

**REPORT ON THE MONITORING OF THE ADJUSTMENT PLAN
OF THE DOMESTIC CERAMIC TILE INDUSTRY**

(Safeguard Measure Inv. No. 01-2004)

PUBLIC VERSION

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1. TERMS OF REFERENCE

1.1 Imposition of the Definitive Safeguard Measure

On 11 April 2002, the Secretary of the Department of Trade and Industry (DTI), after reviewing the Tariff Commission's Formal Investigation Report (SG Inv. No. 01-02) dated 26 March 2002, issued a decision imposing a definitive general safeguard duty for a period of three (3) years on ceramic floor and wall tiles imported from various countries as shown in Table 1.

Table 1. Amount of Definitive Safeguard Duty (₱/kg)*

HS Code	1 st year (2002)	2 nd year (2003)	3 rd year (2004)
6907.90 00; 6908.90 00	5.40	4.30	3.50

* DTI Order, dated 11 April 2002, published on 16 April 2002

The first year of implementation took effect on 09 January 2002, the date of issuance of Customs Memorandum Order 4-2002 imposing provisional safeguard duty.

On 26 May 2004, the Ceramic Tile Manufacturers' Association (CTMA), representing the domestic ceramic tile industry, applied for extension of the definitive general safeguard measure. On 15 October 2004, the Commission recommended to the Secretary to extend the safeguard action. The Commission recommended the extension of the safeguard measure to allow the domestic industry to fully implement its adjustment plan to effectively face import competition.

On 21 December 2004, the Secretary issued a Department Order extending the definitive measure on ceramic tiles for three (3) years beginning 12 January 2005 by imposing a definitive safeguard duty of ₱2.80/kg on the first year. The Order provides that the amount of the measure shall be subject to an annual review as provided under Rule 15.6 of the Implementing Rules and Regulations (IRR) of Republic Act (RA) 8800 for purposes of liberalizing or reducing its intensity. The amounts of the definitive duty for the succeeding years are given in Table 2.

Table 2. Amount of the Extended Definitive Safeguard Duty (₱/kg)¹

AHTN Code ²	1 st year (2005)	2 nd year (2006)	3 rd year (2007)
6907.90.10	2.80	2.45	2.15
6907.90.90			
6908.90.11			
6908.90.19			
6908.90.21			
6908.90.29			
6908.90.90			

¹ The 3-year extension of definitive safeguard duty will expire on January 12, 2008.

² HS Codes were further subdivided with the adoption by the Philippines of the ASEAN Harmonized Tariff Nomenclature (AHTN).

1.2 Adjustment Plan Submitted by the Domestic Ceramic Tile Industry.³

Mariwasa Siam Ceramics Inc. and Lepanto Ceramics Inc. submitted in 2004 their adjustment plans listing therein the following priority measures they will adopt to facilitate a positive adjustment to import competition.

Mariwasa's Adjustment Plan (2005 – 2007)⁴

- A. Provide even better products.
Introduce 180 new designs and features using the latest technology.
- B. Improve distribution.
The key to sustaining market leadership is keeping an extensive distribution network. Mariwasa will expand its distribution network by appointing new distributors throughout the country.
- C. Strengthen brand equity.
Various marketing programs are in place to improve the Company's brand equity, like increased advertising, participation in trade exhibits and upgrading product displays.
- D. Reduce all manageable costs.
Three variable cost elements have the greatest impact on production costs are power costs, fuel costs and glaze raw material cost. Mariwasa will continue to maintain and operate its own power plant. It also plans to reduce debts in 2005 by asset sales and additional capital infusion.

Quantifiable targets:

- 1. Reduce LPG cost by 12% over the next four years.
 - 2. Reduce bunker fuel cost by 12% over the next four years.
 - 3. Further reduce electricity consumption by 10% over the next three years.
 - 4. Reduce glaze costs by 8% over the next three years.
 - 5. Reduce maintenance cost by 8% over the next three years.
 - 6. Lower cost of funding.
- E. Increase production yield.
 - 1. Improve knowledge and skill of people in the production line.
 - 2. Improve line management systems.
 - 3. Improve equipment performance.

³ In the original Formal Investigation Report (SG Inv. 01-2004), the Commission concluded that the collective output of these two (2) companies constitutes a major proportion of the total domestic production of ceramic tiles.

