

No. 1(1)/2019-NTC/RW
Government of Pakistan
National Tariff Commission

***Impact of Tariff and Trade Defense
Measures on Pakistan's Wall and
Floor Tiles Industry***

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1. INTRODUCTION

1.1 National Tariff Commission (the "Commission") is a body corporate having perpetual succession and a common seal. It shall have the authority and duty to exercise the functions assigned to it by or pursuant to the NTC Act 2015 (the "Act") or any other law. The Commission advises the Federal Government on:

- (a) tariff and other trade measures to, -
 - (i) provide assistance to the domestic industry; and
 - (ii) improve the competitiveness of the domestic industry;
- (b) trade remedy actions being faced by domestic producers and exporters;
- (c) rationalization of tariff and proposals for tariff reform;
- (d) removal of tariff anomalies; and
- (e) any other matter relating to tariff or trade measures that the Federal Government may refer to the Commission.

1.2 To provide level playing field to the domestic industries, the Commission: -

- a) conducts investigations under trade remedy laws i.e. Anti-Dumping Duties Act 2015 and Countervailing Duties Act 2015.
- b) conducts safeguard investigations/measures under Safeguard Measures Ordinance 2002 against surge in imports. All such proceedings are carried out in conformity with a rule-based international trading system.
- c) advises the Government on issues related to Pakistan's industry competitiveness, promotion of exports and customs tariff rationalization including: -
 - i. advise the domestic exporters and producers facing trade remedy investigations abroad,
 - ii. periodically review the effect of recommendations on changes in customs tariff and other duties and taxes, and in consequence of such reviews may give further recommendations to the Federal Government,
 - iii. assist the Federal Government at the World Trade Organization Dispute Settlement Body in respect of matters pertaining to the Trade Remedy Laws, WTO Covered Agreements and disputes under other trade agreements,

- iv. perform such functions with respect to international trade and other matters that may be assigned to it by the trade remedies laws or any other law for the time being in force, and
- v. undertake research to facilitate effective implementation of Trade Remedy Laws and tariff rationalization, in a manner to be prescribed.

2. Objective/Purpose of the Study

2.1 Keeping in view Sub-sections 3 and 6 of Section 8 of the Act, the Commission has conducted a study to assess impact of imposition of antidumping duties and changes in customs tariff (customs and regulatory duties) on domestic wall and floor tiles sector. During last five years, this sector has witnessed a considerable growth and investment which could be correlated to imposition of antidumping duty and regulatory duties on imports of wall and floor tiles.

2.2 The Commission has conducted number of antidumping investigations on imports of wall and floor tiles during last twelve years and has imposed antidumping duties on its imports from China. It is worth mentioning that China is the biggest source of imports of wall and floor tiles. Further, there were significant changes in regulatory duties imposed on imports of wall and floor tiles during last five years. Therefore, wall and floor sector is the most suitable case to assess impact of imposition of antidumping duties and changes in customs tariff on its imports.

3. Anti-Dumping Proceedings on Imports of Wall and Floor Tiles

3.1 In **2006**, the Commission received request from domestic industry and conducted an investigation on dumping of wall/floor tiles from China. On November 30, 2006 the Commission imposed anti-dumping duties on imports of wall and floor tiles from China for a period of five years; upon determining dumping of Chinese tiles in Pakistan market:

**Table-I
Anti-dumping Duty Rates
Nov. 30, 2006**

Sr. No	Exporter Name	Anti-dumping duty Rate (%)
1	Foshan Junjing Industrial Co. Ltd.	14.85
2	Guangdong Nanhai Light Industrial Products I/E Ltd.	21.08
3	J & M Designers Ltd.	16.46
4	Guangzhou Metal and Minerals Import & Export Co.	23.65
5	All Others	23.65

3.2 During 2006 to 2009 the Commission's investigation, determination and imposition of anti-dumping duty were challenged by different importers through various writ petitions in the Lahore High Court, Rawalpindi Bench, which were subsequently transferred to Islamabad High Court, Islamabad. On July 02, 2009 the

honorable Islamabad High Court, Islamabad dismissed all writ petitions after discussing all issues mentioned in writ petitions in following words:

“..... for what has been discussed above, there is no force in all these Writ Petitions which are hereby dismissed with no order as to costs.”

3.3 In September 2009, the importers of wall/floor tiles challenged decision of the Islamabad High Court in the Supreme Court of Pakistan through various Civil Petitions. On October 29, 2009, the Hon'ble Supreme Court of Pakistan passed following short order:

“Iftikhar Muhammad Chaudhry, CJ: - For the reasons to be recorded later, the impugned judgment as well as order dated 28th November 2007 and others reported to have been passed subsequently, by the National Tariff Commission are set aside. Cases are remanded to the National Tariff Commission to proceed afresh on the complaint against the petitioners keeping in view the provisions of Section 11 of the National Tariff Commission Act, 1990. It would be appreciated if the Commission may dispose of the matter expeditiously, preferably within a period of eight weeks. Petitions are converted into appeal and allowed in the above terms leaving the parties to bear their own cost.”

