

**REPORT ON THE MONITORING OF THE ADJUSTMENT PLAN
OF THE DOMESTIC FLAT GLASS INDUSTRY**

(Safeguard Measure Case Nos. 01-2006, 02-2006 and 03-2006)

(Public Version)

30 January 2009

1. TERMS OF REFERENCE

In April 2003, Asahi Glass Philippines (now AGC Flat Glass Philippines, Inc or AGPH) filed a safeguard measure case with the Department of Trade and Industry (DTI) against imports of figured glass (AHTN Nos. 7003.12.20, 7003.12.90, 7003.19.20 and 7003.19.90), clear and tinted float glass (AHTN Nos. 7005.21.20, 7005.21.90, 7005.29.20 and 7005.29.90) and glass mirrors (AHTN Nos. 7009.91.00 and 7009.92.00). The DTI initiated the case and after its affirmative preliminary determination, endorsed the case to the Tariff Commission for formal investigation.

On 14 April 2004, following the Commission's positive final determination, the DTI Secretary issued the Department Order imposing definitive safeguard duties on glass products for a period of three (3) years effective 13 October 2003, the date of effectivity of the provisional measures.

On 09 August 2005, the Commission pursuant to Rule 16 of the Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 8800, also known as the Safeguard Measures Act, conducted a public hearing on the monitoring of the domestic industry and on 08 December 2005, submitted to the DTI its report of findings that the domestic flat glass industry has complied substantially with its commitments as stated in its adjustment plan.

On 12 May 2006, AGPH filed a petition to the DTI-Bureau of Import Services (BIS) requesting extension of the imposition of the safeguard duty on glass products. The DTI Secretary endorsed the petition to the Commission for formal investigation.

On 06 November 2006, based on the Commission's recommendation, the DTI Secretary issued a Department Order extending the imposition of definitive safeguard duty on glass products for another three (3) years. The 1st year of implementation of the extended definitive safeguard measures started on 08 December 2006. The safeguard duty for the 2nd and 3rd years of the extension period will be subject to an annual review as provided under Rule 15.6 of the IRR of RA 8800. The extension period for the imposition of safeguard measure shall terminate on 08 December 2009 unless further extended by another Order.

On 10 December 2007 and on 01 September 2008, following information from AGPH that it has temporarily suspended the production of figured glass and glass mirrors for the domestic market, the DTI Secretary ordered the suspension of the imposition of the definitive safeguard duty on figured glass and glass mirrors, respectively. The suspension shall take effect for the duration of the extension period of the safeguard measure unless AGC can show that it has resumed normal operations for figured glass and glass mirrors.

2. MONITORING OF THE ADJUSTMENT PLAN AND THE ROLE OF THE COMMISSION

2.1 Definition of the Adjustment Plan

Rule 4.1 (a) of the IRR to RA 8800 defined “ adjustment plan” as an action which a domestic industry is required to submit, that describes a set of quantified goals, specific plans, and timetables that a concerned industry commits to undertake in order to facilitate positive adjustment of the industry to import competition.

“The adjustment plan shall provide a clear quantification of its proposed goals and detail the efforts that the domestic industry and other concerned parties will make to place the domestic industry in a more competitive position. The goals shall be presented using objectively verifiable indicators that will cover the period for which safeguard measures are sought. Measures covering more than one (1) year shall include specific efforts to be undertaken by the domestic industry for each year of progressive liberalization of the measure. It shall likewise include a time frame to enable the Commission to monitor their attainment over the specified period”

AGPH, in compliance herewith, submitted its adjustment plan updates for 2008 to the Commission on 07 October 2008.

2.2 Role of the Commission

Rule 16 of the IRR of RA No.8800 provides the legal basis for the Commission to conduct public hearing to monitor the adjustment plan of the domestic flat glass industry. The provision states:

Rule 16.1. So long as any action taken under Rule 13 remains in effect, the Commission shall monitor developments with respect to the domestic industry, including the progress and specific efforts made by workers and firms in the domestic industry to make a positive adjustment to import competition.