⁴ Annex J of Formal Investigation Report SG Inv. 01-2004

Lepanto Ceramics Inc. Adjustment Plan (2005 – 2008)⁵

- A. Competitiveness through Cost Reduction and Efficiency
 - Increasing production volume to an average of 600,000 square meters/month;
 - Cost down scheme to result in 10-12% reduction of production cost.
- B. Working Capital Management
 - Maintain finished goods inventory at under 60 days stock;
 - Trade receivables at maximum of 90 days;
 - Stockpiling of body materials to hedge on cost and seasonal constraints;
 - Terms kept to 120 days maximum;
 - Debt reduction by 50%.
- C. Product and Service Quality
 - Rationalization of product mix by reviewing product mix and increase designs by 50%;
 - Selective price increases where possible;
 - Distribution network

2. MONITORING OF THE DOMESTIC INDUSTRY AND THE ROLE OF THE COMMISSION

Rule 16 (Monitoring of the Domestic Industry) of the Implementing Rules and Regulations (IRRs) of R.A. 8800 (Safeguard Measures Act) provides:

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.

⁵ Submitted to the Commission on 15 September 2004.

3. THE COMMISSION’S MONITORING

3.1 Notice of Public Hearing

Notice of Public Hearing was published in the *Manila Standard Today* and *The Manila Times* on 26 October 2006. Individual notices were sent to concerned parties, i.e., Ceramic Tile Manufacturers’ Association, Inc. (CTMA); Philippine Ceramic Products Importers Association (PCPIA); other known importers, the governments of exporting countries through their respective embassies, concerned Philippine Commercial Attaches; concerned government agencies; constructors/builders associations; and consumer groups.

3.2 Public Hearing

The public hearing was held on 07 November 2006 at the Tariff Commission.

The hearing allowed for maximum public participation by providing parties an opportunity to be heard and to present evidence, elaborate on their submissions, and respond to the presentations of other parties.

In attendance were representatives of the following: Mariwasa-Siam; Lepanto Ceramics; CTMA; PCPIA; Ideals Inc.; Fair Trade Alliance; Philippine Institute of Interior Design (PIID), Makati; DTI; Construction Industry Authority of the Philippines (CIAP) -DTI; Department of Labor and Employment (DOLE); Embassies of Indonesia and Vietnam; and Rivera Santos & Maranan Law Offices.

3.3 Plant Visits/Verification of Data

The Commission conducted ocular inspections of Mariwasa and Lepanto’s plant facilities on 23 August 2006 and 06 September 2006, respectively. Verification of company data (i.e., sales invoices, production output, accounting working papers, accounting books) were conducted on November 16 and November 29, respectively.

4. POSITIONS OF PARTIES

4.1 The Domestic Industry’s Case

4.1.1 Mariwasa

Mariwasa submitted to the Commission the confidential and non-confidential versions of its presentation during the public hearing detailing the following actions it had undertaken in compliance with its adjustment plan:

- A. *Introduce new and more exciting designs;*
 - 119 new series from 2004 to 2006 achieving better product mix and more choices for customers.
- B. *Improve distribution network*
 - 13 new distributors from 2004 to 2006 resulting to improved sales.
- C. *Strengthen brand equity*
 - Acquired 35 billboard sites and placed 39 ads on broadsheets and glossy magazines from 2004 to 2006 resulting to improved brand image and product awareness.
- D. *Reduce manageable costs*
 - Produced at higher efficiencies above 90% from 2004 to 2006 resulting to lower fuel and power consumption.
 - Reduced raw materials costs (₱/ton) at 12% from 2004 to 2006 resulting to improved margin.
- E. *Increase extraction of good tiles*
 - Extraction at above 80% resulting to better product mix and reduction in wastage
- F. *Reduce wastage*
 - Percentage of wastage from 2004 to 2006 is down to less than 10% resulting to higher consumption.
- G. *Reduce glaze consumption*
 - Glaze consumption (kg/sqm) for 2004 to 2006 is less than 1.00 resulting to higher contribution.
- H. *Reduce power and LPG consumption*
 - Power consumption (kwh/sgm.) for 2004 to 2006 is less than 4.00 resulting to higher savings. (Recognition from D.O.E)
 - LPG consumption (kg/sqm.) from 2004 to 2006 is less than 1.00 resulting to higher savings. (Recognition from D.O.E.)

In addition, under its Enercon Projects the following actions were undertaken in 2006:

1. Installed heat recovery systems
 - Mariwasa invested millions for the heat recovery system and resulted to savings equivalent to 300% of the said investment.
2. Modification of various equipment
 - Mariwasa's investments on the modification/reduction of power ratings of several equipments resulted to savings.