3.4. On November 13, 2009, in pursuance of short order of the Supreme Court of Pakistan, the Commission, initiated fresh proceedings on imposition of antidumping duty on imports of wall and floor tiles into Pakistan originating in and/or exported from China. On February 20, 2010 the Commission made preliminary determination in these proceedings and imposed following provisional anti-dumping duties as in table 1:

3.5 The Commission's decision to initiate fresh proceedings and preliminary determination were challenged by importers in the Islamabad High Court through Writ Petitions 912/2010 on the grounds that fresh proceedings were not initiated by properly constituted Commission (*qourm-non-judice*). In its judgment dated May 03, 2011, the Islamabad High Court, directed the Commission to proceed in the case in accordance with Section 11 of the NTC Act 1990 read with the Anti-Dumping Duties Ordinance 2000 and passed the following orders:

“The contention of learned counsel for the petitioner is correct. The August Supreme Court of Pakistan has clearly held that the order of initiation of enquiry was to be issued by the properly constituted Commission. In the circumstances, instant writ petitions are accepted and the case is sent back to the National Tariff Commission with the direction to proceed in the case in accordance with Section 11 of National Tariff Commission Act, 1990 read with Anti-Dumping Duty Ordinance, 2000”.

3.6 On June 24, 2011, in pursuance of the judgment of the Honorable Islamabad High Court, the Commission again initiated fresh proceedings. On July 20, 2011, the Commission's initiation of fresh proceedings in this case was again challenged by various importers in the Islamabad High Court. The Honorable Islamabad High Court on January 17, 2012 dismissed writ petitions with following observations:

“Keeping in view the record and background of this petition, it becomes clear that the petitioner had been trying to avoid imposition of antidumping duties; at every stage, writ petitions were filed and the matter was taken up to the Hon’ble Supreme Court of Pakistan and in such a way the matter was prolonged on one way or the other.”

“In the present case, main grievance of the petitioner is that since the order of earlier incompetent Commission was declared Coram non-judice by the Hon’ble Supreme Court of Pakistan, therefore, the evidence collected by the Commission in respect of the complaint filed by the domestic industry was also without any legal sanctity and could not be relied upon. If the contention of the learned counsel for the petitioner is accepted, the same would amount to setting aside judgment/order of the Hon’ble Supreme Court of Pakistan, because in that case, the order of remand passed by the Hon’ble Supreme Court of Pakistan would be set aside. The order of remand would stand converted in to order of acceptance of petition, which is not possible. In addition to that the Hon’ble Supreme Court of Pakistan while passing the judgment/order was well aware of all facts, but even then, the case was remanded back to the Commission, which clearly shows that the complaint earlier filed was to be considered. As such the evidence attached to the complaint could not be thrown away. Furthermore, the evidence collected by the earlier Commission remained protected and that cannot be declared as false or unreliable. The only requirement is that the same evidence is to be re-appraised and re-appreciated by the properly constituted Commission.”

“..... the petitioner should allow the Commission to complete its proceedings and if the final determination, according to the petitioner is erroneous, then the same can be challenged before the tribunal constituted under the Anti-Dumping Duties Ordinance, 2000. Asking the court to appreciate or apprise the evidence collected during the course of investigation, by challenging one notice of the other or by invoking any other provisions of the Anti-Dumping Duties Ordinance, 2000 is only to stop the Commission from completing its task and prolong the matter, without any reason.”

3.7. In light of the decision of the Hon’ble Islamabad High Court dated January 17, 2012 the Commission re-appraised and re-appreciated the evidence and information collected/ received during original investigation of this case and made final determination on May 8, 2012. The Commission imposed definitive antidumping duties on the dumped imports of wall and floor tiles imported from China for a period of five years with effect from November 30, 2006 at the same rate as on 30 November 2006 (Table 1).

3.8 As the same rate of antidumping duties remained in-force on imports of the investigated product from November 30, 2006 to October 28, 2009, therefore, Commission confirmed that imposition of antidumping duties for the period from November 30, 2006 to October 28, 2009 and imposed antidumping duties for remaining period from October 29, 2009 to November 29, 2011.

3.9. Final determination of the Commission in this case was challenged in the Appellate Tribunal through appeal nos. 6 to 10 of 2012. In its decision dated October 1, 2012 the Appellate Tribunal set aside Commission's final determination and the case was remitted to the Commission to proceed from the stage of order dated June 24, 2011 (initiation of the investigation). The Appellate Tribunal has passed the following order:

"The case is being remitted to the commission to proceed from the stage of order of fresh initiation of investigation dated 24-06-2011 for taking further proceedings in accordance with provisions of the Ordinance as indicated above. Whatever data and material would be considered by the commission except the one about which confidentiality is claimed would be allowed to be examined by all the interested parties and in case according to any of such parties any material which is not relevant, objection may be raised and the commission shall consider the and dispose them of by speaking findings in the final determination, against which the aggrieved party may seek remedy provided by law

"For the foregoing reasons these appeals are accepted. The final determination made by NTC on 08-05-2012 issued on 11-05-2012 is set aside, and the case is remitted to the NTC to proceed from the stage of order dated 24-06-2011 and complete the proceedings by making compliance with the provisions of ordinance as indicated above and dispose of the application afresh."

3.10 In pursuance of the judgment of the Anti-Dumping Appellate Tribunal, the Commission resumed proceedings of the anti-dumping investigation on October 24, 2012. Resumption of the proceedings was challenged in higher Courts by the importers and the Courts issued injunction orders and the proceedings were stayed. On June 29, 2015 the Lahore High Court, Lahore ordered as follows:

"Parties have no objection if this petition is dispatched to NTC with the direction to treat it as an objection to the initiation of preliminary determination and decide the same in accordance with law after granting hearing to the petitioner.

