AD 586 – ANTI-DUMPING PROCEEDING CONCERNING CERAMIC TABLEWARE AND KITCHENWARE FROM CHINA

SECOND INJURY HEARING ON BEHALF OF CHINA CHAMBER OF COMMERCE FOR IMPORT AND EXPORT OF LIGHT INDUSTRIAL PRODUCTS AND ARTS-CRAFTS (CCCLA)

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EXECUTIVE SUMMARY

Presentation summary

1. **Product scope** (Exclusion of fine bone china, Chaozhou durable porcelain and ceramic kitchen knives);
2. **Injury** (Complainants' data does not show material injury, injury data should be treated with caution);
3. **Causation** (Injury not because of Chinese imports, other factors – anti-competitive practices; consumer preferences etc);
4. **Union interest** (Threat of supply problems, increasing prices for consumers).

Product Scope

Exclusion of fine bone china, Chaozhou durable porcelain and ceramic kitchen knives

PRODUCT SCOPE

Introduction

- The description of the product concerned does not offer an appropriate definition of a “single product”.

- **Fine bone china, Chaozhou durable porcelain** and **ceramic kitchen knives** are different from other types of ceramic tableware and kitchenware.

- Products with different physical characteristics, end-uses, production costs and sales prices must be dealt with separately.
  - Examples:
    - *Footwear with Uppers of Textile Materials, Footwear with Uppers of Leather and Footwear with a Protective Toecap*
    - *Refractory Chamottes from China*

PRODUCT SCOPE

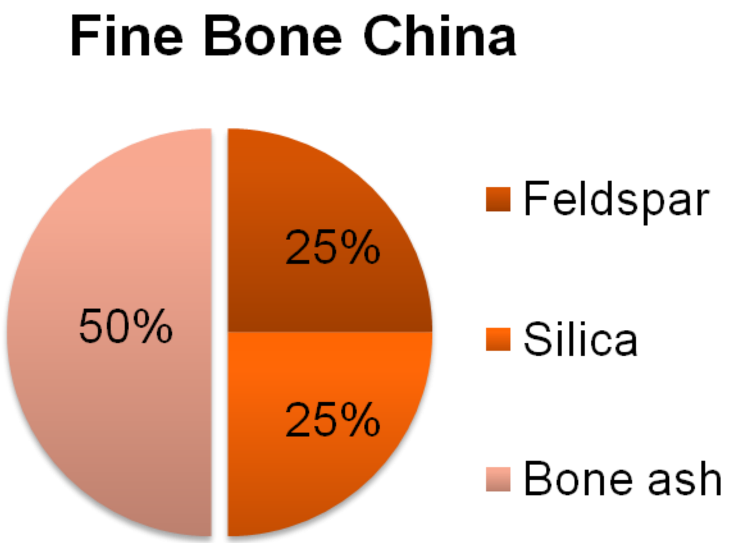
- **EXCLUSION OF FINE BONE CHINA**

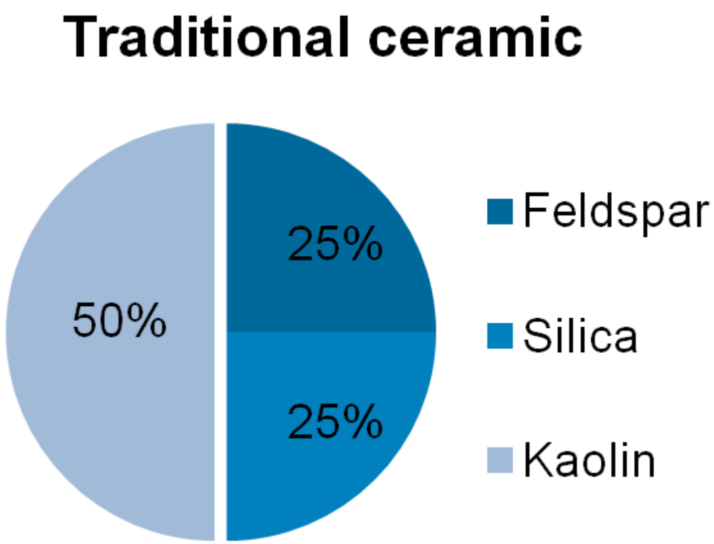
- Fine bone china is **not comparable** to other ceramic tableware:

  - There are differences in **physical characteristics**
  - in the **production process**; and
  - in **consumer perception**
  - which lead to substantial differences in **prices.**

PRODUCT SCOPE

- **EXCLUSION OF FINE BONE CHINA**
- Differences in **physical characteristics – different raw materials:**
  - Fine bone China is made from cattle bone powder, which has a lower iron content.
  - Other types of ceramic tableware and kitchenware are made from minerals.





Note that bone ash can also appear in lower proportions.

PRODUCT SCOPE

- **EXCLUSION OF FINE BONE CHINA**

- Fine Bone China requires a **different production process** that leads to different **physical characteristics**, different **consumer perception** and **different prices**:
  - It is much more sophisticated because of lower plasticity;
  - It requires longer time in the oven, as fired at lower temperature;
  - Fine bone china needs to be fired twice: first without glaze and only during the second firing with glaze;
  - It also needs to be supported in setters during the firing;
  - Due to low plasticity glazing becomes much more difficult;
  - Relief gold bone china plastic forming technology is not available in the EU;
  - This means that workers that produce "regular" ceramics are not able to produce fine bone china without very specific training.

↓

Costs increases → **Different consumer perception**

PRODUCT SCOPE

- **EXCLUSION OF FINE BONE CHINA**
  - The different raw materials used in the production of fine bone china cause great **differences in physical characteristics:**
  - Fine bone china is known for its high level of whiteness and translucency;
  - It has very low mechanical strength and less chip resistance, and is known to be very fragile. These properties are due to bone ash, which also gives the body a unique milky white colour.
  - **Different prices and different consumer perception:**

    Finally, it is precisely for its different physical characteristics that fine bone china is considered to be a high-end luxury product, and is therefore clearly much more expensive than other types of ceramics.

PRODUCT SCOPE

- **EXCLUSION OF CHAOZHOU DURABLE PORCELAIN**

- **Chaozhou durable porcelain** is a sub-type of porcelain tableware (also called "strong china", "new bone china" or "high aluminium china"), known for its high strength, impact and thermal shock resistance, as well as its traditional production methodology.

- It is **not comparable** to other ceramic tableware, because:
  1. there are differences in its **physical characteristics**;
  2. in the **production process**;
  3. in **consumer perception**; and
  4. these lead to substantial differences in **prices.**

PRODUCT SCOPE

- **EXCLUSION OF CHAOZHOU DURABLE PORCELAIN**

- Differences in **physical characteristics** - Chaozhou durable porcelain has different physical characteristics than other types of porcelain.
  - Traditional porcelain contains feldspar, silica and kaolin. Chaozhou durable porcelain contains **an additional** 6% to 10% of alumina powder to the traditional porcelain, so that, upon firing, it forms more mullite which enhances the porcelain strength.
  - Thus, chemically, the final clay body aluminium content of Chaozhou durable porcelain reaches over 24%.
  - The high mullite content reinforces the porcelain so that, whilst traditional porcelain can endure ≤0.5 Joule, Chaozhou durable porcelain endures between 0.9 to 1.1 Joules.

PRODUCT SCOPE

- **EXCLUSION OF CHAOZHOU DURABLE PORCELAIN**

- **Different production process** → different **physical characteristics.**
- To acquire this high viscosity prior to processing the kaolin powder is ground in a protracted process using traditional pestle grinding machines.

PRODUCT SCOPE

PRODUCT SCOPE

- **EXCLUSION OF CHAOZHOU DURABLE PORCELAIN**

- The forming of the final ceramic shape is also highly labour intensive, often featuring different, atypical, and often unusual shapes such as animals or leaves.