Rule 16.1.a. If the initial application of action taken under Rule 13 exceeds three (3) years, or if an extension of such action exceeds three (3) years, the Commission shall submit to the Secretary a report on the results of the monitoring, not later than the date which is the midpoint of the initial period, and of each such extension, during which the action is in effect.

Rule 16.1.b. The Commission, in the preparation of each monitoring report, shall conduct a hearing at which interested parties, including the Department of Labor and Employment, shall be given reasonable opportunity to be present, to present evidence, and to be heard.

3. THE COMMISSION'S MONITORING

3.1 Notice of Public Hearing

The Notice of Public Hearing was published in the *Manila Standard Today* and *The Manila Times* on 19 November 2008. Individual notices were sent to all known interested parties.

3.2 Public Hearing

The public hearing was held on 26 November 2008 at the Tariff Commission's Conference Room.

In attendance were representatives from AGPH and its counsel, Comglasco AG Corporation, Embassies of Malaysia, Thailand and Vietnam and DTI-Bureau of Import Services (BIS).

3.3 Plant Visits / Verification of Data

The Commission conducted an ocular inspection of AGPH's plant facilities on 21 October 2008. Verifications of company data and other submissions were done also on the same date.

4. POSITIONS OF PARTIES

4.1 The Petitioner

AGPH, on 07 October 2008, submitted to the Commission its adjustment plan updates for 2008. Included in the adjustment plan are the actions and/or efforts the company had already undertaken and yet to be done to facilitate positive adjustment to import competition.

4.2 The Oppositors

4.2.1 Glasstemp Industries Corporation

Glasstemp, an importer and processor of glass product, moved for the non-extension of safeguard measures on float glass to provide the domestic glass processing industry level playing field *vis-à-vis* imported processed glass products, which tariffs was reduced to zero under the AFTA CEPT Scheme pursuant to Executive Order No. 703.

4.2.2 San Francisco Mirror Corporation

The company, similar to Glasstemp, moved for the non-extension of safeguard measure on float glass to be competitive with its imported counterparts.

4.2.3 Embassy of Thailand

The Embassy, in its letter to the DTI dated 31 October 2008 copy provided to the Commission, expressed that there were no exports of Thai float glass to the Philippines in 2008 and therefore float glass from Thailand should be excluded in the 3rd year of the extension period for the imposition of definitive safeguard measures.

4.2.4 Embassy of Vietnam

The Embassy, in its letter to the Commission dated 26 November 2008, similarly requested the exclusion of Vietnam from the list of countries to be imposed safeguard measure for reason that the country no longer exported float glass to the Philippines.^{1/} Accordingly, Vietnam suffered huge losses from the unreasonable imposition of safeguard measure on its float glass exports.

^{1/} NSO revealed that Vietnam ceased to export float glass to the Philippines starting January 2008.

5. FINDINGS ON EFFORTS MADE BY THE DOMESTIC INDUSTRY TO COMPLY WITH ITS ADJUSTMENT PLAN

5.1 Profitability Improvement/Cost Reduction

Group-Wide Purchases and/or Pool-Buying Scheme of Imported Raw Materials

AGPH vigorously implemented group purchases of its imported raw materials to avail of higher discount and strategic allocations. In 2007, the company's purchase discount was increased from 10% to 15% on soda ash that resulted to a lower CIF value/MT. As compared to other importers' price, the price difference is US\$ 12.80/MT. Total cost savings in 2007 for soda ash purchases amounted to ₱ 16.363 million.

The expected price reductions for blue dust and calumite were not achieved due to the tremendous increase in oil prices that largely affected transport costs (in per unit basis). Unlike soda ash, volume purchases for said raw materials were minimal.

Alternative sources of imported raw materials are being considered to minimize the impact of increasing cost of raw materials. Negotiation with the local dolomite supplier in Cebu City on possible mining and processing for low-iron dolomite to replace some imported materials is underway. Steps are being undertaken to resume supply of low-iron sand from Indonesia to lessen transport costs. Currently, low-iron sand is sourced from Australia which is priced higher than Indonesia's.

