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**REPORT ON THE MONITORING OF THE ADJUSTMENT PLAN  
OF THE DOMESTIC STEEL ANGLE BAR INDUSTRY**

**(Safeguard Measure Case No. 01-2009)**

***(Public Version)***

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**24 May 2011**

## 1. TERMS OF REFERENCE

On 06 August 2008, the Secretary of the Department of Trade and Industry (DTI) officially accepted a properly documented application filed by the domestic steel angle bar industry, represented by Cathay Metal Corporation (Cathay Metal), Dragon Asia Rolling Mills, Inc. (Dragon Asia) and Lunar Steel Corporation (Lunar Steel) for the imposition of general safeguard measures against the importation of steel angle bars from various countries classified under HS Heading Nos. 7216.21.00 (2007 AHTN Subheading No. 7216.21.00), 7216.50.11 (2007 AHTN Subheading No. 7216.50.10) and 7216.50.91 (2007 AHTN Subheading No. 7216.50.10).

The DTI Secretary, based on the Bureau of Import Services' positive preliminary findings, endorsed the case to the Tariff Commission (hereinafter referred to as "The Commission") for the conduct of formal investigation to determine the merits of imposing a definitive safeguard duty on subject commodity. The Commission commenced the formal investigation on 19 February 2009 and thereafter submitted its report of findings and recommendation to the DTI Secretary on 29 June 2009.

On 27 July 2009, the DTI Secretary issued a Department Order for the imposition of a general safeguard measure against the imports of steel angle bars from various countries for a period of three (3) years in the amount shown below:

**Table 1. General Safeguard Duty (P/MT)**

<b>2004 HS Hdg. No. / 2007 AHTN Code</b>	<b>Product Description</b>	<b>1<sup>st</sup> Year</b>	<b>2<sup>nd</sup> Year</b>
HS Hdg. No. 7216.21.00 (AHTN No. 7216.21.00); HS Hdg. No. 7216.50.11 (AHTN No. 7216.50.10); HS Hdg. No. 7216.50.91 (AHTN No. 7216.50.10)	Equal and unequal leg steel angle bars, of a height of less than 80 mm	7,700.00 *	5,133.00 **

Sources: \* DTI Department Order dated 27 July 2009

\*\* DTI Department Order dated 19 April 2010

The three (3)-year implementation period of the definitive safeguard measures started from the date the imposition of the provisional measure took effect, i.e., 10 March 2009. The DTI Secretary is yet to issue a Department Order on the amount of the definitive safeguard measure to be imposed on the third year.

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

### **2.1 Adjustment Plan**

Rule 4.1 (a) of the IRR to RA 8800 defines “ adjustment plan” as an action plan which a domestic industry is required to submit that describes a set of quantified goals, specific plans, and timetables which said 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”

### **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 steel angle bar 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 its 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 05 March 2011. Individual notices were sent to all known interested parties. Attached is Annex A for the list of parties notified.

#### **3.2 Public Hearing**

The public hearing was held on 24 March 2011 at the Tariff Commission’s Conference Room.

In attendance were representatives from the Philippine steel angle bar industry (i.e., Cathay Metal, Dragon Asia and Lunar Steel) and its counsel from Rivera Santos & Maranan Law Offices, Steel Angles, Shapes and Sections Manufacturers Association of the Philippines, Inc. (SASSMAPI), Philippine Iron and Steel Traders Association (PISTA), Keppel Philippines Marine, Inc. (KPMI), Sumitomo Corporation and Aegis.

Also in attendance were representatives from the government sector such as Bureau of Customs (BOC), Department of Trade and Industry- Bureau of Import Services (DTI-BIS) and Senate of the Philippines.

#### **3.3 Plant Visits / Verification of Data**

The Commission conducted ocular inspection and data verification on the following dates:

<b>Names of the Company</b>	<b>Dates</b>	
	<b>Ocular Inspection</b>	<b>Data Verification</b>
Cathay Metal	17 March 2011	26 April 2011
Dragon Asia	23 March 2011	12 April 2011
Lunar Steel	25 March 2011	18 April 2011

### **4. POSITIONS OF PARTIES**

#### **4.1 The Philippine Steel Angle Bar Industry’s Case**

The domestic industry, on 14 March 2011, submitted to the Commission its adjustment plan updates for 2010. Included in the adjustment plan are the actions and/or efforts the company had already undertaken and yet to be implemented to facilitate positive adjustment to import competition.

## **4.2 The Oppositor(s)**

During the public hearing, PISTA posed no objection to the monitoring review but did not submit any written position to the Commission.