4.1.2 Lepanto Ceramics Inc.

Lepanto Ceramics, Inc., submitted the following results of its efforts to comply with its adjustment plan:

A. Competitiveness through cost reduction and efficiency:

i. Increasing production volume to an average of 600,000 square meters/month

ii. Cost Competitiveness

- The rate of rejects was brought down to 5% in 2006 and targeted to be at 4% in 2007. The efficiency of the spray dryer was increased by increasing the density of the slip (glaze) to reduce milling time. The gain made in increasing efficiency was wiped out by increase in cost of fuel and power.

B. Working Capital Management

Based on Lepanto's submission, substantial compliance to its adjustment plan was not met.

C. Product and Service quality

i. Rationalization of product mix by reviewing product mix and increase designs by 50%

- Present product range from low to high end
- 2 - 3 new designs every 6 months since 2005

ii. Selective price increases where possible

Average selling price improved by 9% in 2006.

iii. Distribution network

Expansion in distribution is concentrated on the local market. Exports remain a plan in 2007.

4.1.3 Adjustment Plans of Other Manufacturers (2007 – 2008)

During the public hearing the Commission requested CTMA for adjustment plans of other local ceramic tile manufacturers as manifestation of their support to the serious undertaking of the domestic industry to adjust to import competition.

On 20 November 2006, Euro Tiles, the third largest local tile manufacturer in terms of sales, submitted to the Commission its adjustment plan for 2007-2008.

On the other hand, Italfil Manufacturing, Inc., in its letter dated 21 November 2006, disclosed that it stopped operation in October 2005 as it does not foresee an increasing demand to a level that will give it the needed economies of scale.

4.1.4 Other Concern of the Domestic Industry

The domestic ceramic tile industry hopes that the IRR to the Trade Remedy Fund as provided under R.A. 8752 and RA 8800 will be issued soon. CTMA hopes to avail of the remaining 50% of the revenue collected from the safeguard measure which under RA 8800 shall be earmarked for competitiveness enhancement measures of the industries affected by the increased imports.⁶

4.2 The Oppositors

4.2.1 PCPIA

In a position paper dated 21 November 2006, PCPIA averred that the ceramic tiles industry is presently amply protected based on the following developments in the Bureau of Customs (BOC):

A. Unilateral Upgrade of the Dutiable Value

- i.* The BOC implemented in 2006 a minimum threshold value on all imported ceramic tiles equivalent to US\$ 0.20 per kilo.⁷
- ii.* The BOC FOB value is nearly 50% higher than the 2004 weighted average FOB of US\$0.1344/kilo based on the Commission's Formal Investigation Report (SG Inv. No. 01-

⁶ In the first three (3) years alone of the imposition of safeguard duty on imported ceramic tiles, CTMA's industry commodity experts (ICEs) estimated that a total of ₱323.8 M in safeguard duties was collected by the Bureau of Customs.

⁷ Based on BOC Notices, the reference values are Export Prices gathered by Commercial Attaché/Director of Philippine Trade & Investment Center (PTIC) and Philippine embassies based in the country of origin.

2004). With the minimum threshold being implemented now by BOC, the (landed) cost of imported tiles has significantly increased.

B. Mandatory Products Standards on Ceramic Tiles

The Bureau of Product Standards (BPS) is set to implement mandatory product standards within the first half of the year 2007.⁸ This will prevent entry of cheap and poor quality imported ceramic tiles in the local market.

4.2.2 Embassy of Vietnam

The five year application of safeguard measure is a long period for any adjustment measure and it should already be terminated. A safeguard measure applied very often to protect a few producers is not good for the consumers of the importing country.

Vietnam requests that it be removed from the list of countries subject to safeguard duty.⁹

⁸ The Bureau of Product Standards declared, as of October 01, 2006, PNS 154:2005 (Glazed & Unglazed Ceramics & Fittings Generally for Wall and Floor Covering) as mandatory product standard for ceramic tiles. The start of implementation, however, is still being finalized.

⁹ The composition of the developing countries on the *de minimis* list may change depending on the most recent data available during the period of annual review conducted by DTI.

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

5.1 MARIWASA-SIAM, INC.

a. Provided for more and better product designs

Mariwasa has developed and introduced a total of 75 new designs in 2004 to 2005. As of August 2006, the company has developed an additional 47 new designs which include 33 special designs of antibacterial tiles.¹⁰

b. Improved distribution network

A total of 13 new distributor centers were appointed in 2004 to 2006.