Use of More Recycled Cullet

By utilizing more recycled cullet, the proportion of cullet in the batch-cullet formulation (e.g., batch-cullet ratio of 70:30) is increased thus reducing the cost of raw materials in 2007 for tinted float glass and glass mirrors and in 2008 for clear float glass (Table 7).

Simplification of Glass Stock Sizes

With this effort, trimming losses of 2% in 2007 were reduced to 1.4% in 2008 or by 30%, thus, resulting to an improved factory yield.

5.2 Power Efficiency Measures

In August 2008, AGPH invested ₱ 18 million in its receiving facilities to obtain clean line from MERALCO. This improved facility will minimize the disruptive effects of power disturbances and improve production yield and efficiency.

AGPH, as a PEZA locator ^{2/}, obtained MERALCO ECOZONE Power Rate of ₱ 1/kwh lower than the regular rate effective June 2008. In 2008, with the shift in generated power to purchased power, average power cost went down. This translated in a reduction of 11% or an estimated monthly cost savings of ₱ 4.4 million.

The company also implemented a plant-wide energy conservation measure by turning off individual switches after each use to reduce energy consumption.

The Commission noted that had it not for the power efficiency measures implemented by AGPH, power cost would have been much higher in 2008 due to the rising cost of generated power brought about by the increased cost in fuel.

Other alternative power efficiency measures under study are:

- i) replacement of oil heating (steam boiler) to electric heating. Estimated cost savings if implemented is ₱ 1 million per month; and
- ii) re-design raw materials staging area to reduce moisture content in raw materials and cullet. A lesser moisture content results to lesser consumption of fuel oil in melting.

^{2/} On 28 May 2007, AGPH became a PEZA-registered Ecozone Export Enterprise with Registration Certificate No.07-33 as amended on 09 June 2007, in the manufacture of architectural flat glass products such as float glass, figured glass and mirrors, and industrial flat glass such as solar

5.3 Benchmarking with AGC Affiliates

Curriculum Development Based on Ability Structure (CUDBAS) Training

This new measure is utilized to identify the skill requirements in job process. The constant review and improvement of the system and processes using the CUDBAS addresses manpower efficiency and productivity, improves technical capabilities of employees and positively affects the company's profitability as a whole. As of November 2008, 260 employees or 76% of 343 AGPH total labor force had undergone the CUDBAS training.

Aside from CUDBAS, other training programs include In-Plant Training, Glass Technology Course, Off-Plant Training and Re-Echo Training. Total training costs in 2007 amounted to ₱ 1.7 million and ₱ 1.5 in January-October 2008.

5.4 Support in Anti-Smuggling Activities

AGPH, through industry associations such as Flat Glass Alliance of the Philippines, Inc. (FGAPI) and Philippine Product Safety and Quality Foundation (PPSQF), actively participated in the anti-smuggling programs and activities of the DTI to prevent circumvention of RA 8800 and proliferation of smuggled glass products in the country such as:

- i) establish Memorandum of Agreement with Presidential Anti-Smuggling Group (PASG);
- ii) high risk importers profiling to support evidence and warrant inspection and enforcement activities;
- iii) filing and issuance through PASG warrant of seizure and detention against shipment allegedly in violation of the Philippines Tariff and Customs Code; and
- iv) monitor at least three (3) suspected importers engaged in technical and outright smuggling.

5.5 Implementation of Mandatory Standards

The company continuously supported the DTI-Bureau of Product Standards in implementing mandatory standards for flat glass. It participated in market monitoring activities with the Special Monitoring and Regulatory Team (SMART) of the DTI to curb/control the proliferation of sub-standard flat glass in the market stream.

5.6 Streamlining of Organizations

This measure is a continuing program which AGPH committed to implement through the reforms in organization and capability building to enhance operational efficiencies and customer requirement and effect changes thereof to improve and empower outsource manpower contracting.