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

Cathay Metal, Dragon Asia and Lunar Steel, pursuant to the Commission's Order dated 05 March 2009, submitted to the Commission on 07 April 2009 their individual adjustment plans for 2009-2012, to wit:

### **5.1 Cathay Metal**

#### **5.1(a) Upgrade of Equipment**

This measure includes the gradual rehabilitation of the furnace and the replacement of old billet cutter, amounting to ₱ 1.5 million. Implemented in 2010, upgrade of equipment did not only speed up the production process, but it also increased production output and reduced the occurrence of misrolls or losses. Cathay Metal achieved 94% actual production yield in 2010 compared to 93% in 2009. Moreover, material losses in 2010 were reduced by 7% from 980 MT in 2009. Rehabilitation/modification of furnaces is continuing which, if fully implemented, will increase the furnace capacity by 50%.

The proposed modification of two (2) billet loading machines was deferred for later incorporation in the 5-year facility upgrading schedule of the company. This modification will ensure the steady supply of billets into the reheating furnace in a more fast-paced operation.

#### **5.1(b) Provide Better and Wider Range of Product Choices**

Cathay Metal introduced two (2) new sizes (i.e., 3mm x 25mm x25 mm x 6m and 6mm x 63.5mm x 63.5mm x 6m) for production in July 2009 and further expanded the number of sizes of angle bars in 2010 with the re-introduction of another four (4) old sizes in the market. The objective of this measure is to give customers the convenience of obtaining their various angle bar requirements. To date, Cathay Metal has a total of 27 sizes of steel angle bars for sale in the market.

### **5.1(c) Adopt More Aggressive Marketing Strategy**

In order to increase sales and market share, Cathay Metal intensified its marketing strategy by appointing more dealers in strategic locations nationwide. From 46 dealers in 2009, number of dealers increased to 52 in 2010. This measure resulted to an increase in domestic sales in 2009 and in 2010 by 52% and 30%, respectively. Cathay Metal is still negotiating with other dealers for possible collaboration to further improve sales.

### **5.1(d) Enforce More Stringent Quality Control Monitoring in the Production Process**

With this measure, material losses were reduced by 7% in 2010 from 980 MT in 2009, resulting to an improved production yield. Cathay Metal achieved 93% actual production yield in 2009 and 94% in 2010. Standard target yield is set at 95%.

### **5.1(e) Minimize Cost and Maximize Production Output**

In order to achieve the target yield, Cathay Metal undertook plant maintenance on a regular basis to ensure that machines are in good running condition before operation to avoid delays and minimize interruptions during production. By doing so, production cost is minimized and production output maximized.

This measure resulted to an increase in production by 58% in 2009 from 8,250 MT in 2008. Production output further improved in 2010 to 14,260 MT which is equivalent to 30% capacity utilization, significantly more than the utilization rate of 17% in 2008.

## **5.2 Dragon Asia**

### **5.2(a) Plant Automation**

Dragon Asia achieved its plan to convert to semi automation in 2010. A total of ₱ 10 million was invested to upgrade the billet shear from mechanical type to hydraulic automation system, and the Programmable Logic Controller (PCL), and to acquire equipment such as finishing mill DC motor control panel, fork lift, air compressor and over head crane.

As a result of this automation, Dragon Asia doubled its production output in 2010 at 10,130 MT. Capacity utilization in 2010 increased to 85% from 42% in 2009.

With automation, economies of scale were also achieved. Increased production capacity resulted to lower production costs and competitive prices thus resulting to increased sales. Domestic sales in 2009 and 2010 totaled 9,530 MT and 16,410 MT, respectively.

### **5.2(b) Introduce Additional Product Line**

Also in 2010, Dragon Asia expanded its production line of equal leg angle steel bars to produce 63.5 mm by 63.5 mm width angle bar. Capital expenditure for the upgrade of the finishing mill, pass design and caliber profile for said new product size amounted to about ₱ 3.10 million. Trial run for the production of 63.5 mm by 63.5 mm width angle bar is in progress.

### **5.2(c) ISO Alignment**

Dragon Asia, as licensed product quality manufacturer of Equal Leg Angle Steel Bars in accordance with PNS 657:2008 as certified by the Bureau of Product Standards on 23 January 2008, will continue to be ISO aligned to be globally competitive.

## **5.3 Lunar Steel**

### **5.3(a) Upgrade of Plant Facilities**

Upgrade of plant facilities was implemented in 2009 through the replacement of the old furnace with new and bigger capacity reheating furnace of Mill No. 1, and replacement of Mill No. 1 plastic bearing (Phenolite) roll stand with roller bearing type stand production.

The new and bigger reheating furnace can accommodate an increased volume (by 50%) of billets (i.e., from 1,800 MT to 2,700 MT). Eight (8) sizes out of the thirteen (13) sizes produced by the company had increased the number of cuts per billet (i.e., from the previous 4 cuts per billet to 5 cuts) or by 20%.

