
FORMAL INVESTIGATION REPORT

**Petition for Extension of Safeguard Measure
On the Importation of Clear and Tinted Float Glass
(SG Investigation No. 02 - 2006)**

(PUBLIC VERSION)

04 October 2006

TABLE OF CONTENTS

ITEM	DESCRIPTION	PAGE
	Tables and Figures	vi
	Annexes	vii
	Abbreviations	viii
	Executive Summary	ix
1	INTRODUCTION	
1.1	The Initial Application of Definitive Safeguard Measure.....	1
	Table 1. Amount of Definitive Safeguard Duty	1
1.2	The Monitoring of the Adjustment Plan.....	2
1.3	The Petition for Extension of the Measure	2
1.4	Period Under Review	2
2	SAFEGUARD ACTION AND THE ROLE OF THE COMMISSION	
2.1	The Safeguard Measures Act of 2000	3
	Extension and Re-Application of Safeguard Measures	3
	The Formal Investigation	4
	Decision	4
2.2	The World Trade Organization Agreement on Safeguards	5
2.3	Articles 6 and 8 of the ASEAN Agreement on the Common Effective Preferential Tariff (CEPT) Scheme	6
3	THE COMMISSION'S FORMAL INVESTIGATION	
3.1	Notifications	7
3.1.1	Commencement of Formal Investigation	7
3.1.2	Schedule of Public Consultations	8
3.2	Preliminary Conference	8
3.3	Staff Report	9
3.4	Public Hearing/Consultations	9
3.5	Plant Visits/Verification of Data	10

ITEM	DESCRIPTION	PAGE
4	PARTICIPANT'S VIEWS	
4.1	Submissions to the Commission	11
4.2	The Domestic Industry's Case	11
	Adjustment Plan	11
	Asahi's Adjustment Plan	12
4.3	The Opposing Case	13
4.3.1	Ghani Float Glass Ltd.....	13
4.3.2	Comglasco Aguila Glass Corporation.....	13
4.3.3	Asia Glass Palace, Inc.....	13
4.3.4	Philippine Chamber of Glass and Aluminum Industry Sub-Committee on Glass Imports.....	14
4.3.5	Guardian Industries Corporation.....	14
4.3.6	Malaysian Sheet Glass SDN. BHD.....	14
4.3.7	PKG Expert.....	14
4.3.8	Taipei Economic and Cultural Office (TECO), Taiwan, ROC.....	14
4.3.9	The Government of Thailand.....	15
4.3.10	The Government of Pakistan.....	15
5	THE DOMESTIC INDUSTRY AND MARKET	
5.1	The Domestic Product	16
5.2	Market Participants	16
5.2.1	Domestic Producers	16
5.2.1.1	Ownership Structure	16
5.2.1.2	Production Capacity	17
5.2.1.3	Distribution Channels	17
	Figure.1 Distribution Network Flow Chart	18
	Table 2. Marketing Network of Asahi.....	18
5.2.2	Importers	19
	Table 3. Imports of Clear Float Glass By Company	19
	Table 4. Imports of Tinted Float Glass By Company	20
5.2.3	Users	20
6	TARIFF PROFILE.....	
	Table 5. Tariff Schedule	21

ITEM	DESCRIPTION	PAGE
	Table 6. Definitive Dumping Duty on Clear Float Glass.....	22
7	IMPACT OF SAFEGUARD ACTION ON IMPORTS	
7.1	Volume of Imports	23
7.1.1	In Absolute Terms	23
	Table 7. Volume of Imports.....	23
7.1.2	Relative to Domestic Production.....	23
	Table 8. Share of Imports to Domestic Production.....	23
7.1.3	Country Suppliers	24
	Table 9. Major Country Suppliers of Tinted float Glass.....	24
	Table 10. Major Country Suppliers of Clear float Glass.....	25
7.2	<i>De Minimis</i> Import Volume	25
	Table 11. Developing Countries with <i>De Minimis</i> Import Volume.....	25
7.3	Findings	25
8	DETERMINATION OF THE EFFECTIVENESS OF SAFEGUARD ACTION TO THE DOMESTIC INDUSTRY	
8.1	Domestic Industry Requirements	26
8.2	Impact of the Safeguard Duty Imposition	26
8.2.1	Market Share	26
	Table 12. Apparent Domestic Consumption and Market Share	27
8.2.2	Production, Sales and Inventory	27
	Production	27
	Sales	28
	Finished Goods Inventory	28
	Table 13. Production, Sales and Inventory	29
8.2.3	Capacity Utilization	29
	Table 14. Capacity Utilization.....	29
8.2.4	Cost of Production	29
	Table 15. Cost to Produce and Sell.....	30
8.2.5	Employment and Productivity.....	30
	Table 16. Employment and Productivity.....	31