PRODUCT SCOPE

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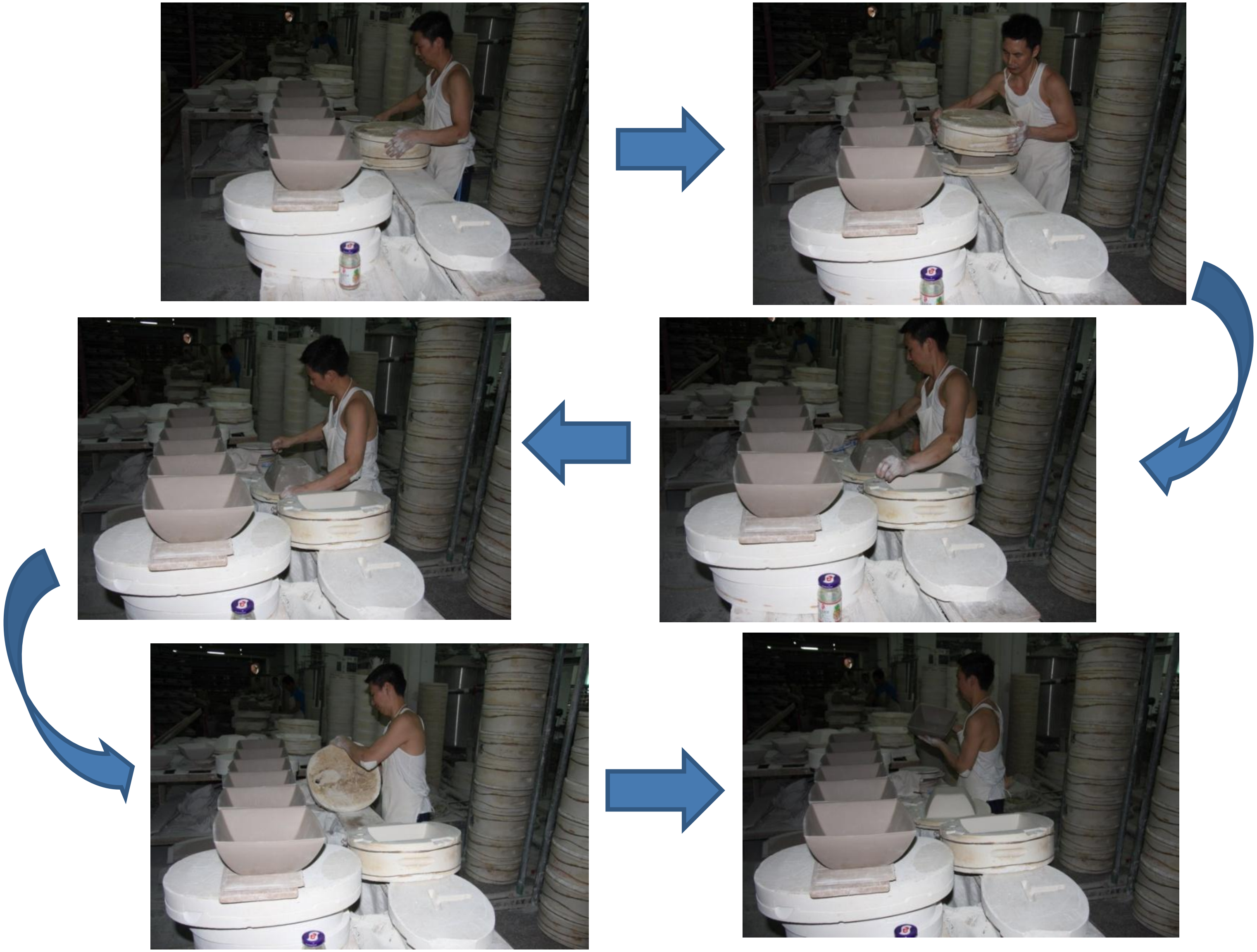
PRODUCT SCOPE

- **EXCLUSION OF CHAOZHOU DURABLE PORCELAIN**

- The end product is not machine-produced for the mass market. *To the contrary*, every product involves **hand-crafting** and is later checked and polished / sanded by hand.
- Each part of the industrial chain requires labourers who have undergone long term training to gain the skills necessary to craft the Chaozhou durable porcelain.

PRODUCT SCOPE



PRODUCT SCOPE

PRODUCT SCOPE

- **EXCLUSION OF CHAOZHOU DURABLE PORCELAIN**

- Chaozhou durable porcelain is a **high-class porcelain product**, usually used in the upper-range catering industry, with average prices over double the price of traditional porcelain.
  - It is thus a complementary product to EU production (given that neither an equivalent production process industry, nor the existence of trained labour exists in the Union).

PRODUCT SCOPE

- **EXCLUSION OF CERAMIC KITCHEN KNIVES**

- The Complainants **explicitly** accept that ceramic knives are not considered part of the product concerned. We are also pleased to read that you have, in principle, decided to follow the Complainants' suggestion.
- Ceramic kitchen knives are **physically different** and have **different end-uses** from other table and kitchenware.
- As a matter of fact, they are not even produced within the Union. Thus, EU industry would **not obtain any benefit** from the imposition of duties on this specific product and EU consumers would only be negatively affected.

PRODUCT SCOPE

- **EXCLUSION OF CERAMIC KITCHEN KNIVES**

1) <u>Differences in **physical characteristics:**</u>
   - Made of different raw materials:
   - Ceramic knives: made of **zirconia**
   - Other tableware: made of kaolin, feldspar and silica

PRODUCT SCOPE

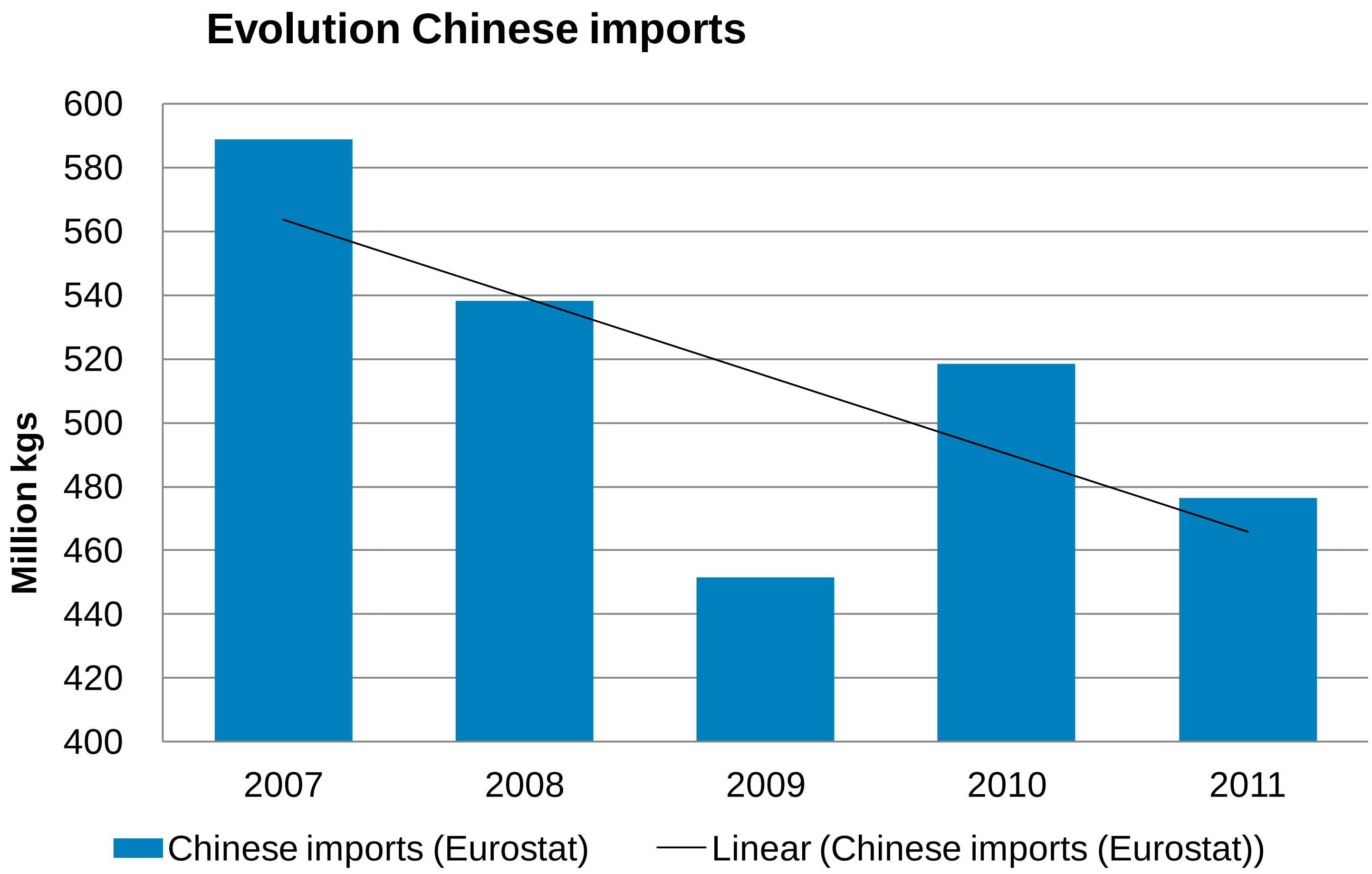
EXCLUSION OF CERAMIC KNIVES

TRADITIONAL CERAMICS	ADVANCED CERAMICS
Kaolin, Feldspar, Clay, Quartz	Zirconia
Raw material price: 1 Kg ~ 4.00 – 10.00 €	Raw Material price: 1 Kg ~ 59.00 €
Strength: 1,000 ~ 1,200 kg/㎡	Strength: 10,000～12,000kg/㎡

