

UNOFFICIAL TRANSLATION

**NON-CONFIDENTIAL SUMMARY OF
SAFEGUARD MEASURE APPLICATION FILED BY
DOMESTIC MANUFACTURERS REGARDING
IMPORTS OF PORCELAIN TILES**

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NON-CONFIDENTIAL SUMMARY OF SAFEGUARD MEASURE APPLICATION

1. PREAMBLE

In the following sections, the application for safeguard measures relating to porcelain tile imports filed by Ceramic Tile Manufacturers Association (SERKAP) on behalf of domestic manufacturers with Undersecretariat of the Prime Ministry for Foreign Trade dated 28/11/2005, no.76172 is summarized and certain details are indexed. Claims and requests in the application listed in the summary will be reviewed under the framework of the safeguard measure inquiry to be conducted by Undersecretariat of the Prime Ministry for Foreign Trade.

2. GENERAL DETAILS ON APPLICATION

2.1. Subject matter of application

Porcelain tiles of People's Republic of China origin.

2.2. Applicants

The safeguard measure application on porcelain tile imports was filed by Ceramic Tile Manufacturers Association. The below specified manufacturers have supported the application by contributing data and documents.

- Kaleseramik Çanakkale Kalebodur Seramik Sanayi A.Ş.
- Toprak Seramik ve Gıda San. ve Tic. A.Ş.
- Ege Seramik San. ve Tic. A.Ş.
- Eczacıbaşı Karoseramik Sanayi A.Ş.

2.3. Percentage of representation of domestic production by applicants

Firms supporting the application by contributing data represent 85 % of domestic production.

3. BACKGROUND ON SUBJECT PRODUCT

3.1. Product description

Polished or unpolished tiles used in covering of floor or wall surfaces.

3.2. Customs Code

The products covered by the application are porcelain tile listed in Sub-Headings 69.07 and 69.08 in Chapter 69 of Customs Tariff Schedule. The said sub-headings basically comprise ceramic hearth and floor tiles, including those made of porcelain. Porcelain is a type of ceramic and comprises a separate group among ceramic products due to the quality of raw material used in its manufacturing and its high firing temperature. Therefore, the subject products comprise a further sub-section under the sub-heading numbers 69.07 and 69.08 they are covered by. Porcelain tiles are classified under sub-heading 69.07 if they are unpolished or unglazed and under sub-heading 69.08 if they are polished or glazed.

SUB-HEADING NO.	DESCRIPTION OF PRODUCT
69.07	Only unpolished or unglazed ceramic flags and paving, hearth or wall tiles; unpolished and unglazed ceramic mosaic cubes and the like, whether or not on a support
69.08	Only polished or glazed ceramic flags and paving, hearth or wall tiles; unpolished and unglazed ceramic mosaic cubes and the like, whether or not on a support

3.3. Background on production process

The manufacturing process of porcelain tile is summarized below:

-Preparation of clay: Clay and/or inorganic materials are prepared according to a specific recipe with the aid of computers in steel silos, a clay is derived after they are mixed in the mill silo. This sludge is sieved and collected in a pool. Afterwards, it is transferred into the dryer with the aid of a pump; is heated up to 600°C and dried to obtain ceramic tile clay.

For porcelain tile, several different driers are in use because the raw materials employed in manufacturing of porcelain tile are in different colors and they are not colored by going through a coating process afterwards.

- Shaping: Moisture at the rate of 5 % is left in the raw material which is dried and pulverized, to allow bonding during the pressing process. This powder is pressed at 500 kg/cm² pressure to be bonded with the aid of the moisture inside.

- Firing: The material which is press shaped is sent to driers from here. An undercoat is applied on the material used as wall tile for eliminating any roughness and this material is glazed. Afterwards, patterns and prints are applied on it and is fired.

The material used in manufacturing of porcelain floor tile, on the other hand, is fired in 1220 °C kilns for 40 minutes after the pressing and drying processes and after being cooled gradually, it is removed from the kiln. Its temperature is approximately 100 °C when it leaves the kiln.

Gases formed during firing in wall and floor tiles cause formation of pores in tile, causing them to lose their strength. These gases are evaporated during manufacturing of porcelain tile; tile are re-melted and in this way, formation of voids between particles is prevented. Thus, the strength of tile is increased. The products shrinks by approximately 8 % during this melting and evaporation process.