Also, by improving the burner efficiency (i.e., by replacing manual equipment with automatic ones), fuel consumption fell by at least 20 liters per ton on furnace output. Average saving on fuel consumption is estimated at close to ₱16 thousand per day.

Roller bearing type stand, on the other hand, is more accurate in terms of gap thickness in roll pass. The replacement can reduce bar ends tolerance in material by 2% (e.g., from a billet weight per cut of 140 kg. to 137 kg.) which equates to a saving of 3.5 tons of raw materials daily.

### **5.3(b) Reduction of Electricity Cost**

To save on electricity/lighting cost, Lunar Steel invested ₱ 900 thousand in 2009 to replace corrugated roofing with fiberglass skylight roofing that illuminates the building during daytime without the use of electricity. About 90% of the total roofing area was already installed with fiberglass skylight roofing that resulted in 50% savings on lighting/electricity cost.

In the planning stage is the installation of inverters for Alternative Current (AC) motors on run-in rolls conveyor so that the right speed for the incoming angle bar can be adjusted from the finishing rolls and cut in exact length. The company will save downtime and rework on finished product from this measure.

### **5.3(c) Increase Product Awareness**

Lunar Steel, thru SASSMAPI, spearheaded education and information dissemination through a nationwide campaign about consumer awareness on safety and quality aspect of steel angle bars and the importance of Philippine National Standards on uncertified/substandard products in the market. As a result of this measure, domestic sales increased by 77,000 MT in both 2009 and 2010.

### **5.3(d) ISO Alignment**

Lunar Steel also embarked on ISO 9001 alignment in improving its system, processes and product. By implementing a Quality Management System, the company was able to make its operations run more efficiently, improve communication at all levels and increase customer satisfaction. With standards covering quality, environmental friendliness, safety and reliability, customers can be sure of receiving high level of service/product.

## **6. THE DOMESTIC INDUSTRY'S PERFORMANCE**

### **6.1 Market Share**

The domestic industry's market share in 2008 was 56%. In 2009, when safeguard measure took effect in March, the domestic industry regained its market leadership on steel angle bar with 98% share as imports dwindled while domestic sales grew by 217% . In 2010, the industry captured the entire market. The significant improvement in domestic sales can also be attributed to the efficiency measures and marketing strategies undertaken by the industry to increase sales and expand market share.

## **6.2 Production and Sales**

Both production and sales improved in 2009, increasing by 179% and 217%, respectively. Production and sales volumes grew further by 12% and 11%, respectively, in 2010. The imposition of the definitive safeguard measure that took effect in March 2009 discouraged importation of steel angle bars and gave strong motivation to the domestic industry to adopt efficiency measures to increase productivity.

There was no record of export sales during the period.

## **6.3 Capacity Utilization**

The improvements in production undertaken by the domestic steel angle bar industry positively impacted on its capacity utilization. From the lowest utilization rate of 14% prior to the imposition of the safeguard measure and implementation of the efficiency measures, utilization improved to 40% in 2009 and 45% in 2010. The increase in its capacity utilization rate was traced to the growth in the actual production output brought about by the efficiency measures undertaken by the companies.

## **6.4 Cost of Production (COP)**

Average cost of production of steel angle bar declined steadily from 2008 to 2010. In 2009, COP was lower than the previous year's level, attributable to reduction in the cost of all factors of production. The decline in raw material cost was due to the reduction in misrolls/rejects brought about by the improvements on plant facilities/equipment and automation undertaken by the industry. The decline in direct labor cost is explained by the reduction in manpower performing manual processes/functions when industry (i.e., Lunar Steel) made improvements on its plant facilities. The 22% reduction in manufacturing overhead was due to decline in factory supplies and utilities (i.e., gas, fuel, oil, electricity and water).

In 2010, COP further declined by 7%. This decline was traceable to the more significant reduction in raw material cost offsetting the increase in direct labor and manufacturing overhead cost.

## 6.5 Financial Performance/Profitability

The positive impact of the imposition of the definitive safeguard duty coupled with the efficiency measures adopted by the industry was evident in the steady improvement of the industry's sales performance from 2008 to 2010.

However, despite aforementioned sales improvements, the industry incurred losses from operations amounting to ₱ 3 million in 2009, which further grew in 2010 to ₱ 35 million. These operating losses were attributable to the rise in selling and administrative expenses (i.e., delivery and transportation expenses, taxes and licenses, rental etc.) Were it not for the efficiency measures undertaken by the industry, the domestic industry's operating losses could have been greater.

The bottomline results of operations were unfavorable at ₱ 27 million, ₱ 35 million and ₱ 24 million net deficits in 2008, 2009 and 2010, respectively.