Table 3. Distributors

AREA	2004	2005	2006*
NCR	21	23	23
N.Luzon	5	5	5
S.Luzon	10	11	11
Visayas	21	22	22
Mindanao	12	12	13
TOTAL	69	73	74

Source: Mariwasa

* - January to September 2006

c. Strengthened brand equity

To improve the company’s brand image and product awareness of the consumer, Mariwasa had acquired 36 billboard sites and 41 ad placements on broadsheets and glossy magazines from 2004 to August 2006.

d. Reduced all manageable costs

The three variable cost elements that have the greatest impact on production costs are power, fuel and glaze materials. The company continued to put in place measures that would lower these cost elements in order to be competitive in the market. These are:

¹⁰ Built in to products during the manufacturing process, Microban® antibacterial protection inhibits the growth of potentially harmful bacteria such as E. coli, salmonella, etc. The Microban ingredient in the tiles’ glaze and printing paste prevents the bacteria from growing and reproducing.

i. Power

Mariwasa continued to operate its own power plant as it is proven to be cost efficient than getting electricity from Meralco.¹¹ As shown in Table 4, Mariwasa was able to reduce its power consumption by 18% from 2004 to 2006 (October).

It has also installed various energy-savings devices, like the heat recovery systems, under the “Enercon Saving Program” with millions of investments from 2004 to 2006 which generated savings for the company. The expected savings cancelled out with rising cost of bunker oil (for generating sets) which resulted to an increased of cost of power per square meter of ceramic tiles by 21% in 2005 and 15% in 2006. This program had received recognition from DOE from 2004 to 2006 for its outstanding performance on energy efficiency.¹²

ii. Fuel

The fuel efficiency measures include the improvement of kiln-loading efficiency, increasing waste-heat recovery and bidding out of long term LPG supply. The resulting LPG consumption was reduced by 11% in 2006 from 2004 level. With rising LPG cost, the cost to produce one square meter of ceramic tiles significantly increased by 13% in 2006 from 2004. On the other hand, bunker fuel consumption decreased by 24% in 2006 from 2004 level. However, the cost of bunker in the production of ceramic tiles increased by 22% in 2006 from 2004. This was attributed to the continuing increase of bunker fuel with an average annual growth of 28%.

iii. Glaze

The efficiency measures to reduce its glaze costs are the following: (a) reducing glaze wastages on line; (b) reducing glaze application; and, (c) ongoing development of alternative sources of raw materials within Asia to minimize dependence on European suppliers and to lessen vulnerability to foreign exchange fluctuations. These

¹¹ Formal Investigation Report “Ceramic Tiles Industry: Extension of Safeguard Action Against Imports” (SG Inv. No. 01-2004), p.28.

¹² (1) Received Don Emilio Abello Energy Efficiency Special Award on 2004 from DOE for saving 1.0 million liter of oil equivalent or ₱21.3 million; (2) Received 1st Outstanding Award on 2005 from DOE for saving 2.5M liter of oil equivalent or ₱60.5 million; (3) Final review of Technical Committee for the 2nd Outstanding Award from DOE for 2006, approximately saving 1.1 million liter of oil equivalent or ₱ 45.6 million

efficiency measures allowed Mariwasa to reduce the glaze consumption and glaze cost per square meter of ceramic tiles by 8% and 10%, respectively, despite the increased costs of glaze materials by 3% in 2006.

The company remains hopeful that the natural gas pipeline project in Batangas will be operational by the end of 2007 which would bring down variable costs. If not for the efficiency measures, Mariwasa would have incurred a much higher variable cost.

Table 4. Variable Costs

Cost Component	Unit of Measure	% Change (2004-2005)	% Change (2005-2006*)	% Change (2004-2006*)
Unit Consumption Per Square Meter of Ceramic Tiles:				
Power	Kwh	(9.30)	(9.00)	(17.51)
Fuel:				
LPG	KG	(8.20)	(3.00)	(10.91)
Bunker	Liters	(28.80)	6.40	(24.24)
Glaze Materials	KG	(3.40)	(4.65)	(7.87)
Cost Per Unit:				
Power	Kwh	33.70	26.40	69.00
Fuel:				
LPG	KG	14.30	11.60	27.52
Bunker	Liters	46.00	9.50	59.95
Glaze Materials	KG	1.00	2.30	3.25
Cost Contribution Per Square Meter of Ceramic Tiles:				
Power		21.10	15.40	39.76
Fuel:				
LPG		4.85	8.15	13.40
Bunker		3.40	17.80	21.76
Glaze Materials		(3.00)	(2.00)	(4.90)

Source: Mariwasa

* - January to October 2006

e. Increased extraction of good tiles.