- Quality Control: This process covers carrying out of measurements on compliance of the finished product to standards after the firing phase. Tile coming out of the kiln are separated into quality categories, color shade and size groups after being scrutinized by workers and various devices on quality triage lines. In the final phase, the products are packaged and made available for sale.

The technology employed by People's Republic of China (PRC) use imported (Italian) and domestically manufactured machinery. In the manufacturing facilities in our country, predominantly Italian manufacturing technology is being employed. 60 % of the total production capacity has been installed after 1990 with firms launched before 1990, renewing their technological investments during the last decade. Consequently, presently local

manufacturers are employing the state-of-the-art technologies, machinery and equipment in porcelain tile production.

3.4. Fields of application

Porcelain tile is basically used in following areas.

- Residences: Both on floors and walls of bathrooms, washrooms and kitchens (wet spaces).
- Apartment buildings: Open, semi-open or covered floors of front and rear entrances on floors and walls of floor hallways and stairways, decoration of pools, stands of sporting fields.
- Office buildings and shopping centers: Floors and walls of all open, semi-open and covered areas.
- Surface covering of factories and production facilities.
- Restaurants, cafeterias and supermarkets.
- Outdoor spaces and façades.
- Hospitals, medical facilities and sanitary facilities.

3.5. Like or directly competitive product

Those manufactured by domestic manufacturers and imported ones among subject product have the same or similar properties in terms of technical and physical characteristics, type, sales channels and fields of application; hence they must be deemed to be like or directly competitive products.

3.6. Regulations

3.6.1. Customs duties

Customs duties applied under year 2006 Import Regime in the imports of the subject products are shown in the table below.

SUB-HEADING NUMBER	CUSTOMS DUTY RATE (%)				
	EU, EFTA and FTA Countries	GSP COUNTRIES			
		L.D.C.	S.I.A.C	D.C.	OTHER COUNTRIES
69.07	0	0	0	1,5	5
69.08	0	0	0	1,5-2,5-3,5	5-6-7

The subject product is covered by the List of Sector Outside the Generalized System of Preferences in Annex No. 4 to year 2006 Import Regime. Therefore, the customs duty rate applied to other countries is considered for goods of People's Republic of China origin.

3.6.2. Other regulations

Also, the imports of products listed under sub-headings 69.07 and 69.08, which include subject porcelain tiles, is subject to surveillance without any country discrimination under Directive no. 2004/1 on Surveillance Implementation in Imports published in Official Gazette dated 18/7/2004, no. 25526

4. UNFORESEEN DEVELOPMENTS

Real Exchange Rate	2001	2002	2003	2004	2005
TRY/USD	1,225	1,508	1,500	1,426	1,344

As a result of inflation-dropping tight monetary and fiscal policies in implementation in recent years, TRY has started to be revalued starting from 2003 and in the period from 2003 to 2005, its value has increased by 0.5 %, 4.9 % and 5.7 % respectively. The real exchange rate as of 2005 was 1.344 TRY/USD. RMB/USD exchange rate is 8 as of November 2005, despite the revaluation of 2.1 % which took place in China in July 2005. This causes an increase in imports in Turkey, both due to the excessively revalued TRY and also it affects adversely the competitive power of domestic production in export markets. On the other hand, the low value of RMB in China against USD brings China into an advantageous position against its competitors in terms of exports.

Consumer Price Index	2001	2002	2003	2004	2005
(%)	68,5	29,7	18,4	9,3	7,7

Although inflation rate is relatively lower in our country compared to previous years due to the stabilization policies implemented in Turkey, it is still at a high level. The inflation rate, which came down to 9.3 % in 2004 with a drop of 50 % compared to the previous year, was 3.9 % in China in the same year. The inflation rate has come down to 7.7 % in our country in 2005. The inflation rate of China was 1.3 % for November 2005 and was projected to be under 2 % at the end of 2005. This brings local manufacturers into a disadvantageous position against PRC on account of the costs of inputs they use in production, weakening their competitive power.

m ²	2004	2005
Total tile imports (Estimated)	1.800.000	2.000.000
Porcelain tile imports (Actual)	3.368.061	5.085.391

The actual import volume of only porcelain tiles is well above the projected imports for all tiles in 2004 and 2005 in the projection made for total imports expected to occur during the plan period for all ceramic tiles industry under the VIII Five-Year Development Plan. The imports, which took place in 2004, is 1.9 times greater than the projected imports and it is 2.5 times of projected imports in 2005. This has caused a shrinkage of the market shares of the firms in the domestic market, bringing down their profitability, causing them to incur losses.