"In order to streamline the process, let the petitioner appear before NTC at 11:00 am on July 15, 2015 who will decide the matter within a fortnight thereof after granting a hearing to all the concerned including respondents."

3.11 Pursuant to the directions of the LHC a hearing was held on 15-07-2015 at 11.00 a.m. at the Commission to decide the questions of resumption of the proceedings by the Commission, period of investigation as updated in afresh proceedings and legality of the proceedings under the Anti-Dumping Duties

Ordinance 2000. At the start of hearing, the representative of the domestic industry requested an adjournment. The hearing was adjourned till 27.07.2015 with consent of the other parties. Accordingly, the hearing was later held on July 27, 2015 at 11.00 at the Commission.

3.12 On 27th July 2015 the representative of the domestic industry at the outset submitted an application for withdrawal of their pending anti-dumping application under Section 40 of the Act

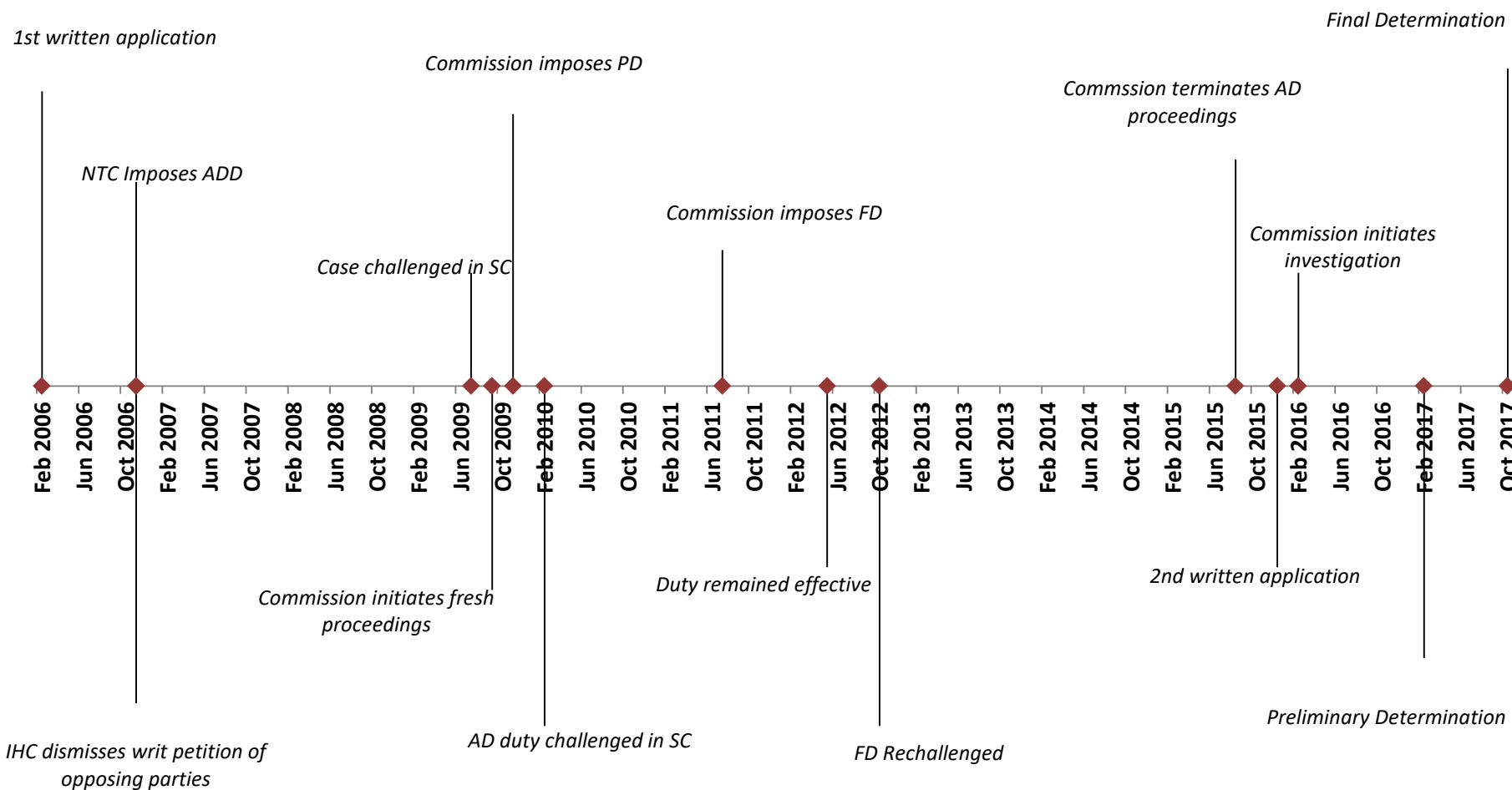
3.13 In exercise of the powers conferred under Section 40 of the Act, the Commission on August 10, 2015 terminated proceedings of the anti-dumping investigation on imports of wall and floor tiles into Pakistan originating in and/or exported from China without imposition of antidumping duty.