5.7 Expansion of Clear and Tinted Float Glass Production

In 2006, AGPH underwent a major expansion of its float glass production ^{3/}. Capital expenditure for this expansion amounted to ₱ 1.47 billion, mainly for the installation of new equipment and machinery (e.g., unmanned branch snapping machine, cullet washing machine, etc.) to improve production yield and efficiency.

In general, this measure resulted in the upgrading of float glass' annual rated capacity from 74,455 MT to 141,864 MT or 91% increase and improvement in glass recovery yield from 62% in 2007 to 75% in 2008.

5.8 Production of Solar Glass Panel

AGPH faced stiff competition in terms of sales revenue *vis-à-vis* cheap glass imports in the country. Thus, to enhance global competitiveness and improve profitability, the company temporarily suspended the production of figured glass and glass mirror in July 2006 and December 2007, respectively, and shifted to the production of ultra clear figured glass (for solar glass panels) for the export market ^{3/}. A total of ₱ 58.9 million was invested on anti-reflective coatings for solar glass. The glass printing machine was installed to comply with the customer quality requirement. New machineries amounting to about ₱ 27 million will be installed in March 2009.

Currently, AGPH produces 200,000 square meters per month of solar panels with a current utilization rate of 87%. It started to export flat panel displays for high-definition television screens and plasma television screens in Japan, China and India.

^{3/} AGPH is registered with the Board of Investment (BOI) as an expanding producer of float glass with non-pioneer status and as a new export producer of solar glass cover with pioneer status registered. The registration requires AGPH to export at least 70% of its expansion capacity for float glass and of its solar glass production. Commercial operations on its sales of solar glass production started in October 2005.

6. THE DOMESTIC INDUSTRY'S PERFORMANCE

6.1 Market Share

AGPH maintained market leadership in all its glass products. Market share of tinted float glass was kept intact at 70% in 2007, clear float glass slightly increased from 77% in 2006 to 79% in 2007, figured glass at 89% in January to July 2006 and glass mirrors at 71% in 2006 but dropped to 50% in 2007. AGPH suspended the production of figured glass and glass mirror for domestic market in July 2006 and December 2007, respectively.

In the 1st half of 2008, with the continued imposition of safeguard measure on float glass and the improvements put in place on its production, AGPH captured more than 80% of clear float glass' domestic requirements and above 50% of tinted float glass. Combined sales of clear and tinted float glass in the 1st half of 2008 exceeded half of its total domestic sales in the whole year of 2006 and 2007.

6.2 Production and Sales

With the improvements put in place, production of clear float increased by 78% in 2007. In 2008, the first half year production was 22% greater than half of the production for the whole year of 2007. As regard the tinted float glass, production declined in 2007 but the first half of 2008 output surpassed that of 2007.

Domestic sales of tinted and clear float glass showed improvement in 2007 and further in the first half of 2008. Total volume sold in the first half of 2008 had already reached more than 50% of domestic sales in the whole year of 2007.

6.3 Capacity Utilization

As a result of the improvements undertaken for clear and tinted float glass production, AGPH upgraded its annual rated capacity from previous years' 74,455 MT to 141,864 MT starting 2007. Actual production was at its peak in 2007. However, for reason of increased rated capacity, capacity utilization was only 63%. In the 1st half of 2008, total production was 90% of the 6-month rated capacity.

Capacity utilization of figured glass and glass mirrors, prior to the suspension of their production, was pegged at 58% at 41%, respectively.

6.4 Cost of Production

Cost behavior of tinted and clear float glass was erratic from 2006 to 2008. Cost of figured glass, on the other hand, remained constant in December 2007.

The Commission noted that the expected cost reduction in float glass was negated by the rising oil and power cost. Cost of production of float glass would have been much higher were it not for the measures undertaken by the company, such as pool-buying scheme of imported raw materials, power efficiency and other energy conservation activities.