Injury

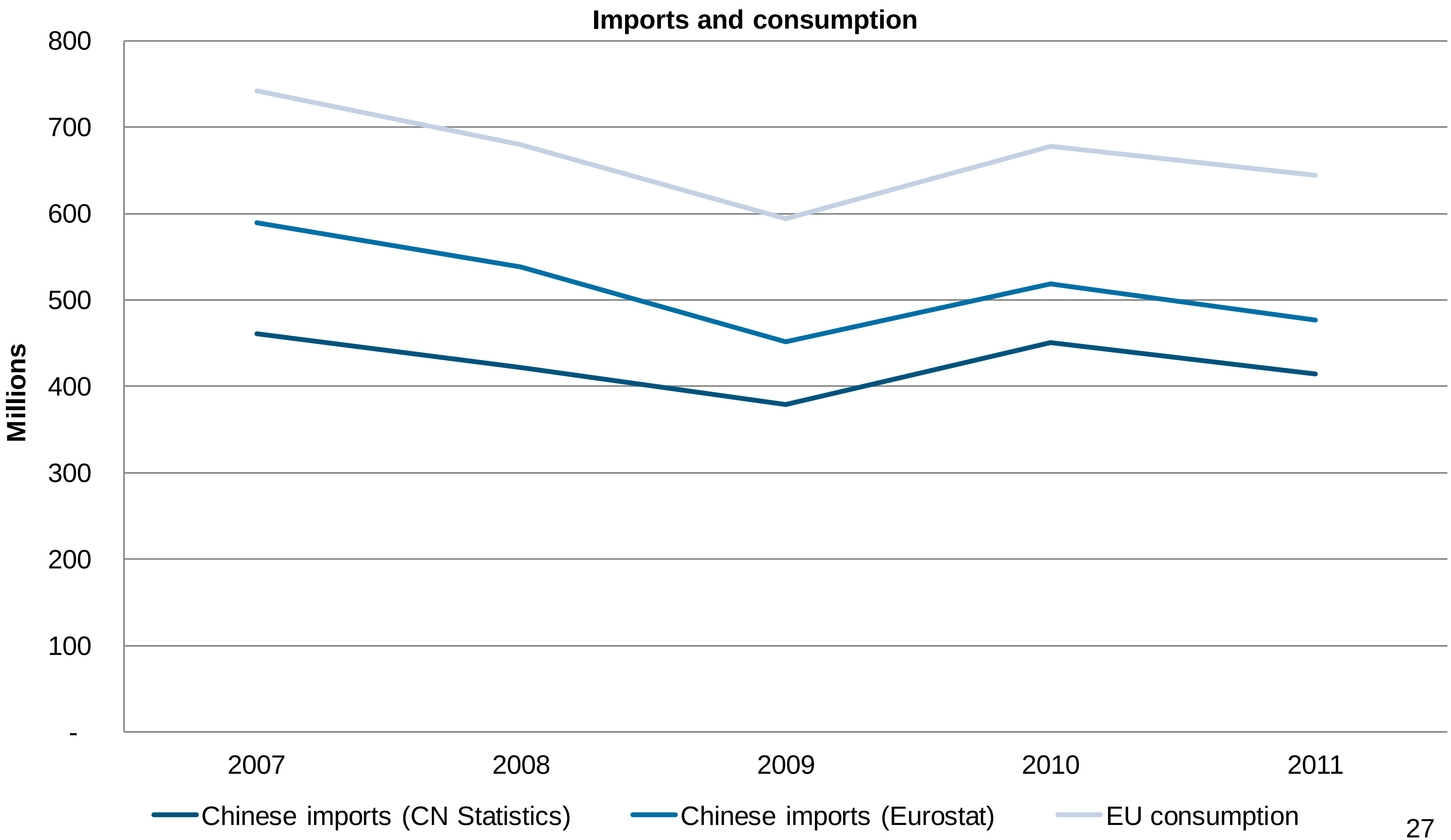
INJURY

Absolute decrease of Chinese imports



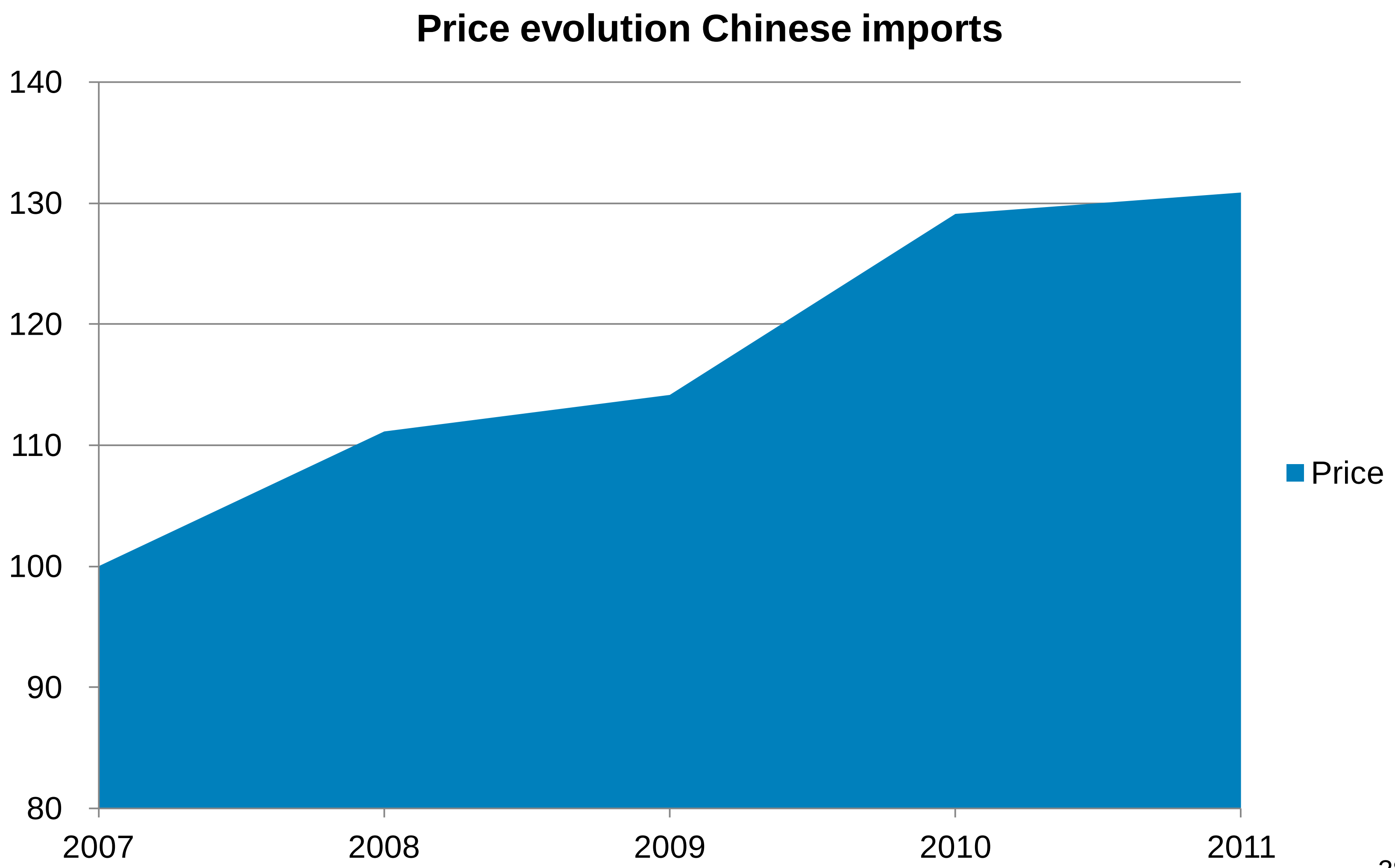
INJURY

The decline of Chinese imports is linked to a decrease in consumption



INJURY

Chinese prices have clearly increased



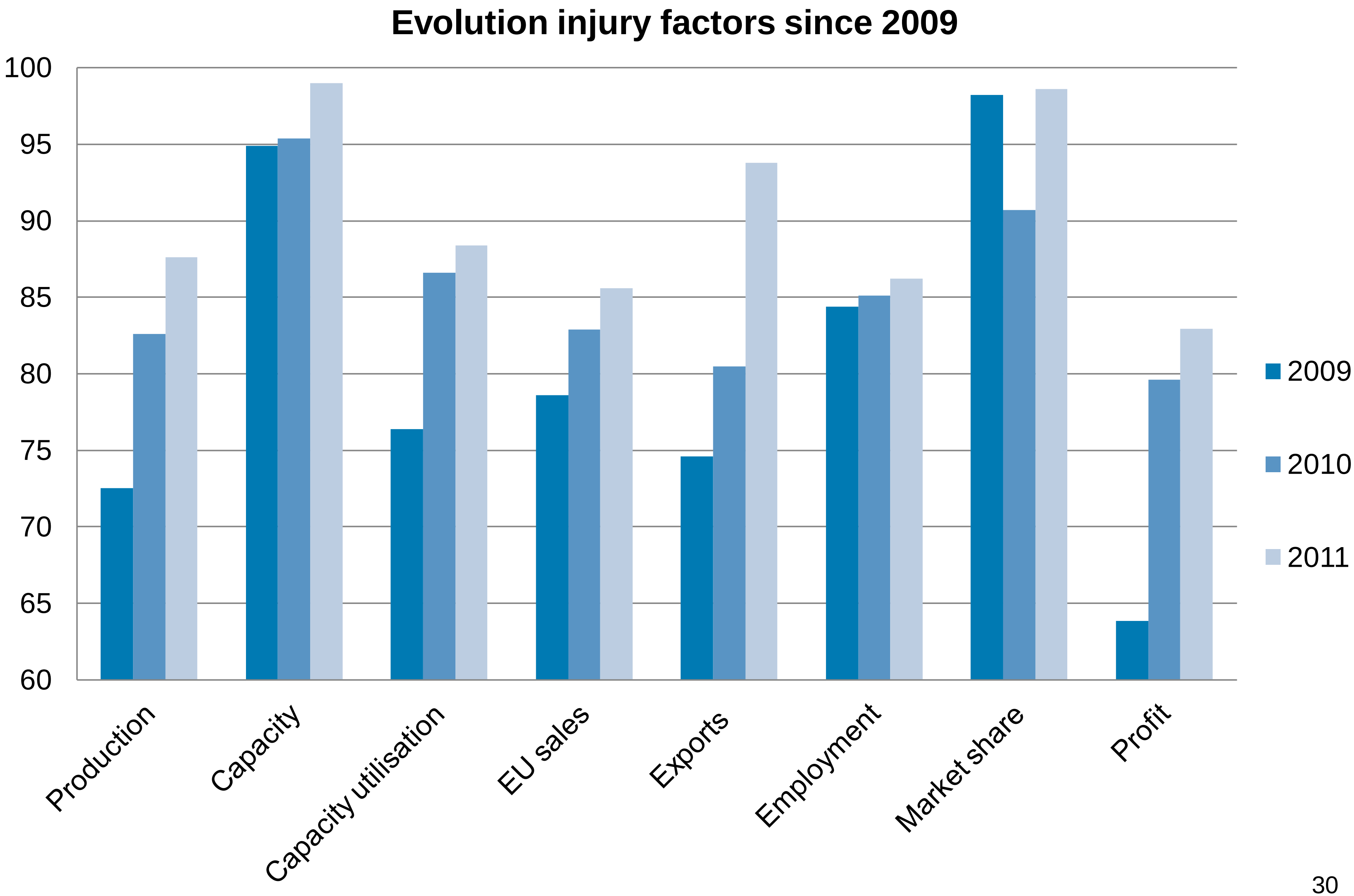
INJURY

- CCCLA recommends CAUTION when examining the data for two main reasons:

1) Some of the injury factors may show a slightly negative trend between 2008 and 2011, **BUT** the situation is <u>very different</u> when data is analysed from 2009.

   When observing the injury indicators for the period of 2009 to 2011, it is obvious that <u>virtually all injury factors show a positive development</u>.

