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## **ABBREVIATIONS**

AEM	ASEAN Economic Ministers
AFTA	ASEAN Free Trade Area
AGC	Asahi Glass Company Limited
AGP	Asahi Glass Philippines
AHTN	ASEAN Harmonized Tariff Nomenclature
ASEAN	Association of South East Asian Nations
BIS	Bureau of Import Services
BOC	Bureau of Customs
CEPT	Common Effective Preferential Tariff
CIF	Cost, Insurance and Freight
cm	Centimeter
CMO	Customs Memorandum Order
Commission	Tariff Commission
COP	Cost of Production
COPS	Cost to Produce and Sell
DA	Department of Agriculture
DTI	Department of Trade and Industry
E.O.	Executive Order
EBIT	Earnings Before Interest and Taxes
GATT	General Agreement on Tariffs and Trade
GK	Gross Kilogram
HS	Harmonized System
IRR	Implementing Rules and Regulations
ISO	International Standards Organization
kg.	Kilograms
mm	Millimeters
MFN	Most-Favoured-Nation
MT	Metric Ton

PNS	Philippine National Standard
POI	Period of Investigation
PROC	People's Republic of China
R.A.	Republic Act
R.A. 8800	Republic Act 8800, otherwise known as the Safeguard Measures Act of 2000
RAGC	Republic-Asahi Glass Corporation
RGC	Republic Glass Corporation
RGHC	Republic Glass Holdings Corporation
SEC	Securities and Exchange Commission
sq. m.	Square Meter
US	United States
VAT	Value Added Tax
Wtd.	Weighted
WTO	World Trade Organization

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## **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 glass mirrors.

### **Safeguards Investigation**

*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 import volume exceed 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 glass mirrors, 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.

*. . . and the procedures prescribed by the WTO Agreement on Safeguards.*

In particular, the Commission is required to determine:

- 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.

## **Findings**

*Locally produced unframed glass mirror is a like product to the imported unframed glass mirror.*

The locally produced and the imported glass mirrors are made from the same raw materials, use similar manufacturing technology, conform to recognized product standards, fall under the same tariff classification, and have the same end-use/application.

*The imported framed glass mirror is directly competitive with the locally produced unframed mirror*

On the other hand, the imported framed glass mirror is directly competitive with the locally produced unframed mirror since, except for the framing, they are made from the same raw materials, use similar manufacturing technology, conform to recognized product standards, and have the same end-use and function.

*AGP's output constituted total domestic production.*

Asahi Glass Philippines (AGP), the sole manufacturer of glass mirror in the Philippines, accounts for 100% of total domestic production of the subject article.

*During the period under review, imports increased significantly. . .* For purposes of the Commission's formal investigation, the period of investigation covered the years 1998 to 2002.

*. . . in absolute terms . . .* Imports of glass mirror increased from 1,040 MT in 1998 to 2,001 MT in 1999 and continuously increased to 2,075 MT and to 2,121 MT in 2000 and 2001, respectively.

In 2002, imports ballooned and exceeded the previous year's level by 60% i.e. from 2,121 MT to 3,400 MT.

The 2002 import level was the highest over the POI and was more than double the initial import volume in 1998.

*. . . and relative to domestic production.* Imports of glass mirrors represented 24% of total domestic glass mirror production in 1998. Share of imports continuously increased to 37% in 1999, 39% in 2000, and 59% in 2001.

In 2002, the share of imports was already at an alarming rate of 102% vis-à-vis domestic production.

*Significant increase in imports commenced in 2002.* The annual levels of imports from 1998 to 2002 and the annual shares of imports relative to domestic production show that the increase in imports of glass mirror began in 1999 and continued sharply and significantly in 2002.

*The industry suffered a significant impairment in its overall market position, . . .* In 2002 when imports more than doubled from the 1998 level, the domestic industry's share of the market fell to 51.28% from a level of 80.46% in 1998.

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, . . .* Production dropped by 32.98% in 2001 and by 6.77% in 2002, a total drop of 40% from the 2000 level. Similarly, sales declined to its lowest level by 30.56% in 2001. In 2002, domestic sales were unable to bounce back to their 1998 to 2000 levels as imports increased significantly.

Moreover, relative to the 23% increase in demand in 2002, there was considerable lag in the growth of local

production and sales indicating serious impairment to the local industry.

The reduction in production and the weak growth of sales, relative to the increase in demand, can be directly attributed to the increased importation in 2002.

*. . . capacity utilization, . . .*

A significant decline in AGP's capacity utilization occurred in 2001 and 2002. The increased importation in 2002 contributed to the underutilization of capacity resulting in serious impairment of the industry's overall condition in 2002.

*. . . profitability, . . .*

Audited financial statements of AGP revealed that in 2002, when imports increased significantly, AGP for the first time since 1998 incurred loss from operations that amounted to ₱5M.

*. . . and productivity.*

Despite the continuous retrenchment in its workforce, the industry's productivity declined substantially in 2001 and 2002 because of the reduced production.

Increased imports seriously impaired and affected AGP's productivity.

*No link was found between inventory and employment vis-à-vis increased imports.*

The industry managed to keep inventory to its normal level to avert further losses due to increased imports.

Decline in employment in 2002 is attributable to AGP's effort to reduce cost.

*The serious impairment in the industry's overall market position, production, sales, capacity utilization, profitability and productivity is directly attributable to the significant increase in imports in 2002.*

Prior to the significant increase in imports in 2002, the industry dominated the market with an average market share of 71%. During the year of increased imports, the average share fell to 51% in 2002. The decline in the market share of the domestic industry and the erosion of its competitive position are directly attributable to the significant increase in imports in 2002.

From an increase of 25% in 1999, production dropped in 2001 and 2002 by an average of 20%. Similarly, sales declined to its lowest levels in 2001 and 2002.

Relative to the 23% increase in demand in 2002, there

was considerable lag in the growth of local production and sales indicating serious impairment to the local industry.

The reduction in production and the weak growth of sales, relative to the increase in demand, can be directly attributed to the increased importation in 2002.

A significant decline in AGP's capacity utilization occurred in 2001 and 2002. The increased importation in 2002 contributed to the underutilization of capacity resulting in serious impairment of the industry's overall condition in 2002.

From 1998 to 2001, AGP generated income from operations. The surge of cheap imports put pressure on AGP to adopt import parity pricing to preserve its domestic sales volume. This led to an operating loss of ₱ 5M in 2002.

Despite the continuous retrenchment in its workforce, the industry's productivity declined substantially in 2001 and 2002 because of the reduced production.

Increased imports seriously impaired and affected AGP's productivity.

### **Safeguard Action**

*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 glass mirror and serious injury to the domestic industry having been established, the Commission recommends the tariff-rate quota as the form of definitive safeguard measure to be imposed on the importation of glass mirror.

The measure shall be effective for three (3) years starting 13 October 2003, i.e., the date the provisional measure took effect.

For purposes of import quota allocations by country, the Commission determined that the three-year period preceding the import surge, i.e., 1999 to 2001, serves as a desirable base period for computing the beginning in-quota volume.

Based on the historical growth of the glass mirror market, which expanded by an average of approximately

4.5% annually during the base period, allocation of in-quota volumes for the succeeding years is proportionately increased by such rate.

For imports exceeding the in-quota allocation, the definitive safeguard measure shall be a specific duty of ₱2,864 per MT.