6.5 Profitability

AGPH's sales revenue was in the uptrend from 2005 to 2007. Cost of sales likewise exhibited the same trend but at a higher rate of increase compared to sales revenue, thus a reduced income from operations. In 2007, AGPH suffered a deficit. 254% reduction from the previous year's operating income. This was mainly due to the huge increase in cost of sales and operating expenses brought about by the rising cost in fuel and oil (107% increase in 2007) and freight (35% increase in 2007). Cost of sales and operating expenses comprised 94% and 14% of the AGPH's total sales in 2007.

The bottom line results of operation went down in 2006. In 2007, AGPH suffered a net loss attributed to the huge increase in cost of sales, operating expenses and financial charges.

7. OVERALL ASSESSMENT OF COMPLIANCE BY THE DOMESTIC INDUSTRY WITH ITS ADJUSTMENT PLAN

The Commission finds that the domestic flat glass industry has complied substantially with its commitments as stated in its adjustment plan.

Among the specific efforts that have been undertaken by the domestic industry to comply with its adjustment plan and thereby gained competitiveness *vis-à-vis* imports are the following:

No.	Measures/Efforts Undertaken	Positive Effect
1.	Group-wide purchases and/or pool-buying scheme of imported raw materials	<ul style="list-style-type: none"> Higher discounts on soda ash procurement which resulted to a lower CIF value. Total cost savings in 2007 for soda ash purchases amounted to ₱ 16.363 million.
2.	Use of more recycled cullet	<ul style="list-style-type: none"> Increased proportion of cullet in the batch-cullet formulation to lessen the impact of increasing cost of raw materials and to reduce fuel consumption
3.	Simplification of glass stock sizes	<ul style="list-style-type: none"> 30% reduction in trimming losses from 2% trimming or pattern losses in 2007 to 1.4% in 2008.
4.	Power efficiency measures	<ul style="list-style-type: none"> Obtained clean line from MERALCO, thereby minimizing the disruptive effects of power disturbances. Obtained cheaper MERALCO rates under the ECOZONE Rate Arrangement which resulted to the reduction in price of power. Estimated cost savings that may be achieved from the ECOZONE rate is ₱ 4.4 million monthly. Actual savings from June to December 2008 totaled ₱ 26.5 million.
5.	Benchmarking with AGC affiliates through the use of Curriculum Development Based on Ability Structure (CUDBAS) Training	<ul style="list-style-type: none"> Improved technical capabilities of employees and positively affects the company's profitability

No.	Measures/Efforts Undertaken	Positive Effect
6.	Expansion of clear and tinted float glass production by investing new machines	<ul style="list-style-type: none"> • Improved glass recovery yield from 62% in 2007 to 75% in 2008. • Upgraded float glass' annual rated capacity from 74,455 MT to 141,864 MT or 91% increase.
7	Production of solar glass panel	<ul style="list-style-type: none"> • To enhance global competitiveness and improve profitability. • Operating at 87% capacity utilization, current production of solar panels accounted for 200,000 square meters per month. AGPH started to export flat panel displays for high-definition television screens and plasma television screens in Japan, China and India.

8. OTHER CONCERNS OF THE DOMESTIC INDUSTRY

The positive impact of the efficiency measures undertaken by the domestic industry based on verified indicators includes: market dominance on clear and tinted float glass, increased production and domestic sales of clear and tinted float glass and upgraded float glass' rated capacity.

However, factors beyond the control of the domestic industry have adversely affected its cost competitiveness. These include the rise in power prices of generated power (Table 2) and steady increase in fuel prices (Table 3). The escalation in power prices pushed up the transport costs which negatively impacted on imported raw material prices. Thus, the full potential of the cost savings, both from the safeguard duty on imports and the efficiency measures undertaken, has not been realized by the domestic industry.

Further adjustments must be made by the domestic flat glass industry to alleviate the pressure exerted by external factors. The current safeguard measure provides the domestic industry with the needed time to respond and undertake the improvements that are necessary if the objective of attaining import competitiveness is to be achieved.