INJURY



Evolution injury factors since 2009
100
95
90
85
80
75
70
65
60
Production
Capacity
Capacity utilisation
EU sales
Exports
Employment
Market share
Profit
2009
2010
2011

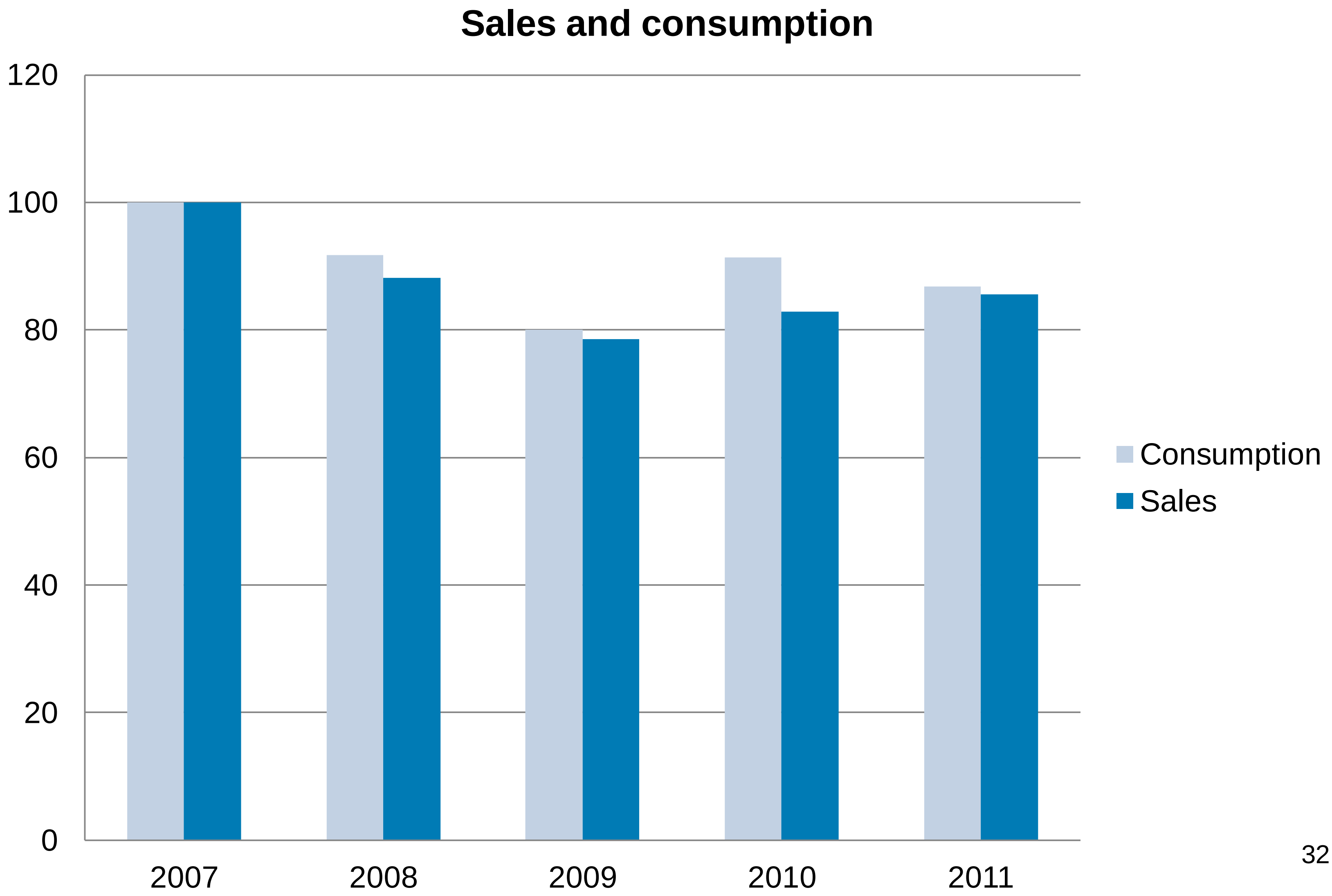
INJURY

2) **Collusive behaviour** in the ceramics industry

- The German antitrust authority has launched investigations due to suspicions of collusion in the German tableware market on 3 February 2011.
- Many German tableware producers and the German Association of the Ceramic Industry (one of the associations supporting this proceeding) are being investigated.
- This may render the **data collected unreliable**.