5. EVALUATION OF IMPORTS

5.1. Course of imports

5.1.1. Overall imports

Years	Overall Imports			Change (%)		
	Volume (m ²)	Value (USD)	Unit Price (USD/m ²)	Volume (m ²)	Value (USD)	Unit Price (USD/m ²)
2001	1.142.938	8.683.801	7,60	-	-	-
2002	1.063.269	8.760.802	8,24	-7	1	8
2003	1.463.511	11.171.818	7,63	38	28	-7
2004	3.368.061	26.396.237	7,84	130	136	3
2005	5.085.391	54.616.759	10,74	51	107	37

Overall imports of the subject product have increased steadily, save for 2002, during the period under examination. Total imports, which amounted to 1.142.938 m² in 2001, has come down to 1.063.269 m² with a decrease of 7 % in 2002, compared to the previous year and has increased by 38 %, 130 % and 51 % respectively compared to previous years in 2003, 2004 and 2005, reaching 5.085.391 m² in 2005.

5.1.2. Imports of PRC origin

Years	Imports from PRC			Change (%)		
	Volume (m ²)	Value (USD)	Unit Price (USD/m ²)	Volume (m ²)	Value (USD)	Unit Price (USD/m ²)
2001	-	-	-	-	-	-
2002	92.877	381.491	4,11	-	-	-
2003	249.018	1.455.678	5,85	168	282	42
2004	2.194.002	13.412.725	6,11	781	821	5
2005	3.658.839	36.429.030	9,96	67	172	63

The rate of increase in imports of PRC origin of the subject product has been a lot higher than the rate of increase of overall imports. Whilst there was no porcelain tile imported from PRC in 2001, 92.877 m² were imported in 2002 and imports of PRC origin have increased steadily during the period under examination. Imports of the said product has reached 3.658.839 m² in 2005 with increases of 168 %, 781 % and 67 % respectively, compared to the previous year by volume in the years 2003, 2004 and 2005.

Share of Imports (%)	2001	2002	2003	2004	2005
PRC	-	9	17	65	72
Non-PRC Imports	100	91	83	35	28

Whilst PRC had no share of overall imports in 2001, the share of PRC has risen to 9 % in 2002, 17 % in 2003, 65 % in 2004 and 72 % in 2005. The share taken by non-PRC countries from imports has decreased during the period under examination.

5.2. Ratio of imports to domestic production

Imports/Production (Index)	2001	2002	2003	2004	2005
Total Imports	100	76	81	127	169
PRC	-	100	208	1.252	1.831
Non-PRC Countries	100	69	67	44	47

The ratio of the total imports of the subject product to domestic production has increased in the period under examination, save for 2002. The index for the ratio of imports to domestic production, which was 100 in 2001, has come down to 76 with a decrease of 24 points in 2002; has increased steadily from 2003 to 2005, reaching 169 in 2005.

The index for the ratio of imports made from PRC to domestic production, which was 100 in 2002, has risen from 208 in 2003 to 1.252 in 2004 and 1.831 in 2005. The index for the ratio of imports of PRC origin to domestic production has gone up in 2005 by 1.731 %, compared to 2002.

The index for the ratio of imports made from non-PRC countries to domestic production was assumed to be 100 in 2001, going down steadily in the period under examination, save for 2004, becoming 47 in 2005. The index for the ratio of imports made from non-PRC countries to domestic production has shown a decrease of 53 % in 2005, compared to 2001.

5.3. Market share of imports

Market Share (Index)	2001	2002	2003	2004	2005
Total Imports	100	86	92	141	157
PRC	-	100	208	1.227	1.503
Non-PRC Countries	100	78	76	49	44

The total porcelain tile market in Turkey has expanded steadily in parallel with the increase in consumption in the period under examination. The index for market share of total imports, which was 100 in 2001, has gone down to 86 in 2002, reaching 157 in 2005, increasing steadily from 2003 to 2005.