The rate of extraction improved from 74% to 81% and 85% to 88% in 2006 for floor tiles and wall tiles, respectively. Line wastage was reduced from 9.1% to 8.2% and 8.2% to 7.2% in 2006 for floor and wall tiles, respectively.

This was attributed to continuing capacity building programs to improve technical and problem solving skills and management capabilities. With a more cohesive and skilled workforce, an

improved production performance on line is expected to reduce defects and increase good tile extraction rates.

5.2 **LEPANTO CERAMICS, INC.**¹³

1. **Competitiveness through cost reduction and efficiency.**

The following improvements were achieved by Lepanto Ceramics, Inc. in its effort to reduce cost and become more efficient to be competitive in the market:

- a. Increased production by 11.07%.¹⁴
- b. Rejects were brought down to 5% from 10% in 2003.
- c. Increase efficiency of spray dryer by increasing density of slip.
- d. Installed capacitors to reduce/stabilize power, thus, milling time was reduced by 9%.

Despite the above efficiency measures of Lepanto, increasing fuel and electricity cost (Table 5) negated whatever gains were made through efficiency measures undertaken and cost of production continued to increase.

Table 5. Fuel and Electricity Cost per Unit

Particular	Unit of Measure	% Change (2004 – 2006*)
Bunker	Liter	61.50
Diesel	Liter	44.65
LPG	Kg	25.12
Meralco	kwh	45.52

Source: Lepanto

* - January to June 2006

In terms of raw material procurement, Lepanto imported its raw materials from China which is cheaper than raw materials from Europe.

2. **Working Capital Management**

Except for raw materials inventory, targets for working capital accounts under account receivables, inventory and trade payables were not realized.

¹³ All data were adjusted to calendar year.

¹⁴ Lepanto's adjustment plan was to increase production volume to 600,000 sq.m/month.

3. Product and service quality

Lepanto's current products range from low to high end. It had introduced two to three new designs every six months since 2005. With a better product mix, average selling price improved by 9%.

The company had strengthened its market presence and penetrated more areas through opening of Lepanto outlets and DIY (Do-It-yourself) stores nationwide (Table 6). The number of distributors increased from 62 in 2004 to 83 in 2006 (June) and are concentrated in the Visayas and Mindanao areas. It also established a new showroom in Alabang to enhance consumer awareness.

Table 6. Distributors

Area	2004		2005		2006*	
	No. of Distributors	No. of DIY Store	No. of Distributors	No. of DIY Store	No. of Distributors	No. of DIY Store
NCR	6	-	13	8	16	11
NLR	13	-	12	1	12	2
SLR	15	-	13		14	5
VIS	17	-	19	2	20	1
MIN	11	-	22	-	21	-
PRO	-	-	-	-	-	-
EXPORT	-	-	-	-	-	-
OTHERS	-	-	-	1	-	1
TOTAL	62	-	79	12	83	20

Source: Lepanto

* - January to June 2006

6. THE DOMESTIC INDUSTRY PERFORMANCE

6.1 Market Share

With the safeguard measure in place, the domestic industry maintained an average 75% share from the date of imposition of safeguard duty in 2002 until 2004. In 2005, however, imports captured the increase in demand and accounted for 36% of the total domestic market.¹⁵

¹⁵ During the public hearing, Mariwasa confirms that the share of imports is about 35-40% of the total domestic market.

Table 7. Apparent Domestic Consumption of Ceramic Tiles and Market Shares

Year	Apparent Domestic Consumption ('000 sq.m.)	% Share to Estimated Apparent Consumptions	
		Domestic Industry	Imports
2003	17,515	75	25
2004	17,853	76	24
2005	21,384	64	36
2006*	-	-	-

Source of raw data: – Mariwasa and Lepanto
– NSO Foreign Trade Statistics
* - January to June 2006

6.2 Production and Sales

Production exhibited an increasing trend from 2003 – 2005 with 3% average annual growth while domestic sales registered 2% growth. Slowdown of exports in 2005 caused a reduction of total sales in 2005. It is noted that the domestic industry failed to benefit from the nearly 20% growth in demand in 2005.