INJURY

The volume of sales is directly related to consumption

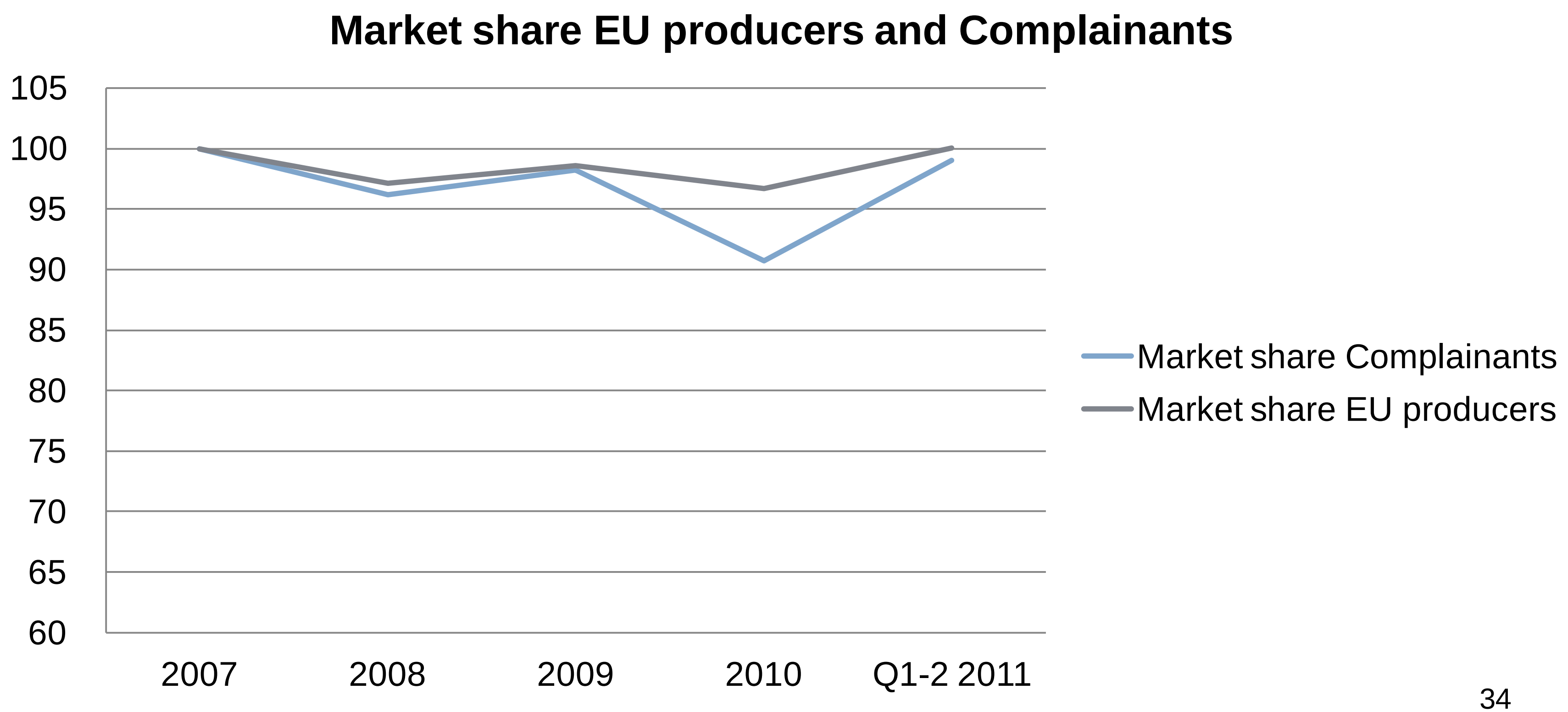


INJURY

- **Sales on the EU market:**
- Data in the Complaint provides a similar picture as with respect to the production, capacity and capacity utilisation. Sales volumes decreased between 2007 and 2009, but have increased by 5.4% between 2009 and 2010 and by a further 3.3% between 2010 and 2011.
- The increase is also reflected in the questionnaire replies. **All six EU producers** that replied to the questionnaire increased their domestic sales between 2009 and 2010 (from 4% up to 19%).
- The sales volume, even when declining between 2008 and 2009, has always closely tracked demand/consumption in the EU.
- Sales decreased by around 20% between 2007 and 2009 for the simple reason that demand decreased by a similar number. Likewise, once demand picked up again, sales volumes increased in parallel. Between 2009 and 2011, demand increased by 8% and sales volumes increased by 9%.

INJURY

- As a result, the market share of EU producers **has remained remarkably stable** throughout the period considered.
- Moreover, there has been a substantial increase in the market share of the Complainants between 2010 and the first half of 2011, when the Complainants' market share increased by almost 9%.



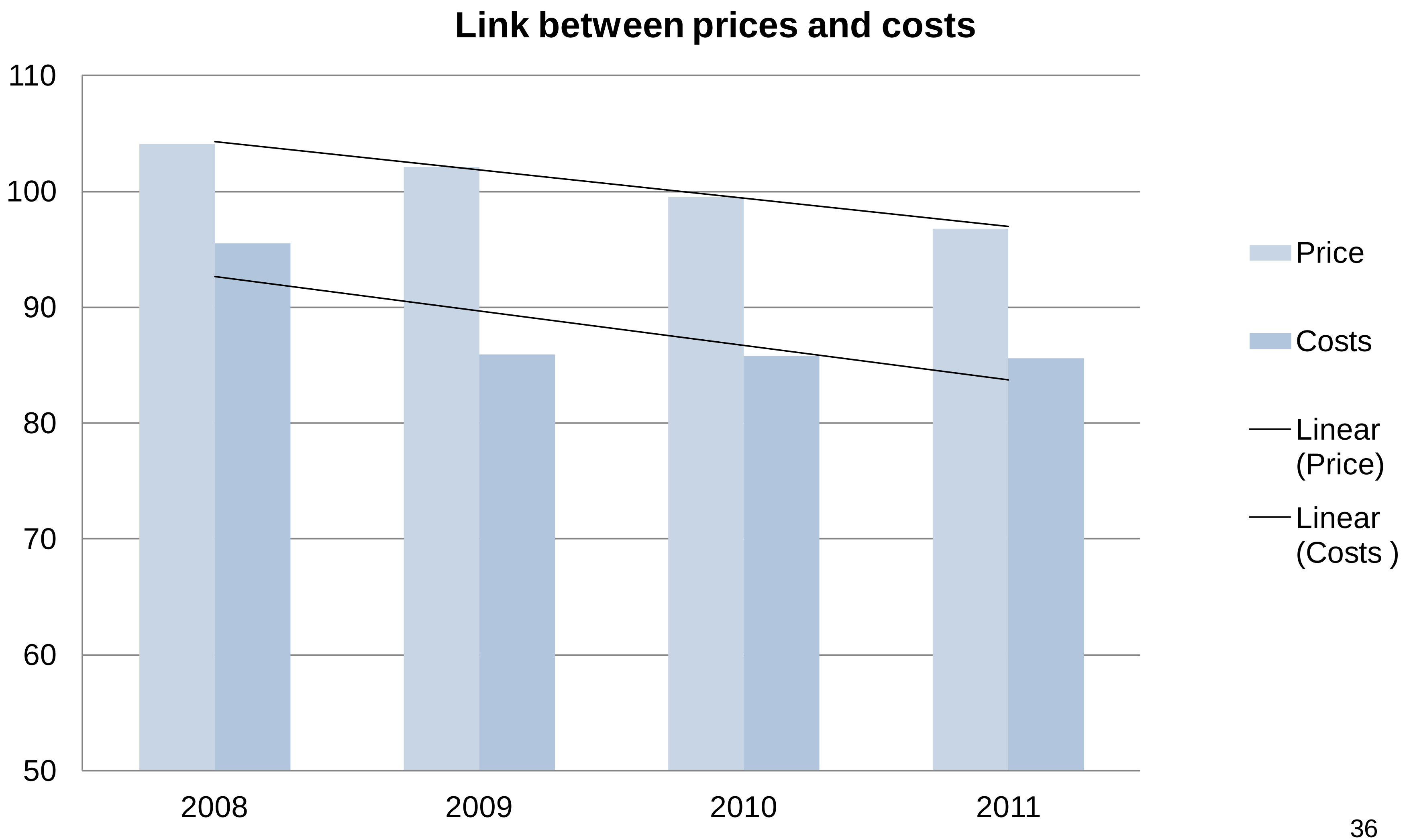
INJURY

- Sales prices have largely remained stable during the period concerned. The slight decrease in sales prices towards the end of the period is not a reflection of a decrease in import prices from Chinese products but rather a consequence from decreased costs of production.

- Indeed, the import prices from China have increased substantially throughout the period considered, whereas the cost of sales in the EU has developed in line with the small decrease in prices observed since 2009.

