
EXECUTIVE SUMMARY

This report is about safeguard action against imports.

This report addresses the question of whether definitive general safeguard action, in accordance with Republic Act No. 8800 (otherwise known as the "Safeguard Measures Act") and the WTO Agreement on Safeguards, would be justified against imports of ceramic floor and wall tiles.

Background

The Early Years of the ceramic tile industry

The year 1996 was definitely a good year for the domestic ceramic tile industry particularly for the two (2) applicant companies, Mariwasa and Lepanto. Operating at 77% of capacity that accounted for 72% of the domestic market, the start of the period of investigation was indeed rosy for the domestic industry.

At this time, the tariff duty on ceramic tiles was pegged at 30% and no concession was granted under the ASEAN CEPT Scheme.

Expansion Plans

During the boom years of 1993 and 1994, the increase in investments and improved optimism fuelled the growth in construction activity. The domestic industry, already operating at near full capacity levels, projected that the rate of demand for ceramic tiles will increase annually by 25% and they had to add capacity to meet the growth in demand. Thus, the decision for the local ceramic tile manufacturers to embark on their modernization and expansion programs. The equipment needed for expansion began to be put in place by 1997. By 2000, the expansion program was completed.

The Asian financial crisis

The Asian financial crisis that struck in July 1997, however, dampened the anticipated growth in demand. From a 20% increase in 1997, demand declined by about 5% in 1998. The general slowdown in the economy adversely affected the construction sector that naturally impacted heavily against the ceramic tile industry.

Shifting preference of consumers to ceramic tiles The 90's showed a changing preference for ceramic tiles from the traditional surfacing materials such as marble, wood parquet and vinyl tiles. The shift in preference is attributable to the lower price of ceramic tiles relative to marble and wood. Ceramic tiles also have the advantage of being more durable, are easier to install and practically maintenance free. The introduction of "value-for-money tiles" for residential applications emphasized this changing shift.

The shifting preference of consumers explains why despite a slump in construction activity, demand continually increased from year to year.

Safeguard Action

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

The Act provides for:

- general safeguard measures to afford relief to domestic industries suffering from serious injury or the threat thereof as a result of increased imports, and
- special safeguard measures (additional duty not exceeding 1/3 of the existing rate of duty) on agricultural products marked "SSG" in Schedule LXXV-Philippines, when the import volume exceeds its trigger level or when the actual CIF import price falls below a trigger price level.

A safeguard inquiry must follow the requirements spelled out in the Safeguard Measures Act...

In responding to the question of whether safeguard action is warranted against imports of certain ceramic floor and wall tiles, the Commission has been careful to conduct its inquiry process in accordance with the requirements of the Act and to follow the procedures and apply the criteria specified.

...and apply the criteria specified under Article XIX of GATT 1994 and the WTO Agreement on Safeguards.

In particular, the Commission is required to determine:

- if as a result of unforeseen developments and of the effect of obligations granted under the WTO Agreement, including tariff concessions, the product under consideration is being imported in such increased quantities as to cause or threaten serious injury;
- if the domestic product is a like product or a product directly competitive to the imported product under consideration;
- if the product is being imported into the Philippines in increased quantities (absolute or relative to domestic production);
- the presence and extent of serious injury or threat thereof to the domestic industry that produces like or directly competitive product; and
- the existence of a causal relationship between the increased imports of the product under consideration and the serious injury or threat thereof to the affected domestic industry.

The circumstances of 'unforeseen developments' and 'effect of tariff concessions' need not be demonstrated in the current inquiry.

The existence of circumstances provided in Article XIX of GATT 1994 need not be established for the reason that the product under consideration (ceramic floor and wall tiles) is not the subject of any Philippine obligation or tariff concession under the WTO Agreement. Nonetheless, such inquiry is governed by the national legislation (R.A. 8800) and the terms and conditions of the Agreement on Safeguards.

Findings

Locally produced ceramic floor and wall tile is "like" to imported ceramic floor and wall tile.