3.14 The Commission received a written application from domestic wall and floor tiles manufacturing industry on December 23, 2015 for imposition of antidumping duties on imports from China. Subsequently, the Commission initiated an antidumping investigation on February 19, 2016, made preliminary and final determinations on February 18, 2017 and October 10, 2017 respectively and imposed following antidumping duties for a period of five years effective from February 18, 2017:

Table-II
Definitive Anti-dumping Duty Rates (effective Feb 18, 2017)

Producers/Exporter Name	Antidumping Duty Rate (%)
Fujian Minqing Xinfeng Ceramics Company Limited	19.37
Guangdong Haosen Ceramics Company Limited	26.62
Heyuan Dongyuan Eagle Brand Ceramics Co. Limited	36.35
Eagle Brand Ceramics Industrial (Heyuan) Co. Limited	36.35
Huida Sanitary Ware Company Limited	9.35
Foshan Hexin Chuangzhan Ceramics Company Limited	9.35
Zibo Huabang Ceramics Company Limited	9.35
Guangdong Overland Ceramic Company Limited	17.83
Super Ceramics Company Limited	17.83
Foshan Huashengchang Ceramics Company Limited	17.83
Qingyuan Nafuna Ceramics Company Limited	17.83
Lixian Xinpeng Ceramics Company Limited	17.83
Guangdong Yongsheng Ceramics Company Limited	17.83
Foshan Chan Cheng Jinyi Ceramics Company Limited	17.83
All others	36.35

Time line of Imposition of Anti-dumping duties on Wall and Floor Tiles



4. Customs Tariff Structure of Wall/Floor Tiles

The customs tariff structure (customs and regulatory duties) applied on imports of wall and floor tiles shows that customs duty on imports declined and Regulatory duty increased from 15% in 2013-14 to 45% in 2019-20:

**Table-III
Customs Tariff Structure**

S.No	Year	PCT Nos.	Customs duty	Regulatory duty
i.	2005-06	6907.1000, 6907.9000, 6908.1000, 6908.9010 and 6908.9090	25	--
ii.	2009-10		35	--
iii.	2013-14		30	15
iv.	2014-15		25	15
v.	2015-16		20	20
vi.	2016-17		20	20
vii.	2017-18	6907.2111, 6907.2119,	20	25
viii.	2018-19	6907.2190, 6907.2211,	20	45
ix.	2019-20	6907.2219, 6907.2290, 6907.2311, 6907.2319,	20	45

5. Over View of the Product under Study

5.1 The product under study is wall and floor tiles, which includes ceramic, porcelain, vitrified, granite, glazed/unglazed, polished/unpolished finish ("Tiles"). The Pakistan Custom Tariff (PCTs) of the product under study was revised on July 01, 2017. The said product was used to be classified under PCTs 6907.1000, 6907.9000, 6908.1000, 6908.9010 and 6908.9090, however, Tiles are reclassified under PCT Nos. 6907.2111, 6907.2119, 6907.2190, 6907.2211, 6907.2219, 6907.2290, 6907.2311, 6907.2319, 6907.2390, Earlier classification/description was general and was not based on water absorption coefficient. However, the revised classification includes description on water absorption coefficient, elaborated as under:

**Table-IV
Tariff Classification of Tiles**

Earlier (up till 2015-16) Classification		Current Classification	
PCT No.	Description	PCT No.	Description
Chapter 69	Ceramic products	Chapter 69	Ceramic products
69.07	Unglazed ceramic flags & paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing.	69.07	Ceramic flags and paving, hearth or wall tiles; ceramic mosaic cubes and the like, whether or not on a backing; finishing ceramics.
			- Flags and paving, hearth or wall tiles, other than those of subheadings 6907.30 and 6907.40 :
6907.1000	- Tiles, cubes and similar articles, whether or not rectangular, the		- - Of a water absorption coefficient by weight not exceeding 0.5 %:

	largest surface area of which is capable of being enclosed in a square the side of which is less than seven centimeters.		- - - Tiles :
		6907.2111	- - - - Polished
6907.9000	-Others	6907.2119	- - - - Other
69.08	Glazed ceramic flags & paving, hearth or wall tiles, glazed ceramic mosaic cubes and the like, whether or not on a backing	6907.2190	- - - Other
			- - Of a water absorption coefficient by weight exceeding 0.5 % but not exceeding 10 %:
6908.1000	-Tiles, cubes and similar articles, whether or not rectangular, the largest surface area of which is capable of being enclosed in a square the side of which is less than 7cm		- - - Tiles :
		6907.2211	- - - - Polished
	-Others	6907.2219	- - - - Other
6908.9010	- - - Tiles	6907.2290	- - - Other
6908.9090	- - - Other		- - Of a water absorption coefficient by weight exceeding 10 %:
			- - - Tiles :
		6907.2311	- - - - Polished
		6907.2319	- - - - Other
		6907.2390	- - - Other

5.2 Tile is made from natural clay, sand, water and other inputs such as frits, glaze, and inks. These materials are molded to form square or rectangular tiles, baked in a kiln to remove most of the moisture. Natural clay is a primary input, abundantly available in the country. Imported inputs includes frits, glaze, and inks. Clay accounts for around 25% to 35% percent of cost of production whereas imported inputs accounts for around 10 to 15 percent of the cost of production. A major cost of production of Tiles is the energy cost. The raw clay is formed in the shape of tile biscuit, which is baked in a pre-heated oven/kiln. Since the energy (POL, gas and electricity) prices have significantly increased, therefore share of cost of energy in production of tiles has increased accounting for 25% to 35% of cost of production. Being a voluminous commodity, coverage of the tiles, freight accounts for 15% of the cost of sales.