INJURY

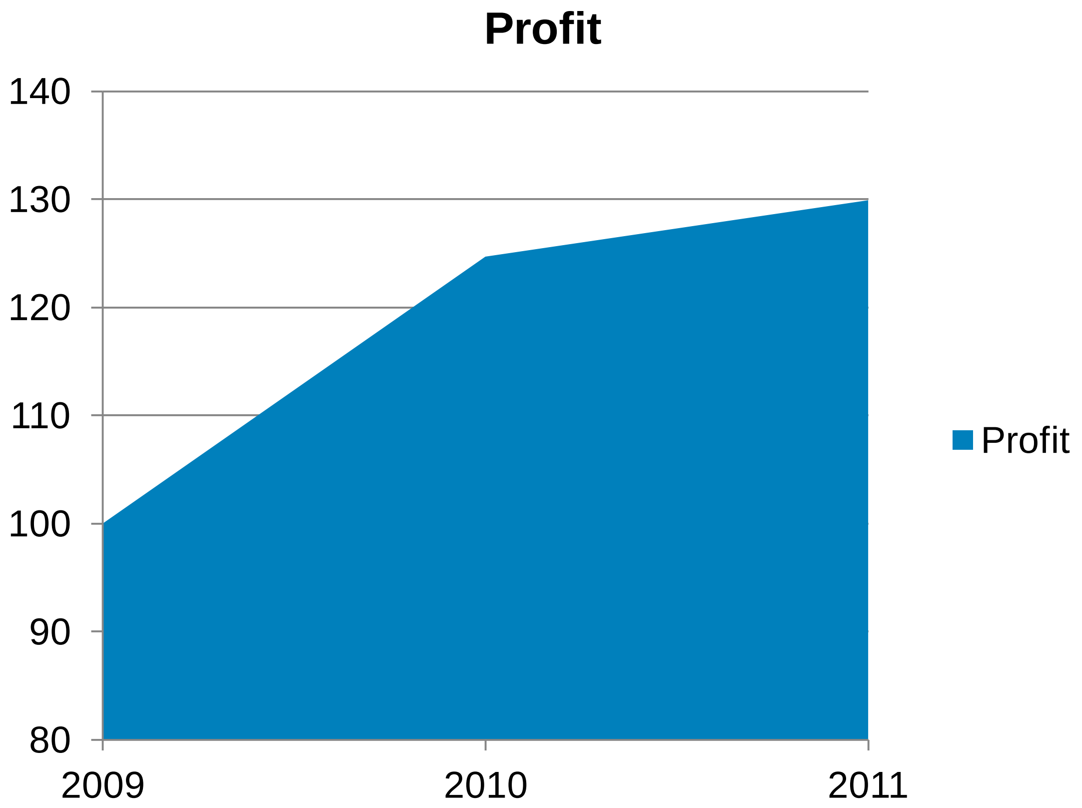
Prices and costs are directly linked



INJURY

- **Profitability:**

- Moreover, there is a substantial increase in operating profitability by 25% between 2009 and 2010 and an additional 5% increase between 2010 and 2011.



CAUSATION

Causation

Lack of correlation

Decrease in demand due to the crisis

Poor export performance due to the crisis

Over investment

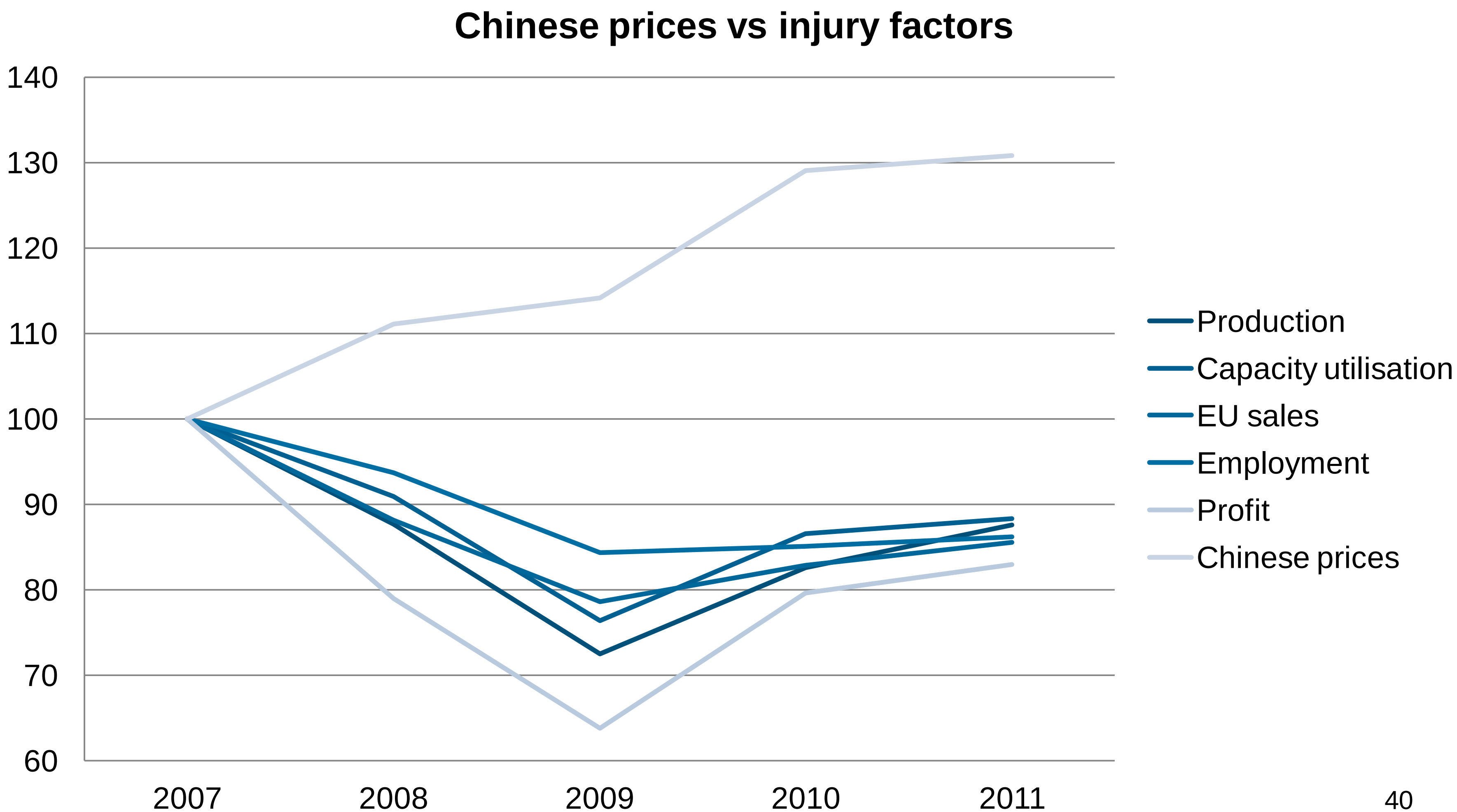
Other factors

CAUSATION

- There is no causal link between the evolution in import volumes from China and the evolution of the injury factors.
- **Import volumes** from China:
  - They have decreased by 10% between 2007 and 2011. Yet, at the same time, production, capacity utilisation, sales on the EU market, employment and profit decreased at similar levels. When import volumes from China went down, the injury factors of the EU industry showed a negative development.
  - Conversely, when import volumes from China went up by around 18% between 2009 and 2010, injury factors such as production, capacity utilisation, sales on the EU market, employment and profit all showed an upward trend. When import volumes from China went up, the injury factors showed an upward development.
  - Thus, the exact opposite development occurred than what one would expect if Chinese imports were indeed causing material injury.

CAUSATION

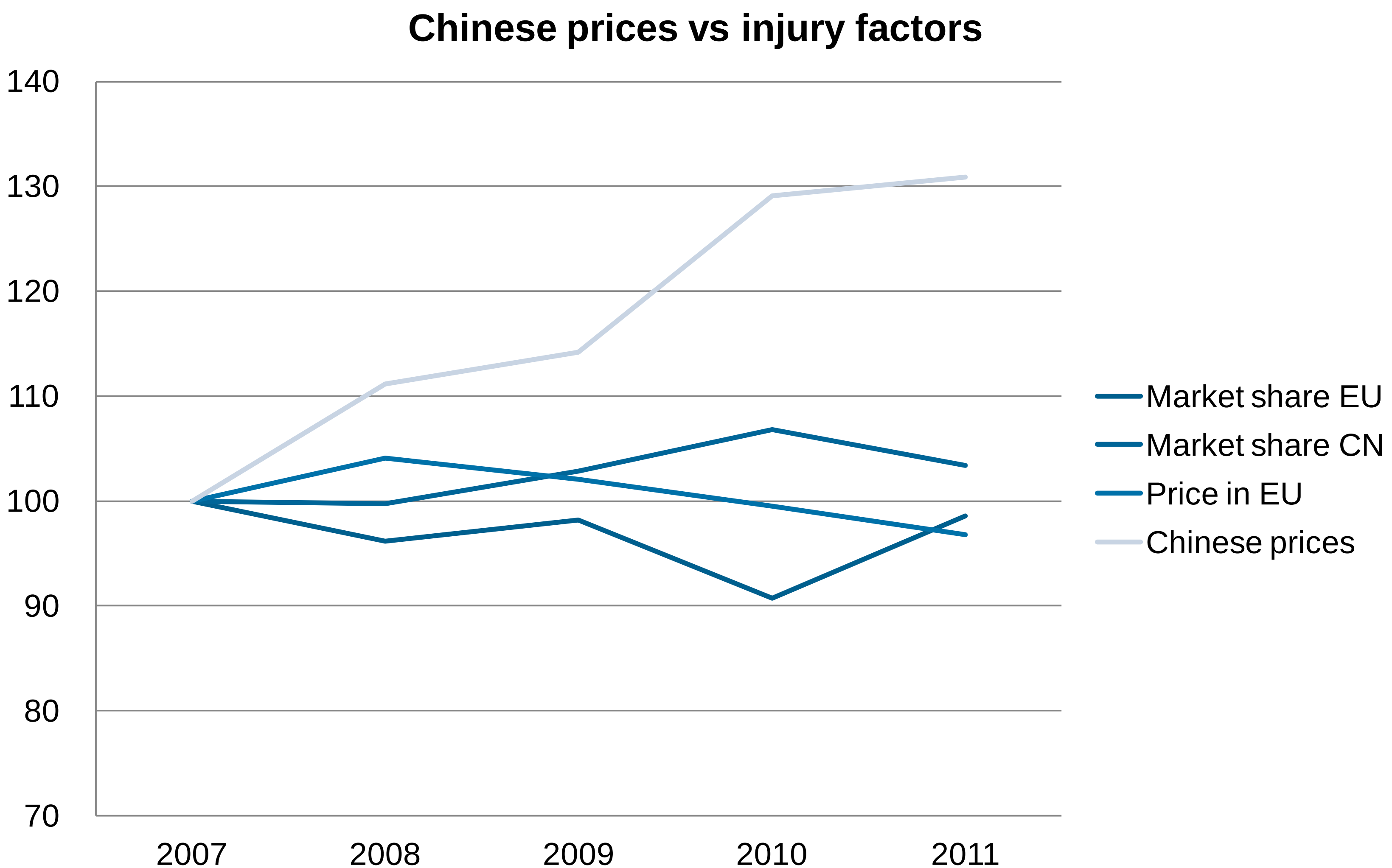
Evolution of Chinese prices and injury factors: no correlation