ITEM	DESCRIPTION	PAGE
8.2.6	Profitability	31
	Table 17. Financial Performance	32
8.2.7	Return on Sales	32
	Table 18. Return on Sales	32
8.3	Findings.....	33
9	DETERMINATION OF RECURRENCE OF INCREASED IMPORTS AND SERIOUS INJURY	
9.1	Foreign Industry Developments	34
9.1.1	China	35
9.1.2	Indonesia.....	35
9.1.3	Other Asian Countries.....	36
9.2	Impact of Safeguard Measure on Prices.....	36
	Table 19A. Price Difference between the Landed Cost and Asahi's Ex-factory Domestic Selling Price on Clear Float Glass.....	37
	Table 19B. Price Difference between the Landed Cost and Asahi's Ex-factory Domestic Selling Price on Tinted Float Glass.....	37
	Table 19C. Asahi's Domestic Selling price, Cost to Produce and Sell, and Earnings Before Interest and Taxes...	37
9.3	Findings	38
	Figure 2. Comparative Cost and Prices of Asahi and Imports on Clear Float Glass.....	39
	Figure 3. Comparative Cost and Prices of Asahi and Imports on Tinted Float Glass.....	39
10	EFFORTS OF THE INDUSTRY TO ADJUST TO IMPORT COMPETITION	
10.1	Adjustment Plan.....	40
10.2	Specific Efforts of the Domestic Industry	40
10.3	Findings	42
11	FINAL DETERMINATION	
11.1	Summary of Findings.....	43
11.2	Conclusion and Recommendation.....	43

ITEM	DESCRIPTION	PAGE
12	DEFINITIVE MEASURE	
12.1	Recommended Definitive Safeguard Measure	45
12.2	Review of Definitive Measures	46
13	EFFECTS OF THE AFFIRMATIVE RECOMMENDATION	
13.1	On Competition	47
13.2	On the Domestic Industry	47
13.3	User Industries and Consumer Welfare	47
13.4	On Employment	47
13.5	On Regional Development	48

TABLES AND FIGURES

TABLE	DESCRIPTION	PAGE
1	Amount of Definitive Safeguard Duty	1
2	Marketing Network of Asahi.....	18
3	Imports of Clear Float Glass By Company	19
4	Imports of Tinted Float Glass By Company	20
5	Tariff Schedule	21
6	Definitive Dumping Duty on Clear Float Glass.....	22
7	Volume of Imports.....	23
8	Share of Imports to Domestic Production.....	23
9	Major Country Suppliers of Tinted float Glass.....	24
10	Major Country Suppliers of Clear float Glass.....	25
11	Developing Countries with De Minimis Import Volume.....	25
12	Apparent Domestic Consumption and Market Share.....	27
13	Production, Sales and Inventory	29
14	Capacity Utilization.....	29
15	Cost to Produce and Sell.....	30
16	Employment and Productivity.....	31
17	Financial Performance	32
18	Return on Sales	32
19A	Price Difference between the Landed Cost and Asahi's Ex-factory Domestic Selling Price on Clear Float Glass.....	37
19B	Price Difference between the Landed Cost and Asahi's Ex-factory Domestic Selling Price on Tinted Float Glass.....	37
19C	Asahi's Domestic Selling price, Cost to Produce and Sell, and Earnings Before Interest and Taxes.....	37

FIGURE	DESCRIPTION	PAGE
1	Comparative Costs and Prices of Domestic Industry and Imports (Peso/kg).....	34
2	Comparative Cost and Prices of Asahi and Imports on Clear Float Glass.....	39
3	Comparative Cost and Prices of Asahi and Imports on Tinted Float Glass.....	39