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

The Commission finds that the domestic steel angle bar 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, gaining its competitiveness *vis-à-vis* imports, are the following:

No.	Company / Measures Undertaken	Positive Effect
<b>Cathay Pacific:</b>		
1.	Upgrade Equipment	<ul style="list-style-type: none"> <li>• Speeded up production processes, increased production output and reduced occurrence of misrolls/losses.</li> <li>• Achieved 94% actual production yield in 2010 compared to 93% in 2009.</li> <li>• Material losses in 2010 were reduced by 7% from 980 MT in 2009.</li> </ul>
2.	Provide better and wide range of product choices	<ul style="list-style-type: none"> <li>• The introduction of two (2) new sizes for production in July 2009 and the re-introduction of four (4) old sizes in the market in 2010 gave customers the convenience of obtaining their needs in one stop.</li> </ul>
3.	Adopt more aggressive marketing strategy	<ul style="list-style-type: none"> <li>• Resulted to increase in domestic sales in 2009 by 52% and by 30% in 2010 with more dealers</li> </ul>

No.	Company / Measures Undertaken	Positive Effect
		appointed in strategic locations nationwide as part of its marketing strategy.
4.	Enforce more stringent quality control monitoring in the production process	<ul style="list-style-type: none"> <li>• Material losses were reduced by 7% in 2010, thus resulting to improved production yield.</li> <li>• Attained a 93% actual production yield in 2009 and 94% in 2010.</li> </ul>
5.	Minimize cost and maximize production output	<ul style="list-style-type: none"> <li>• Production cost minimized and production output maximized as a result of the company's strategy of undertaking plant maintenance on a regular basis to ensure that machines are in good running condition before operation to avoid delays and minimize interruptions.</li> <li>• Increased production output by 58% and 9% in 2009 and 2010, respectively. Capacity utilization likewise improved to 30% in 2010, 76% above the utilization rate in 2008 at 17%.</li> </ul>
<b>Dragon Asia:</b>		
6.	Plant Automation	<ul style="list-style-type: none"> <li>• Production output doubled in 2010, capacity utilization improved to 85% from 42% in 2009. Economies of scale resulted to lower production cost and competitive price thus, resulting to increased sales.</li> </ul>
7	Introduce additional product line	<ul style="list-style-type: none"> <li>• Expanded production line of equal leg angle steel bars to produce 63.5 millimeter by 63.5 millimeter width. Trial run for the production of this product line is in progress.</li> </ul>
8	ISO Alignment	<ul style="list-style-type: none"> <li>• The company continues to be ISO aligned to be globally competitive.</li> </ul>
<b>Lunar Steel:</b>		
9	Upgrade plant facilities	<ul style="list-style-type: none"> <li>• 50% increase in the volume of billets that can be fed to the new and bigger capacity reheating furnace (i.e., from 1,800 MT to 2,700 MT).</li> <li>• Number of cuts per billet increased from 4 to 5 on 60% of sizes produced (i.e., 8 sizes out of 13 sizes)</li> <li>• Reduced bar ends tolerance in raw material by 2% equivalent to a saving of 3.5 tons of raw materials daily with the replacement of roller bearing.</li> </ul>
10	Reduce electricity cost and fuel consumption	<ul style="list-style-type: none"> <li>• By improving its burner efficiency, furnace output improved against fuel consumption by at least 20 liters per ton. Average savings on fuel consumption is estimated at close to ₱ 16 thousand per day.</li> <li>• 50% savings on actual power consumption when</li> </ul>

No.	Company / Measures Undertaken	Positive Effect
		<ul style="list-style-type: none"> <li>corrugated roofing was replaced with the fiberglass skylight roofing. Fiberglass roofings illuminate the building during daytime thus generating savings on electricity/lighting cost.</li> </ul>
11	Increase Product Awareness	<ul style="list-style-type: none"> <li>Domestic sales in 2009 and 2010 grew significantly partly due to the company's education and information dissemination in a nationwide campaign about consumer awareness on safety and quality aspect of steel angle bars and the importance of Philippine National Standards on uncertified/substandard products in the market.</li> </ul>
12.	ISO Alignment	<ul style="list-style-type: none"> <li>With the implementation of the Quality Management System as part of its ISO 9001 alignment, company operations became more efficient, communication at all levels improved, and consumer satisfaction increased.</li> </ul>

## 8. OTHER CONCERNS OF THE DOMESTIC INDUSTRY

The positive impact of the efficiency measures undertaken by the domestic industry based on verified indicators includes: increases in market share, actual production, domestic sales, capacity utilization of the steel angle bar industry and the decline in COP of steel angle bar on a per unit basis over the period.

However, the full potential of the cost savings on the efficiency measures undertaken have not been fully realized by the domestic industry due to factors that are beyond the control of the domestic industry such as fluctuations in power and fuel prices, traced to the rise in the cost of these production cost components despite increased production volume.

Further adjustments must be made by the domestic steel angle bar 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 fully achieved.