The index for the market share of imports from PRC was assumed to be 100 in 2002. It has gone up to 208 in 2003. It has reached 1.227 in 2004 with an increase of 489 % compared to the previous year, going up to 1.503 in 2005.

The index for the market share of imports from non-PRC countries has declined steadily in the period under examination. The index, which was 100 in 2001, was 44 in 2005.

5.4. Unit prices in imports

Import Price (Index)	2001	2002	2003	2004	2005
All Countries Average	7,60	8,24	7,63	7,84	10,74
PRC	-	4,11	5,85	6,11	9,96
Non-PRC Countries	7,60	8,63	8,00	11,06	12,75

If unit prices derived from total import figures with no country discrimination are examined, it is observed that the average import unit prices fluctuated in the period under examination. The unit price which was USD 7,60 in 2001 has gone up to USD 10,74 in 2005.

Although unit prices have increased steadily in the period under examination in imports of PRC origin, they have remained under the average unit prices of imports from all countries and also under unit prices of imports from non-PRC countries in all of these years. The unit price, which was USD 4,11 in 2002, has become USD 9,96 in 2005.

The unit prices of imports from Non-PRC countries were above the average unit prices of total imports in all these years. The unit price, which was USD 7,60 in 2001, has gone up to USD 12,75 by 2005.

6. DETERMINATION OF MARKET DISRUPTION AND THREAT OF MARKET DISRUPTION

6.1. Consumption

Index	2001	2002	2003	2004	2005
Consumption (m ²)	100	108	139	209	284

The volume of consumption of the subject product has been derived by adding the domestic sales volumes obtained from firms supporting the application and total import volumes. Domestic consumption of porcelain tiles has increased steadily in the period under examination. The total consumption index, which was 100 in 2001, has reached 284 in 2005 by increases of 8 %, 29 %, 50 % and 36 % respectively, compared to the previous years from 2002 to 2005.

6.2. Production

Index	2001	2002	2003	2004	2005
Production (m ²)	100	123	158	231	264

Domestic production of porcelain tiles has increased through the period under examination. The production volume index, which was 100 in 2001, was 264 in 2005, with increases of 23 %, 29 %, 46 % and 14 % respectively compared to previous years in the years 2002-2005.

6.3. Market share of domestic production

Index	2001	2002	2003	2004	2005
Market share of domestic production	100	104	103	87	82

The share of domestic manufacturers from the total porcelain tile market in Turkey has declined through the period under examination, save for 2002. The index for market share of domestic manufacturers, which was 100 in 2001, was 104 in 2002 and 103, 87 and 82 respectively in 2003, 2004 and 2005. Domestic manufacturers have lost 18 % of their market shares from 2002 when their market share was at a peak until the end of 2005.

6.4. Capacity and capacity utilization rate (CUR)

Index	2001	2002	2003	2004	2005
Capacity (m ²)	100	103	117	145	164
CUR	100	119	135	159	161

The capacity index of domestic manufacturers of the subject product was 100 in 2001. They increased their total capacities by 3 % in 2002. The domestic production capacity index has reached 164 by capacity increases of 13 % in 2003, 24 % in 2004 and 14 % in 2005.

The capacity utilization rate has increased through the period under examination. The capacity utilization rate index, which was 100 in 2001, was 161 in 2005, with increases of 19 %, 14 %, 17 % and 1 % respectively compared to previous years in the years 2002-2005.

6.5. Domestic sales

Index	2001	2002	2003	2004	2005
Domestic sales (m ²)	100	113	143	182	234

Domestic sales of porcelain tiles has increased through the period under examination. The production volume index, which was 100 in 2001, was 234 in 2005, with increases of 13 %, 26 %, 27 % and 29 % respectively compared to previous years in the years 2002-2005.

6.6. Export sales

Index	2001	2002	2003	2004	2005
Export sales (m ²)	100	145	202	302	331

Export sales of porcelain tiles have increased through the period under examination. The production volume index, which was 100 in 2001, was 331 in 2005, with increases of % 45 %, 40 % and 50 % and 9 % respectively compared to previous years in the years 2002-2005.