Table 8. Production and Sales

Year	Production % Change	Sales % Change
2003	-	-
2004	3.90	7.00
2005	1.70	(2.50)
2006*		

Source : Mariwasa and Lepanto
* - January to June 2006

6.3 Capacity Utilization

Capacity utilization based on all kilns installed remained at 53% to 54% over the period. The reduction in capacity utilization based on operating kilns in 2004 despite increase in production was due to the increase in the rated capacity of operating kilns.¹⁶ In 2005, the increase in utilization rate was brought about by the reduction in operating kilns and increased production output during that year.

¹⁶ Formal Investigation Report “Ceramic Tiles Industry: Extension of Safeguard Action Against Imports” (SG Inv. No. 01-2004), footnote 20, p.27.

Table 9. Actual Capacity Utilization

Year	Capacity Utilization (%)	
	All Kilns	Operating Kilns
2003	53	83
2004	54	76
2005	54	83
2006*	54	74

Source: Mariwasa and Lepanto

* - January to June 2006

6.4 Cost of Production

Cost of production rose 6% in 2005 and 2006. This was attributed to the rise in overhead costs particularly power and fuel.

Table 10. Cost of Production (₱/sq. m.)

Cost Components	% Change (2004-2005)	%Change (2005-2006*)
Raw Materials	(0.08)	1.80
Labor Cost	(10.00)	7.40
Variable Overhead	10.80	10.70
Fixed Overhead	7.10	2.50
Cost of Production	6.10	6.10

Source: Mariwasa and Lepanto

6.5 Profitability

With the imposition of safeguard measures combined with efficiency measures by the applicants, Mariwasa and Lepanto's revenues were increasing from 2003 to 2005. Income from operation of Lepanto during these periods registered negative results. On the other hand, Mariwasa's income from operation showed improvement from ₱20 million in 2003 to ₱142 million in 2005.

In 2006, Mariwasa's unaudited financial statements disclosed that the company posted a ₱58 million net operating loss from a ₱142 million net operating income. Net sales dipped 7% to ₱1.78 billion from ₱ 1.87 billion. Inflationary pressures, high oil prices, domestic politics and natural calamities have impacted on consumer spending resulting in weaker domestic demand. The slackened economic growth as well as stiff competition from cheap imported tiles have impacted on the company.¹⁷

¹⁷ Business World, February 19, 2007.

Table 11. Domestic Industry's Income Statement (Million Pesos)

Particulars	2003			2004			2005		
	Mariwasa	Others*	Total	Mariwasa	Others*	Total	Mariwasa	Others*	Total
Sales	1,686	650	2,336	1,883	602	2,485	1,872	660	2,532
Less: Cost of Sales	1,416	689	2,105	1,539	602	2,141	1,476	740	2,216
Gross Profit	270	-39	231	344	0	344	396	-80	316
Less: Operating Expenses	250	204	454	225	222	447	254	213	467
Income (Loss) from Operations	20	-243	-223	119	-222	-103	142	-293	-151
Other Income (Expenses)	353	250	603	292	395	687	101	77	178
Income (Loss) before Income Tax	-333	-493	-826	-173	-617	-790	41	-370	-329

Source: Mariwasa and Lepanto

* - Lepanto

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

The Commission finds that Mariwasa complied substantially with its commitments to its adjustment plan. Lepanto, on the other hand, despite the efficiency measures undertaken did not meet targets for working capital accounts.¹⁸ Lepanto has experienced delays in the payment of principal and interest on its loans from banks. Its independent auditor's report (2005) mentioned that continuing operations would depend on Lepanto's ability to: (a) generate sufficient cash flow to meet its obligations on a timely basis; (b) obtain additional financing or capital infusion; and (c) eventually regain profitability.

Among the specific efforts that have been undertaken by the industry to comply with its adjustment plan and enhance its import competitiveness are the following:

- New designs were developed thereby achieving a better product mix and providing more choices for customers. With better product mix, the average selling price improved.
- Mariwasa, looking for a new market niche, introduced ceramic tiles with anti-bacterial properties.
- More distributors were appointed and penetrated more areas nationwide which had sustained market leadership of the domestic industry.
- Acquired more billboard sites and ad placements on broad sheets and glossy magazines to further improve brand image and product awareness.

¹⁸ Lepanto's financial statements (2004-2005), as reported by its independent auditor, indicates that the company has suffered recurring losses from operations and has a net capital deficiency amounting to P2.8B and P2.4B as of June 30, 2005 and 2004, respectively.

- To improve cost, efficiency measures were undertaken. Mariwasa was able to reduce its fuel and power consumption per square meter of ceramic tiles. Mariwasa had capitalized huge amount on energy-saving devices to be more cost efficient. However, expected savings were mitigated by the rising cost of fuel and power.

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