Both locally produced and imported ceramic tiles are made from the same raw materials, use the same process and technology, conform to recognized product standards, fall under the same tariff classification, and have the same end-use.

The collective output of the two (2) applicant companies constitutes a major proportion of the total domestic production.

The two (2) applicant companies accounted for between 66% to 83% of total domestic production of ceramic tiles during the period of investigation (POI).

Imports have increased significantly....

In considering the question of whether imports have increased, the Commission has concluded that an appropriate POI covers 1996 to 2001.

... in absolute terms...

Imports of ceramic tiles increased from 1.9M sq.m. in 1996 to 8.9M sq.m. in 2001. In 1998, volume of imports dropped to 3.6M sq.m.

Imports recovered and rose to 4.3M sq.m. in 1999 from the preceding year. In 2000, imports exceeded the 1999 level by 2.8M sq.m. In 2001, imports totaled 8.9M sq.m.

...and relative to domestic production.

Imports of ceramic tiles represented 17% of total domestic production in 1996, increasing to 30% in 1997 and dropped to 21% in 1998. In 1999, share of imports increased to 36%.

From 2000 onwards, the share of imports relative to domestic production continuously increased. In 2001, this share rose to 68%.

Import surge commenced in 2000.

The annual levels of imports from 1996 to 2000 and the annual shares of imports relative to domestic production show that the surge in imports of ceramic tiles began in 2000.

The industry has suffered and is suffering a significant impairment in its overall market position, . . .

The decline in the market share of the domestic industry and the erosion of its competitive position constitute serious impairment of its overall market position.

. . . production and sales, . . .

Despite the significant growth in domestic demand for ceramic tiles during the period of import surge, production and sales of the local industry remained relatively constant. In absolute terms, there was no significant adverse trend in the production and sales of the domestic industry. Relative to demand, however, industry production and sales considerably lagged behind as to indicate serious impairment.

. . . employment, . . .

The decrease in employment during the period of import surge is significant as to constitute serious impairment.

. . . capacity utilization, . . .

The surge of imports contributed to the underutilization of capacity resulting in serious impairment of the industry's overall condition.

. . . productivity, . . .

While labor productivity improved significantly during the period of import surge, this was due to sizeable reductions in employment, rather than to increases in output coupled with stable employment levels. This supports the conclusion of serious impairment in industry employment.

. . . and profitability.

Combined audited financial statements of the applicants revealed that in 2000 when imports surged, the applicants incurred loss from operations that amounted to ₱ 352M

No link was found between inventory and imports.

The increasing inventory levels during the period of import surge do not constitute serious impairment of the domestic industry's overall condition since these were at manageable levels and were well within the levels reached during the POI.

Recommendation

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

The existence of a causal link between the increased imports of the product under consideration and serious injury to the domestic industry having been established, the Commission recommends that a definitive general safeguard measure in the form of tariff-rate quota and a specific duty be imposed on the importation of ceramic floor and wall tiles.

Effects of the Affirmative Recommendation

The imposition of a safeguard measure will push the ceramic tiles industry faster towards global competitiveness, . . .

The tariff rate quota will promote competition since significant volumes of ceramic tiles can still come in without additional duty.

. . . on user industries and consumer welfare, . . .

Ceramic tile market is a buyers' market. Thus, any unreasonable price increases are unlikely.

With the continued existence of a viable domestic industry, consumers are assured of on-time delivery of volume orders and replacements to take care of breakages and defects.

Since ceramic tiles account for a small proportion of the total cost of commercial and household construction, construction activity will not be adversely affected.

*... on
employment, and ...*

The increase in output and sales would generate additional employment not only in manufacturing activity but also the related sales and distribution services.

*... on regional
development ...*

The imposition of additional safeguard measure will ensure continuous operation of the ceramic tile manufacturers.

This will bring continuing community development to areas where these manufacturers are located.

This will spur economic activity within the community.