5.3 There are 5 steps in Tiles manufacturing process: (i) Mining, (ii) Blending and Mixing, (iii) Pressing, (iv) Glazing, and (v) Firing. Following is brief production process of Tiles:

Step 1: Mining.

The process begins with the mining of the raw materials, which is a mixture composed of mostly clay and minerals.

Step 2: Blending and Mixing:

The clay and mineral mixture are blended and mixed into a semi fine powder. Water is added to form a wet *slurry* or mud-like consistency. Then the slurry is

pumped into a large dryer, and the result is a fine clay powder that feels like warm, fine sand.

Step 3: Pressing

The fine powder of clay and other minerals is pressed or formed into a tile shape. These pressed tiles are called *green tiles* at this stage.

Step 4: Glazing

This step is applied to those tiles that will have a glaze. If the tile is to remain unglazed it skips this step and goes directly to the firing kiln.

The glaze liquid is prepared from a glass derivative called *frit* and colored dyes. The glaze is applied by either a high-pressure spray or is poured directly on the tile.

Step 5: Firing

The green tiles are fired in the kiln at temperatures around 2000 degrees Fahrenheit.

Tiles that are fired once after the glaze is applied are called *monocottura tile* or *single fired*. The other type is called *biocuttura* or *double fired tile*.

Biocuttura tiles are first fired after the green tile is dried and then fired again after the glaze is applied.

5.4 In addition to glazed and unglazed, a finer quality of porcelain tile is made up of 50% feldspar fired at a much higher temperature than regular tile. This makes porcelain tile much harder, more dense and low water absorption than other tile products.

6. Overview of Domestic Tiles Manufacturing Industry

6.1 In 1978, Shabbir Tiles & Ceramics Limited, Karachi pioneered production of Tiles in Pakistan. In year 2005, the domestic industry had an installed capacity of 21.19 million square meters ("SQM) per annum:

Table-V
Domestic Industry in 2005-06

S.No	Name of the Unit	Installed capacity (million SQM)
i.	Master Tiles and Ceramic Industries Ltd., Gujranwala	7.50
ii.	Karam Ceramics Ltd., Karachi	2.76
iii.	Sonex Tiles and Ceramic Industries Ltd., Gujranwala	2.00
iv.	Shabbir Tiles and Ceramic Ltd., Karachi	3.37
v.	EMCO Industries Ltd., Karachi	1.90
vi.	Swat Ceramics (Pvt.) Ltd., Swat.	1.50
vii.	Frontier Tiles	2.16
	Total	21.19

6.2 At that time, the domestic industry was striving for its existence owing to tough competition of tiles imported from China. In 2005-06, most of the units were making gross as well as net loss on production and sales of tiles. Swat Ceramics and Frontier Tiles (Sr.vi and vii) completely closed down their operations whereas Shabir tiles, Emco and Swat ceramics (Sr. Nos. iv, v. and vi) of the above table started importing tiles from China. Sonex Tiles and Ceramic setup in 2005 could not start production due to dumping of tiles from China. The spread of production and imports of wall and floor tiles during 2002-03 to Dec 2005 follows in table VI below: -

Table-VI
Domestic Production and Imports of Tiles During 2003 to 2005 (SQM thousand)

Period	Domestic production	Imports from:		
		China	Other Sources	Total imports
2002-03	7,852	1,306	1,215	2,521
2003-04	10,878	3,849	902	4,751
2004-05	12,441	7,372	2,635	10,008
Jul-Dec 2005	6,151	5,568	1,295	6,863

6.3 The imposition of antidumping duty on imports of Tiles from China in 2006 provided new lifeline the domestic industry. Imposition of regulatory duty on imports of Tiles since 2013-14 provided an enabling environment for growth and investment in this industry. This sector has witnessed immense growth and investment during last five years by competing and passing away Chinese imported tiles.

6.4 Revisiting domestic industry installed capacity in 2019 (Table VII) shows that existing manufacturers have increased their capacities whereas two new units, Pakistan Tiles Ltd, Lahore and Times Tiles limited, Faisalabad have set up their plants while Oreal Tiles Ltd. is setting up a plant at Bhalwal, Sargodha, which will be in operation by end of 2020. The units established in Faisalabad and at Sargodha are 100 percent Chinese investment

Table-VII
Domestic Industry in 2019

S.No	Name of the Unit	Installed Capacity (million SQM)
i.	Master Tiles and Ceramic Industries Ltd., Gujranwala*	24.75
ii.	Karam Ceramics Ltd., Karachi	6.48
iii.	Sonex Tiles and Ceramic Industries Ltd., Gujranwala	2.00
iv.	Shabbir Tiles and Ceramic Ltd., Karachi	15.00
v.	EMCO Industries Ltd., Karachi	2.50 ¹

* Installed capacity of Master Tiles will be increased to 41.25 million SQM per annum by end of 2020.