ANNEXES

ANNEX	DESCRIPTION
A-1	Notice of Formal Investigation, published in The Manila Standard Today on 24 June 2006
A-2	Notice of Formal Investigation, published in the Manila Times on 24 June 2006
B-1	Notice of Public Hearing/Consultation, published in The Manila Times on 21 July 2006
B-2	Notice of Public Consultation, published in the Manila Standard Today on 20 July 2006
C	List of Attendees: Preliminary Conference (28 June 2006)
D	List of Attendees: Public Hearing/Consultation (31 July 2006 to 01 August 2006)
E	List of Submissions

ABBREVIATIONS

ACCPAC	Accounting Package
AFTA	ASEAN Free Trade Area
AGP	Asahi Glass Philippines
AHTN	ASEAN Harmonized Tariff Nomenclature
ASEAN	Association of Southeast Asian Nation
Asahi	Asahi Glass Phils., Inc.
BIS	Bureau of Import Services
CEPT	Common Effective Preferential Tariff
CFG	Clear Float Glass
CIF	Cost, Freight and Insurance
CTA	Court of Tax Appeals
Comglasco	Comglasco Aguila Glass Corporation
Commission	Tariff Commission
DCRS	Data Collection and Reporting System
DTI	Department of Trade and Industry
GATT	General Agreement on Tariff and Trade
Ghani	Ghani Float Glass Ltd.
IRRs	Implementing Rules and Regulations
LPG	Liquefied Petroleum Gas
MAV	Minimum Access Volume (Tariff-rate Quota)
MFN	Most Favored Nation
MT	Metric Tons
RA	Republic Act
RAGC	Republic-Asahi Glass Corporation
RGC	Republic Glass Corporation
RGHC	Republic Glass Holdings Corporation
SEC	Securities and Exchange Commission
SSG	Special Safeguard
Secretary	Secretary of Trade and Industry
TC	Tariff Commission
TECO	Taipei Economic and Cultural Office
WTO	World Trade Organization

EXECUTIVE SUMMARY

This report is about extension of safeguard action against imports of clear and tinted float glass.

This report addresses the question of whether extension of the definitive general safeguard action, in accordance with Republic Act No. 8800 ("Safeguard Measures Act") and the WTO Agreement on Safeguards, would be justified against imports of clear and tinted float glass.

Background

In 2004, the Secretary ordered the imposition of safeguard duty for three (3) years in the form of a specific duty on clear and tinted float glass. Unless extended, the measure will terminate on 13 October 2006.

The domestic industry petitioned to extend the measure for at least four (4) years.

The domestic industry requested the Secretary to extend the measure for at least 4 years as it still needs more time to complete the implementation of its adjustment plan and become import competitive.

... pursuant to the provisions of the Safeguard Measures Act.

The Secretary referred the request of the domestic industry to the Tariff Commission pursuant to Section 19 (2) of RA 8800.

The Safeguard Action and the Role of the Commission

The Safeguard Measures Act, in consonance with the WTO Agreement on Safeguards, allows extension of definitive safeguard action against imports.

An extension of the measure may be extended if:

- the action continues to be necessary to prevent or remedy the serious injury, and
- there is evidence that the domestic industry is making positive adjustment to import competition.

A safeguard inquiry must follow the requirements spelled out in the Safeguard Measures Act and the procedures prescribed by the WTO.

In responding to the question of whether the extension of safeguard action against imports of float glass is warranted, the Commission was careful to conduct its inquiry process in accordance with the requirements of the Act and the procedures prescribed by the WTO Agreement on Safeguards.

Findings

Asahi ...represents the Domestic Industry.....

Asahi is the only manufacturer of clear and tinted float glass in the Philippines and thus accounted for 100% of total domestic production of subject articles. This complies with Section 4(f) of the IRR of R.A. 8800 .

During the period under review...

The period under review starts when the safeguard measure was put in place, i.e., from the year 2003 up to the time of the latest available data.

....there is evidence that the domestic industry is making positive adjustment to import competition.

The domestic industry made serious efforts to comply with its adjustment plan and there is evidence that the industry is making positive adjustment to import competition.

....the current safeguard is effective...

The imposition of safeguard measures proved to be effective in providing relief to the domestic industry.

....imports decreased below pre-surge level.

The volume of imports decreased below the pre-surge level.

....marked improvement in production, sales, market shares, productivity, capacity utilization and profitability.

There was a marked improvement in the industry performance as evidenced by the increased production, sales, market shares, productivity, capacity utilization and profitability.