CAUSATION

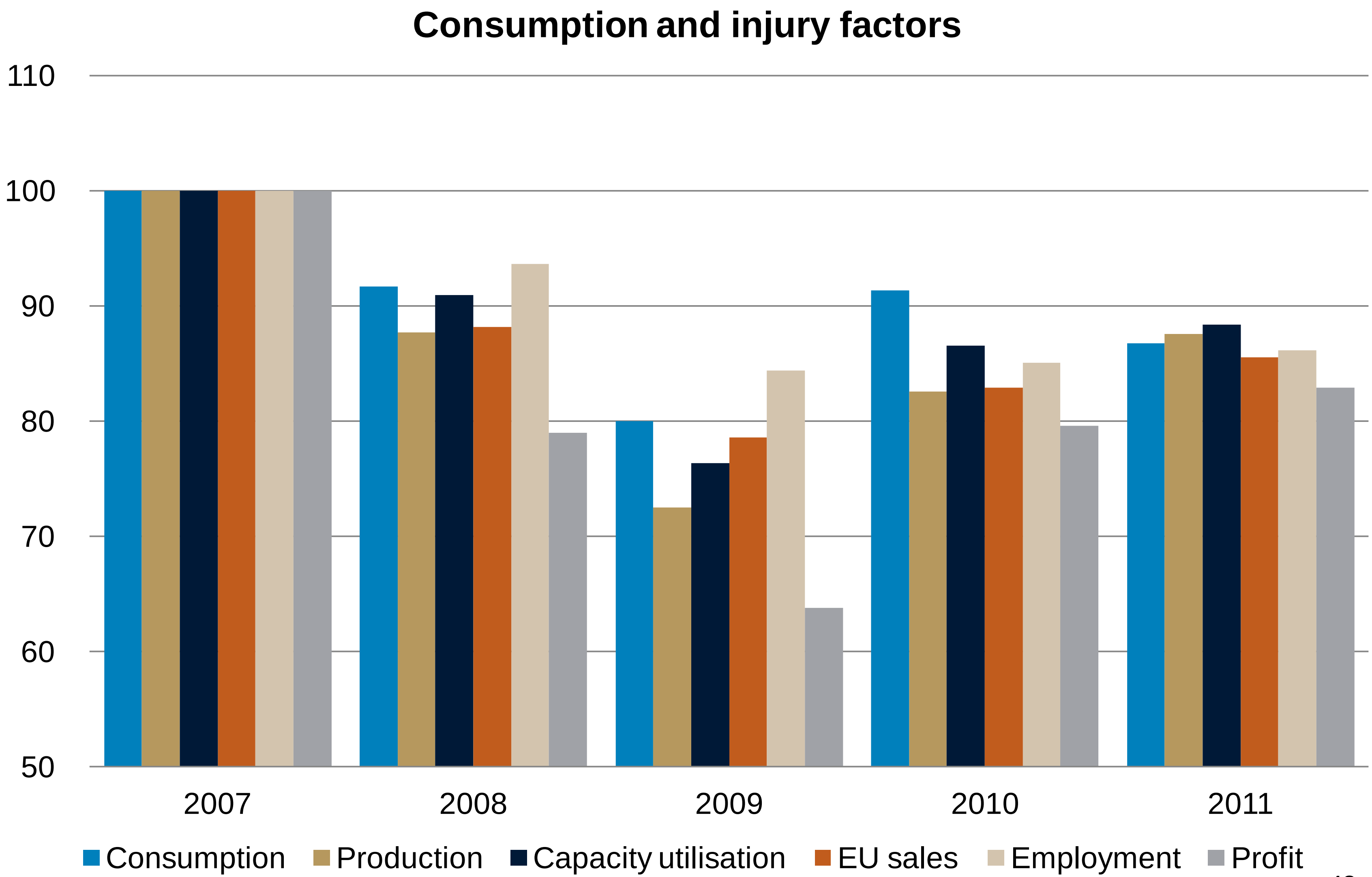
- **Import prices** from China:
  - Import prices increased by 30% between 2007 and 2011, whereas the main injury indicators showed an allegedly negative development. When Chinese imports were at their lowest price level (*i.e.* in 2007), the injury factors did not indicate any injury.
  - However, at a time when the Chinese imports were at their highest price level ever (*i.e.* in 2011), these injury factors had presented an apparent downward trend.
  - The 30% increase in the average Chinese import price between 2007 and 2011 has not resulted in an increased market share for EU producers, even though import volumes from China decreased by more than 10% during the same period.
  - Furthermore, the increased import prices have not resulted in increased prices in the EU market for the Complainants. Indeed, whereas Chinese import prices increased by 30% between 2007 and 2011, sales prices in the EU market have decreased by 3%.
  - Chinese import prices and injury factors developed in opposite directions, which is the exact opposite development, than what one would expect if Chinese imports were indeed causing material injury.

CAUSATION


Chinese prices vs injury factors
140
130
120
110
100
90
80
70
2007
2008
2009
2010
2011
Market share EU
Market share CN
Price in EU
Chinese prices