¹ <https://fp.brecorder.com/2019/05/20190515473579/> Even though the tile division has been closed, the company is charging its costs to the insulator division, which have certainly impacted profitability adversely.

vi.	Swat Ceramics (Pvt.) Ltd., Swat.	1.50
vii.	Frontier Ceramics Limited Rawalpindi	5.76 ²
viii.	Pakistan Tiles Ltd, Lahore	10.00
ix.	Times Tiles limited, Faisalabad	16.50
x.	Oreal Tiles Ltd, Bhalwal (upcoming)	15.00
xi.	Star Tiles Karachi	5.5 (by 2017) ³
	Total	104.99

6.5 A comparison of the contribution of industry (Table VIII) towards economics growth in 2005 with 2018-19 shows a bigger foot print in 2018-19: -

Table-VIII
Comparison of Key Facts of Wall/Floor Tiles Industry

S. No	Description	2005	2018/19	% increase
i.	Units in industry (numbers.)	7	11	57.14
ii.	Installed capacity (million SQM)	21.19	104.99	395.47
iii.	Sales (million SQM)	8.02 ⁱ	61.00	
iv.	Exports (Tons)	75	1,124	660.60
v.	Sales value (billion Rs)	N. A	66.4 (approx)	
vi.	Employment Direct (numbers) Indirect (numbers)	N. A	3,468 50,000 ⁴	
vii.	Investment/assets (million Rs)	1,842	9,803	432.19
viii.	Return on investment (%)	6.29%	6.14%	
ix.	Contribution to national exchequer (million Rs)	1,600 (esti)	8,000 (esti)	400.00
x	Domestic market size (million SQM)	22	88	300.00

Recall the EMCO had decided to divest its tile division assets as it sees no economic sense in continuing production at the tile division. The decision was spurred on by the expensive gas mix whereby the industry in Punjab was mostly supplied more costly RLNG while only a minor proportion was system-based gas.

² <https://dps.psx.com.pk/download/document/139408.pdf> page 73

³ https://www.pacra.com.pk/uploads/doc_report/Ceramic%20Tiles%20Industry%20Sector%20study.pdf page 13

⁴ <https://www.thenews.com.pk/print/586208-smuggled-iranian-tiles-hurting-local-manufacturers>

7. Overview of Domestic Demand/Market of Wall and Floor Tiles

7.1 Domestic market size of wall and floor tiles has been increased significantly during last 15 years from 22 million SQM in 2005 to 88 million SQM in 2019. Following were major key factors/drivers for expansion in the demand of wall and floor tiles during this period:

- ❖ Construction boom in the country.
- ❖ Increase in purchasing power of the middle-class population.
- ❖ Changes in consumer taste/preferences
- ❖ Government initiatives for infrastructural developments

7.2 Following table shows market share of each source of supply i.e. the domestic industry, imports from China and imports from other sources:

Table-IX
Sales/Market Share (Million SQM)

Year	Domestic Industry's sales		Imports		Total Market
	Volume	%share	Volume	%share	
2005	12.44	55.42%	10.01	44.58%	22.45
2010	24.25	66.68%	12.12	33.32%	36.37
2015	19.36	37.46%	32.32	62.54%	51.68
2019	61.00	69.95%	26.21	30.05%	87.21

Sources: Domestic industry and PRAL

7.3 The share of domestic industry has intersected the share of imports owing to:

- ❖ Abundant availability of raw material i.e. clay (especially in the KPK region)
- ❖ Sufficient tariff protection provided to domestic industry in form of customs, regulatory and antidumping duties

8. Impact of Imposition of Anti-dumping and Regulatory Duties on Growth of Domestic Industry

8.1 Growth in domestic production capacity resulted in higher investment, installed capacity, production, sales, ROI, employment. A log-linear trend model is used to

assess impact of antidumping on imports of Tiles as well as on domestic industry of Tiles:

$$\ln Mt = \beta_1 + \beta_2 t + \beta_3 Yt + ut$$

Where “M” is the volume of imports (SQM) of Chinese tiles into Pakistan. For estimation purposes, 1st log of imports has been taken and then make it stationary through log difference. “t” is the trend variable for the non-tariff period, “u” is the error term, and “ β_1 ” and “ β_2 ” are constants. While “ β_3 ” explains the income elasticity of import demand.

8.2 For a given absolute change in the explanatory variable (the t variable in this case) the slope coefficient shows the relative change in the dependent variable (M). If the relative change in M is multiplied by 100, result will be the growth rate in M for an absolute change in “t”. The explanatory variable “t” is known as the trend variable and if the slope coefficient is positive there is an upward trend, i.e. the growth rate is positive. When the growth rate is negative then of course the slope coefficient is negative and there is a downward trend. Also, there is a disturbance term to account for unexplained information.