....external factors have affected industry's cost competitiveness.

However, other factors, namely, rise in power and fuel prices and China's massive import demand which pushed up prices of most commodities and transport costs, have adversely affected the industry's cost competitiveness. Thus, the potential financial gains, from the safeguard and dumping duty imposition and the efficiency measures implemented, have not been fully realized by the domestic industry.

....the potential gains have not been fully realized by the industry.

If safeguard measure is terminated....

..... the proximityand sufficient freely disposable production capacity....

The proximity of China and Indonesia to the Philippines and their sufficient freely disposable production capacities indicate the likelihood of substantially increased exports to the Philippines if the safeguard measure is terminated.

..... indicate the likelihood of substantially increased exports to the Philippines.....

.....anti-dumping and safeguard cases filed against China and Indonesia.....support the likelihood that exports may shift to the Philippines.

Several anti-dumping and safeguard cases filed against China and Indonesia further support the likelihood that exports from these countries may shift to the Philippines.

Without the safeguard duty

..... domestic selling prices will fall below levels not enough to recover cost to produce and sell.

Without the safeguard duty, the landed cost of imported float glass has a price advantage over the industry's domestic selling price. The wider the gap between landed cost and domestic selling price which worsened in 2006, the more likely the import surge would recur. Asahi will be forced to price its float glass at par with its imported counterpart or, in the case of clear float, even below its cost to produce and sell, to protect its market share.

....if it is to protect its market share.

There is a substantial threat of serious injury....

Without the safeguard duty, market share, production, sales, capacity utilization, employment and productivity would revert to levels approximating the conditions during the import surge when the industry suffered serious injury.

..... if safeguard duty is not extended.

Factors outside the control of Asahi negated the gains from its stalled adjustment plan.

Factors outside the control of Asahi negated the gains resulting from its stalled adjustment plan.

.....Asahi needs more time to fully put it in place to effectively face import competition.

Further adjustment must be made by the domestic float glass industry to alleviate the pressure exerted by external factors. The current safeguard measure provides the domestic industry with the needed relief to respond to import competition by undertaking the improvements as contained in the adjustment plan requires more time to achieve its objective.

Non-extension of safeguard measure....

Non-extension of the safeguard measure will likely lead to increased imports of float glass which will cause serious injury to the domestic industry.

.....likely lead to increased imports...

.....which will cause serious injury to the domestic industry.

Conclusion and Recommendation

Extension of the imposition of safeguard action is justified in terms of R.A. 8800 and the WTO Agreement on Safeguards.

Based on its evaluation of the foregoing information, the Commission concludes that safeguard action on clear and tinted float glass continues to be necessary to prevent serious injury and that there is evidence that the domestic industry is making positive adjustment to import competition.

The extension of the safeguard measure will help the industry to complete its adjustment plan to positively adjust to import competition

The Commission recommends that the definitive general safeguard action be extended for three (3) years the timeframe needed by the industry to fully implement its adjustment plan and be competitive against imports. The measure shall continue to be liberalized by at least 5% or limited to the extent of redressing or preventing the injury and to facilitate adjustment by the domestic industry from the adverse effects directly attributed to the increased imports.

Effects of the Affirmative Recommendation

....on competition,

As the measure is only temporary and will be progressively liberalized, competition will return to its normal level.

The option to choose between local and imported float glass remains as there are no quantitative restraints on imports.

....on domestic industry,

Imports will be maintained at their pre-surge levels; additional time will be provided to the domestic industry to complete its adjustment plan and put in place efficiency measures to attain competitiveness *vis-à-vis* imports; increase in output will facilitate the attainment of economies of scale, and; recovered market share will be maintained enabling the industry to benefit from any growth of the market.

... on user industries and consumer welfare,

Continued existence of a viable domestic industry assures consumers of on-time delivery of volume and small lot orders and after-sales services for replacements of breakages and defects; credit line is extended by local industry to buyers, and; presence of local products mitigates foreign exchange risk because transactions are on peso basis.

... on employment, and...

The expected continued increase in output and sales would ensure the tenure of employment not only in manufacturing but also the related sales and distribution services.

... on regional development ...

The imposition of the definitive safeguard measure will ensure continuous operation of the industry. This will bring continuing community development to the city and nearby areas where Asahi is located.