CAUSATION

Decrease in demand



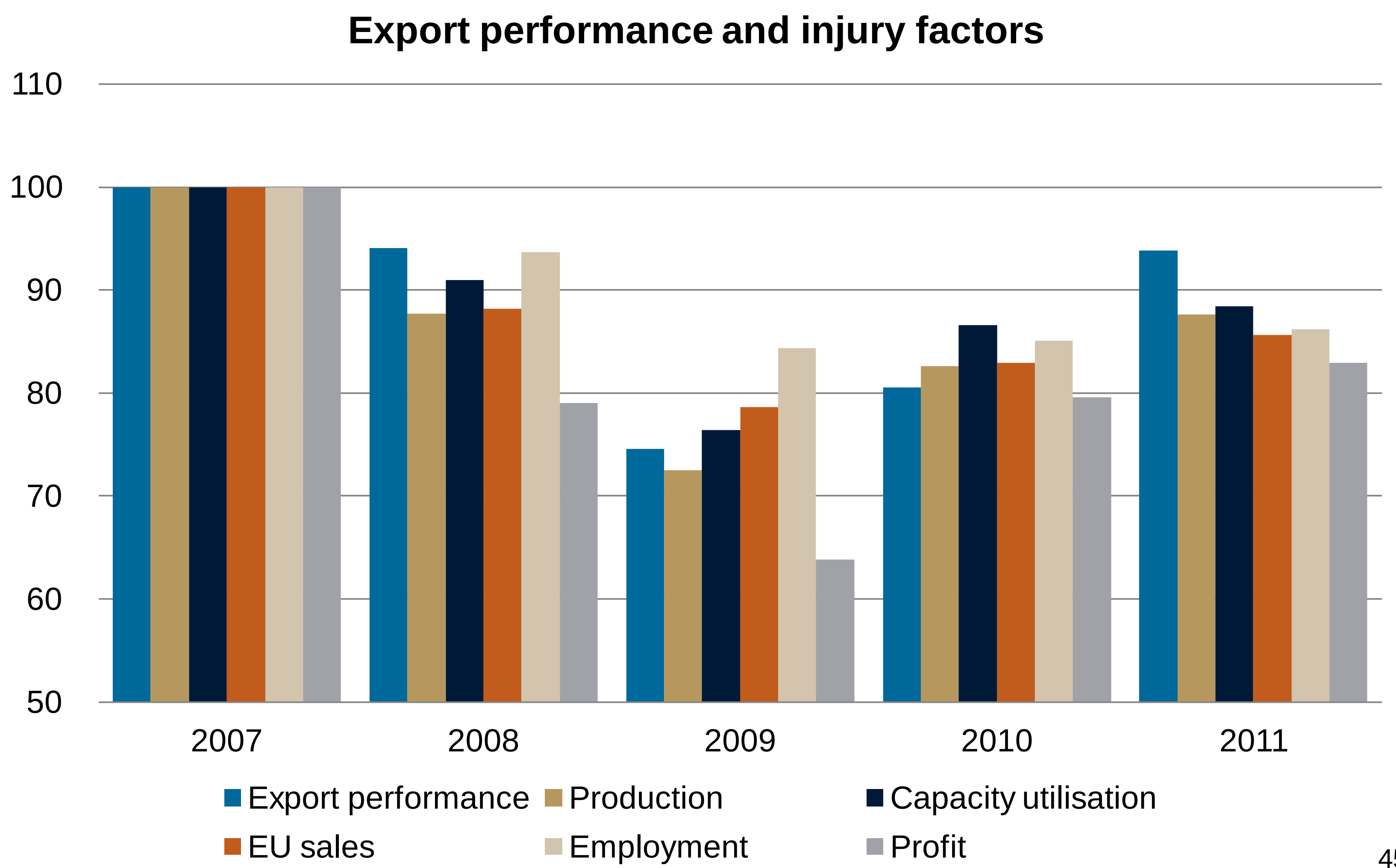
CAUSATION

- **OTHER FACTORS – DEMAND AND EXPORT PERFORMANCE:**

- When one compares the development of the main injury indicators with the development of the demand in the EU, it is clear that the downward trend for many injury indicators, in so far as there is one, is linked to a decrease in demand/consumption.
- Indeed, the injury factors develop negatively when consumption decreases and, conversely, when consumption increases, the injury factors develop positively.
- A similar correlation can be observed with respect to export performance. Injury factors develop negatively when the export performance decreases and, conversely, when the export performance increases, the injury factors develop positively.

CAUSATION

Decrease in export performance



CAUSATION

- **OTHER FACTORS:**
  - **Changes in consumer preferences**

    In the last years European consumers have changed their preferences. There is now a lack of willingness of younger consumers to spend a lot of money on expensive tableware when compared to the older generation. Lifestyle changes have meant that today's (younger) households are far less willing to spend money on expensive high-quality tableware, i.e. having a 'best set of china".

CAUSATION

- **OTHER FACTORS - COLLUSIVE BEHAVIOUR**
  - The Commission imposed fines of over 622 million EUR because of a cartel on the Belgian, German, French, Italian, Dutch and Austrian markets in bathroom fixtures and fittings (different product, but some companies fined are among complaining producers).
  - Moreover, the 2010 financial statements of the Villeroy & Boch Group report that the German antitrust authority, on 3 February 2011, has launched an investigation due to suspicions of collusion in the German tableware market. A number of German tableware producers are now under investigation, as well as the German Association of the Ceramic Industry, one of the major associations supporting the present anti-dumping proceeding.
  - This proves that the injury may have been self-inflicted.

CONCLUSION ON CAUSATION

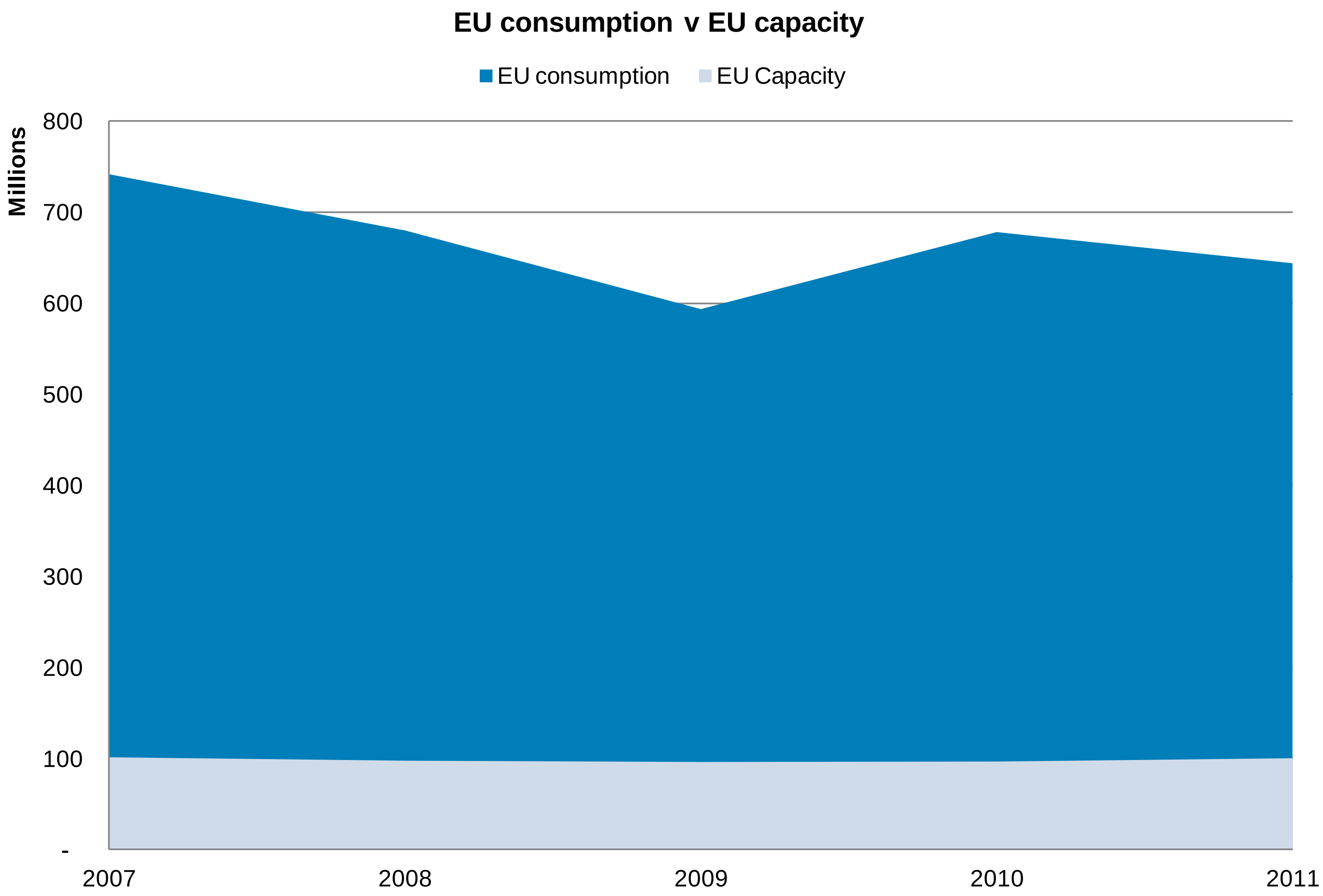
- While the Complainants assert that injury, if any, is caused by allegedly dumped imports from China, the above sections show that other factors are a much more likely source of injury.
- These other factors include:
  - Drop in consumption in the EU and other markets due to economic recession;
  - Massive increase in investment at a time of global economic crisis;
  - Shortages and gaps in the EU labour force;
  - Anti-competitive practices in the EU market; and
  - Imports from other countries
- Any injury, material or otherwise, that may be found by this investigation, <u>is not attributable to Chinese imports,</u> but to factors, some of which are listed above.

Union Interest

Insufficient capacity

UNION INTEREST

INSUFFICIENT CAPACITY



UNION INTEREST

- EU producers only have the capacity to meet a small percentage of demand in the EU market.
- The imposition of anti-dumping measures on imports from China will thus result in supply problems in the EU market, in turn resulting in higher prices, which, in the end, will be charged to the final consumers.
- Consumer choice will also be limited once those imports meeting over 60% of demand are removed from the EU market.
- To conclude, EU consumers risk to not only having to pay the cost of higher wages in China but will also be charged for the anti-dumping duties which will be added to the regular import duties.
- Overall, the balance of various interests tilts towards not imposing measures in view of serious supply problems (see *DVDRs*).

THANK YOU

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