8.3 A dummy variable, “D” with values 1 for the period when anti-dumping duties were in place and 0 for the anti-dumping duties were not in place. The resultant model is represented as follows:

$$\ln IMt = \beta_1 + \beta_2 D_t + \beta_3 t + \beta_4 lYt + ut$$

8.4 The model has now a dummy variable and two new coefficients. With dummy variable, the regression analysis will show results for duty period on different values for the intercept and slope coefficient. Following table shows results of regression analysis for anti-dumping and/or regulatory duties periods on wall and floor tiles from 2002-03 to 2019-20 :

Table-X

Variables	Coefficients	Probability
<i>D_t</i>	-0.292***	0.000
<i>T</i>	0.576***	0.000
<i>Yt</i>	0.112***	0.000
<i>Constant</i>	6.18	0.000
<i>N</i>	15	
<i>R²</i>	0.87	
<i>R̄²</i>	0.86	
<i>RMSE</i>	0.22	
<i>F-Statistics</i>	158.41	
<i>P-Value</i>	0.0000	

8.6 The results of regression analysis in above table show a negative impact on the number of imported Tiles during the period when antidumping duties were in place, however its magnitude didn't decrease that much. Over all model's fitness is good and significant as explained by F-Statistics and its P-Value. Explanatory variables are explaining 87% variation in dependent variable.

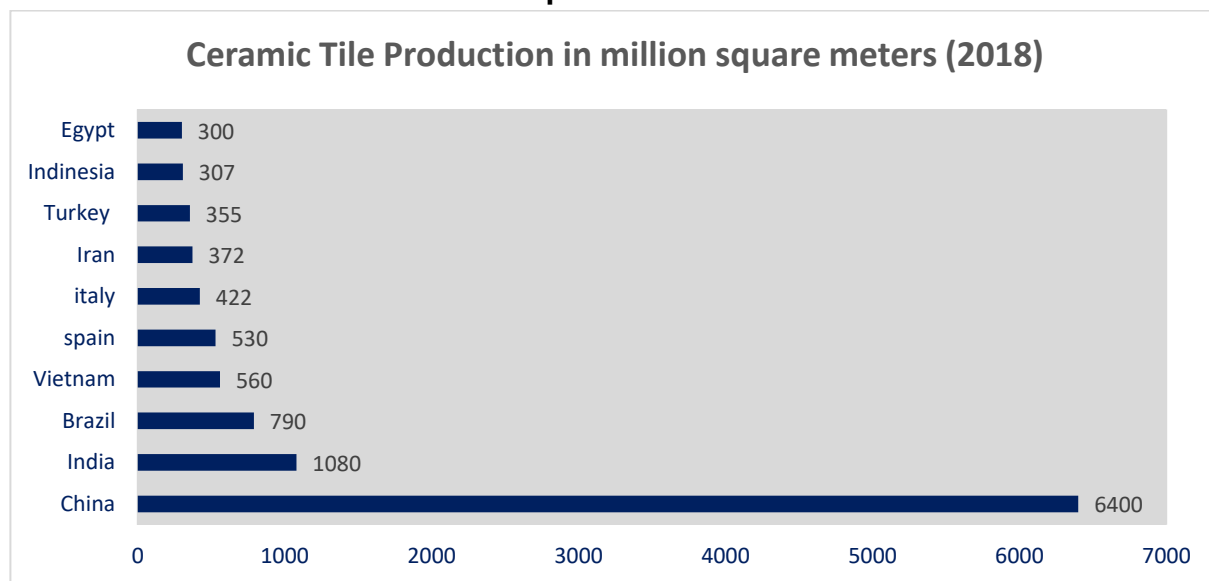
9 Global Production and Trade of Tiles

9.1 The global production, consumption and international trade of Tiles have been growing rapidly for a number of years. World tiles consumption increased from 6.9 billion SQM in 2005 to 12.9 billion SQM in 2018.

9.2 Global Tiles industry reached a monetary value of USD 76 billion in 2016, which is expected to grow at a CAGR of 9% between 2014-2020 to reach \$120 billion. Top five Tiles producing countries (in terms of volume) are: China, India, Brazil, Vietnam and Spain. Tiles production rose at an average annual rate of 6.9%, reaching more than 13.09 billion sqm in 2018. . China alone contributes 48.3% of the global production (volume-wise) of tiles and is the largest exporter of tiles with 18.2% share in global trade of tiles. Spain has the highest share of exports in terms of its production i.e. 86% of its production is exported.

9.3 Asia is the largest manufacturer and consumer of ceramic tiles. It accounts for 69% of the global production and 67% of the global consumption. India is emerging as the third largest producer of ceramic tiles CAGR of 8% and became third largest consumer of ceramic tiles with a share of 6.3% in global consumption. Following graph shows world production of tiles in 2018:

Graph -I



9.3 Following are major importing countries (in terms of values) of Tiles:

Table-XI
Major Importers of Tiles in 2018/19

S.No	Importing Country	Value (million \$)
i.	World Total	16,548.92
ii.	United States of America	2,148.93
iii.	France	1,083.85
iv.	Germany	838.91
v.	Saudi Arabia	526.48
vi.	Pakistan	145.20
vii.	Others	11,805.55

Sources: ITC calculations based on UN COMTRADE and ITC statistics

9.4 Pakistan's exports of Tiles are negligible. Major export destinations were Afghanistan, Bangladesh, Iraq and Italy. Following table shows Pakistan's exports of Tiles during last five years:

Table-XII
Pakistan's Exports of Tiles

S.No	Year	Export Value (million \$)
i.	2014-15	0.485
ii.	2015-16	0.253
iii.	2016-17	0.327
iv.	2017-18	0.327
v.	2018-19	0.061

Sources: ITC calculations based on UN COMTRADE and ITC statistics

9.5 Major reasons for negligible exports were:

- ❖ inadequate production capacities in the past of the domestic industry;
- ❖ comparatively higher cost of production in Pakistan; and
- ❖ high protection available to the domestic industry in the form of duties on imports.