6.7. Inventories

Index	2001	2002	2003	2004	2005
Inventories (m²)	100	123	134	184	220

The inventories of domestic manufacturers have increased steadily in the period under examination despite the increase occurring in domestic and export sales. The inventory index, which was 100 in 2001, has increased by 23 % and 9 % respectively in 2002 and 2003 compared to previous years. In 2004, when the largest increase took place in the share of imports of PRC origin of total imports and its ratio to total production of, inventories have risen by 37 %. The inventory index has increased by 19 % compared to the previous year in 2005, has risen to 220 in that year.

6.8. Employment

Index	2001	2002	2003	2004	2005
Employment (Persons)	100	117	140	175	166

When we analyze the employment index figures for the porcelain tile sector, we see that the index, which was 100 in 2001, increased by 17 %, 20 % and 25 % respectively, compared to the previous years; in 2002, 2003 and 2004. Employment has dropped by 5 % compared to 2004, in 2005, coming down to 166.

6.9. Productivity

Index	2001	2002	2003	2004	2005
Productivity (m²/person)	100	105	113	132	159

The productivity index for porcelain tile production has risen steadily in the period under examination. The productivity index, which was 100 in 2001, has reached 159 by increasing at the rates of 5 %, 7 %, 17 % and 20 % respectively, compared to the previous years in the years 2002, 2003, 2004 and 2005.

6.10. Profitability

Index	2001	2002	2003	2004	2005
Profitability	100	105	113	132	159

The profitability of porcelain tile manufacturers has a negative value although it has risen in the period under examination. The profitability index, which was 100 in 2001, has become 159 in 2005.

6.11. Price undercutting

Price undercutting (%)	2001	2002	2003	2004	2005
All Countries	-	3	17	21	-
PRC	-	14	-	34	42
Non-PRC	-	-	14	-	-

It was determined upon an analysis of imports without country discrimination for the subject product, it is observed that the import unit prices have undercut the sales prices of domestic manufacturers by 3 % in 2002, 17 % in 2003 and 21 % in 2004. In 2005, on the other hand, the unit prices of total imports have not undercut the domestic production unit sales prices. Imports of PRC origin have resulted in price undercuttings of 14 % in 2002, 34 % in 2004 and 42 % in 2005. In calculation of price undercutting relating to imports of PRC origin, PRC statistics for 2004 and 2005 were used. Imports from non-PRC countries have undercut the domestic production sales prices by 14 % only in 2003.

7. EVALUATION OF LINK OF CAUSALITY

7.1. Export sales

Exports by domestic manufacturers of subject porcelain tile have increased steadily in the period under examination, reaching the peak value for the period under examination in 2005. Therefore, it is believed that the export performance of domestic manufacturers did not have an impact on the impairment on economic indices.

7.2. Domestic market

The index for total porcelain tile consumption in Turkey is given under the heading 6.1. Accordingly, the domestic market has expanded annually by 8 %, 29 %, 50 % and 36 % during the period under examination. Therefore, it is believed that the impairment on the economic indices of domestic manufacturers did not stem from the contraction in the domestic market.

7.3. Domestic competition

It was observed that the competition between domestic manufacturers is not at a level which would cause impairment of economic indices.

7.4. Productivity

The index for productivities of domestic manufacturers is given under heading no. 6.9. Accordingly, productivity in production has increased steadily in the period under examination. Therefore, it is believed that the productivity figures did not cause any impairment on the economic indices of domestic manufacturers in the porcelain tile sector.

7.5. Financial expenses

Financial expenses of domestic manufacturers did not fluctuate largely in the period under examination, it dropped by 27 % in 2005 relative to 2004. Therefore, it is believed that there was no change in financial expenses to affect the economic indices of domestic manufacturers adversely.

8. REQUESTED MEASURE

It is requested that to prevent the market disruption and threat of market disruption created on the sector by the increase in imports of PRC origin which gained speed in recent years, a safeguard measure is adopted in the form of quantity restriction (quota) for a term of three years to be directed towards People's Republic of China under Decree on Surveillance of Safeguard Measures on Imports of Goods of People's Republic of China origin (2003/5567) (OG Date and No: 25.05.2003 – 25121) and Regulation on Safeguard Measures on Imports of Goods of People's Republic of China origin (OG Date and No: 12.06.2003 – 25136).