexico from the
Los Angeles Area

Statement of

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Before the
Subcommittee on Commerce, Consumer Protection,
and Competitiveness
Committee on Energy and Commerce
House of Representatives



Madam Chairwoman and Members of the Subcommittee:

We are pleased to be here today to discuss our report on U.S. wood furniture manufacturing firms¹ relocating from the Los Angeles area² to Mexico. Our report which was issued on April 24 was prepared at the request of Chairman John Dingell.³ At his request, we (1) estimated how many wood furniture firms in the Los Angeles area relocated to Mexico between January 1988 and December 1990, (2) discussed their reasons for relocating, and (3) provided information on whether Mexico has established standards to regulate wood furniture firms' air pollution emissions from applying paint coatings and solvents. Chairman Dingell has agreed that we could discuss the report at this hearing today. Our findings are summarized below.

¹For this report we use the term "wood furniture manufacturers" to refer to manufacturers of wood kitchen cabinets, household furniture, television and radio cabinets, office furniture, public building furniture, and partitions and fixtures.

²The Los Angeles area encompasses all of Orange and parts of Los Angeles, Riverside, and San Bernardino counties. It is considered to have significant air pollution and the worst ozone problem in the United States.

³U.S. - Mexico Trade: Some Wood Furniture Firms Relocated From Los Angeles Area to Mexico (GAO/NSIAD -91-191, April 24, 1991).

EXTENT OF WOOD FURNITURE FIRM RELOCATIONS

Based on the projections from our statistical sample⁴, we estimated that between 1 to 3 percent, of all the wood furniture manufacturers in the Los Angeles area relocated all or part of their manufacturing operations to Mexico between 1988 and 1990. Our calculations indicated that these relocations resulted in the layoff of between 960 to 2,547 employees, or about 2 to 10 percent, of the wood furniture manufacturing employees in the Los Angeles area. Our mid point estimate is about 1500 employees. Most of the wood furniture firms that relocated to Mexico were companies with 100 or more employees.

There are also indications that some wood furniture firms relocated to areas within the United States such as Georgia, Michigan, and northern California. And, a few more plan to relocate in the future.

⁴Precise and complete data on wood furniture manufacturers operating in the Los Angeles area at any one time is not readily available. We projected the number of such firms and the number relocating to Mexico based on statistical sampling methods.

REASONS FOR RELOCATIONS

In general, the few companies that relocated to Mexico indicated that the high costs for workers' compensation insurance and wages, and stringent air pollution emission control standards were major factors in their decision to relocate.

In the Los Angeles area, wood furniture firms paid an average of about \$1.75 per hour for workers' compensation insurance. In Mexico, such firms do not pay workers' compensation insurance directly. Instead, such insurance forms part of a social security tax, amounting to about \$0.13 an hour, which also covers such benefits as retirement and sick and maternity leave. Also in the Los Angeles area, wood furniture workers earned an average of about \$8.92 an hour; in Mexico, the average hourly earning for wood furniture workers under the maquiladora program is \$0.77.

Wood furniture firms use paint coatings that contain volatile organic compounds which exceed standards set by the South Coast Air Quality Management District that recently became effective. To meet the requirements, wood furniture firms have to use reformulated paint coatings. This reformulation has resulted in production delays and increased costs.

LACK OF MEXICAN AIR POLLUTION CONTROL
STANDARDS FOR WOOD FURNITURE FIRMS

We found that as of December 1990, along the U.S.- Mexican border, specifically in Tijuana, Mexico, there was no established Mexican standard to regulate wood furniture firms' air pollution emissions from applying paint coatings and solvents. Officials from Mexico's Secretariat of Urban Development and Ecology, the government agency responsible for the environment, agreed that no standards had been established. Mexican environmental officials informed us that the issue of air pollution control standards was being studied to determine acceptable emission levels for wood furniture firms' paint coatings and solvents applied in Tijuana.

In October 1989, the United States and Mexico entered into an environmental agreement regarding the international flow of urban air pollution. Annex V of the agreement provides for reduction of air pollution within urban communities along the border area. Mutually agreed-upon study areas and selected pollutants are subject to the requirements of this annex.

Under the annex, the parties also agreed to jointly explore ways to harmonize air pollution control standards and ambient air quality standards. Wood furniture manufacturing involves air pollution emissions covered by the annex.

Currently, EPA and its Mexican counterpart, SEDUE, are conducting a study in Ciudad Juarez, Mexico, to identify various air pollutants, including volatile organic compounds.

Madam Chairwoman, this ends my prepared statement. I would be glad to respond to any questions.