10 Challenges Being Faced by the Domestic Tiles Industry

10.1 Although, after imposition of antidumping duties and regulatory duty the capacities, production, sales of domestic industry have significantly improved, however, imports as well as smuggling (mainly from Iran) of Tiles still constitute a major portion of the domestic consumption. Domestic industry despite being

competitive is facing challenges of high cost of energy and transportation, under-invoicing of imported tiles, and smuggling from Iran etc.

10.2 Energy cost is about 25% to 35% of the cost of production of Tiles. Exorbitant increase in gas tariff (about 70%) in recent past has impacted significant increase in cost of production of Tiles. In comparison of cross-country energy cost data, it is noted that in China, energy cost accounts for about 15% to 20% of cost of production, whereas in Pakistan energy cost in cost of production accounts for ranging between 25% to 35%.

10.3 Chinese and Iranian manufacturers have clear advantage in the cost of production. Further, factors like innovation, variety and scale of production etc. also contribute towards comparative advantage to Chinese tiles producers. Domestic industry is lacking in research and development. During the recent phase of expansion of domestic industry resulting from imposing of tariffs and trade defense measures on wall and floor tiles many units have introduced and have started undertaking research and development in compare to previous decade. it has expanded a wider range of design, size and quality. This is one of major implication of domestic industry expansion.

10.4 Domestic industry is also facing problems to get skilled labour in Tiles sector as no institute/department in the country is running/providing training or technical education relating to development and production of wall and floor tiles

11. Future Growth Strategies for Tiles Sector:

11.1 Growth in tile sector is dependent on growth in housing. It is expected that Tiles demand in domestic market will see a growth of 10-12 percent over the next 3-4 years.

11.2 Significant investment has been made in Tiles industry for machinery up-gradation, BMR and new capacities. This is a result of imposition of antidumping and regulatory duties, and local availability of basic raw material i.e. natural clay. As installed production capacities of the domestic industry are more than the domestic demand, therefore, surplus capacity could be used for exports of Tiles. However, following actions are needed to promote exports of Tiles:

- ❖ provision of rebate/draw-back of taxes and duties paid on procurement of inputs and services from domestic as well as international markets;

- ❖ As Tiles is a bulky commodity therefore freight constitutes significant part of the cost of sales. Freight subsidy will help the domestic industry to export Tiles.

11.3 Free/concessional market access from potential export markets/ trading partners will also helpful to develop exports of Tiles. Following table shows potential export markets and their applicable tariff for Pakistan and their major sources of imports:

**Table-XIII
Potential Exports Markets of Pakistani Tiles**

Country	MFN Tariff (%)	Imports in 2018 from:	
		Country	Applicable tariff (%)
Sri Lanka	30	China India Italy Spain	30% or Rs. 110/= per m2
Bangladesh	25 ⁵	China Malaysia Hong Kong India	25 25 25 10
Saudi Arabia	5	India Italy Turkey Spain	5 5 5 5
African Countries (Malawi 20, Sudan, Somalia, Nigeria, Madagascar, Mozambique)	20	China Brazil South Africa India	7% to 19%
CAR's	20	Turkey Iran China Russia	8% to 51%
Afghanistan	9.9	Pakistan India	9.9

Source; ITC Trade map and country's trade and custom websites⁶

⁵ National list of concessions: Bangladesh Margin rate of preferences is 15% for SAFTA while MFN is 25%

⁶ <https://www.customs.gov.sa/en/customsTariffSearch> (Saudi Arabia)

<http://nbr.gov.bd/taxtype/tariff-schedule/eng> (Bangladesh)

<http://www.customs.gov.lk/tariffchanges/home> (Sri Lanka)

https://www.wto.org/english/res_e/booksp_e/tariff_profiles19_e.pdf (World Tariff Profile)

12 Conclusions

On the basis of the information and analysis in the fore-going paragraphs, following conclusions are drawn:

- i. Imposition of Anti-dumping duties on dumped imports on wall and floor tiles from China provided level playing ground to the Pakistan's wall and floor tiles industry at the time when this industry was at the verge of closure owing to unfair trade practice/competition from dumped imports from China.
 - ii. Imposition of regulatory duties in 2015-20 enabled the domestic industry to grow in a faster pace. As a result, installed capacity of domestic industry increased from 21 million SQM to 105 million SQM, which is more than domestic demand, having an export surplus.
 - iii. Government supports to encourage and boost further research would strengthen domestic industry.
 - iv. Employment is considered as another major indicator to examine the sector growth. A significant number of workers increased after imposition of antidumping and regulatory duties, and are growing over the year. As new investment has been increased, it will further attract the employment opportunities in this sector.
 - v. Significant increase in energy cost in recent past has adversely effected domestic industry. The other competitors in the geographic region has a clear advantage of low energy cost.
 - vi. In comparison with India, Pakistan market excess (FTA's) to potential export markets (Sri Lanka, Bangladesh, African countries, Afghanistan and Central Asian Region) needs to be revisited/improved, especially in the wake of India has much better market to all destinations compared to Pakistan.
 - vii. Domestic tiles industry is facing severe skill labor availability issues. Currently skill development in tiles industry is done through learning by doing, which affects to efficiency and productivity.
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