

WORLD TRADE ORGANIZATION

G/SG/N/8/EGY/1
G/SG/N/10/EGY/1
10 February 1999
(99-0488)

Committee on Safeguards

Original: English

NOTIFICATION UNDER ARTICLE 12.1(B) OF THE AGREEMENT ON SAFEGUARDS ON FINDING A SERIOUS INJURY OR THREAT THEREOF CAUSED BY INCREASED IMPORTS

NOTIFICATION PURSUANT TO ARTICLE 12.1(C) OF THE AGREEMENT ON SAFEGUARDS

EGYPT

The following communication, dated 1 February 1999, has been received from the Permanent Mission of Egypt.

With regard to Egyptian document circulated as WTO No. G/SG/N/6/EGY/1 dated 11 August 1998, regarding notice of initiation of a safeguard investigation and the document circulated as WTO No. G/SG/N/7/EGY/1 dated 11 August 1998 regarding notice of provisional safeguard measures concerning imports of "Safety Matches in Boxes" into Egypt, and pursuant to the above-referenced provisions of Agreement on Safeguards, and in the light of the agreed format for notifications (G/SG/1, July 1996), Egypt provides the following notification to the Committee on Safeguards.

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I. PROCEDURES

- (i) The Notice of initiation of safeguard investigation concerning imports of Safety Matches in Boxes into Egypt was issued on 6 August 1998 and was published in the Official Gazette on 6 August 1998. A copy of the Notice was also sent to all known interested parties, namely:

Domestic Producers

1. Nile Company for Matches and Wooden Houses
2. Hiekal Company (Al-Ahtam)
3. The Egyptian Company for Matches

Importers

1. Lord Company
2. Noaman Company
3. El Bonian Company
4. El-Gawhara Company
5. Wasat El-Delta Company
6. M N Company

Foreign Producers and Exporters

1. Swedish Match
2. Indo-Med
3. Pioneer Overseas Private Ltd
4. Mohsen Match Factory
5. Khyber Match Factory
6. Noor Match Factory
7. Asim Match Factory
8. Bilour Match Factory
9. Federation of Pakistan Chambers of Commerce and Industry
10. Asoka Exporters Ltd.
11. Ankur Agro Traders

Foreign Governments

1. Sweden
2. India
3. Pakistan
4. Turkey
5. China

- (ii) Verification of the information considered necessary for the investigation was done and a team of investigators visited the domestic industry.
- (iii) A public hearing was held of all interested parties on 1 October 1998. All parties were given the opportunity to submit written submissions during and after the hearing, but some parties didn't submit any written comment during or after the hearing.

- (iv) Essential Facts and Conclusions Report was circulated to all parties and Governments of Exporting Countries, and all parties were asked to submit their comments by 21 January 1999. The Department received comments from the parties listed below:

1. Government of India
2. Nile Company for Matches and Wooden Houses
3. The Pakistani Match Manufacturing Association

II. FINDINGS ON SERIOUS INJURY

The Department has gone through the record, hearing, written submissions and comments on both of the hearing and the essential facts report that were presented to the department by the domestic producers, exporters, importers, foreign producers, foreign governments and the associations etc, and different issues arising therefrom are discussed in these findings at appropriate places.

1. Evidence of Serious Injury or Threat thereof caused by Increased Imports

It has been concluded that the Egyptian Match Industry has been seriously injured. In reaching this conclusion, a full range of factors relating to the industry were examined. The evidence of serious injury should show a significant overall impairment in the position of the domestic industry. The industry prices were depressed and undercut by the imports, production, market share, sales, utilization of production capacity in the industry had declined seriously and there was a substantial decline in profits.

2. Product under consideration

- (i) The product under consideration for the purpose of the present investigation is "Safety Matches in Boxes". It does not include "Comb" matches which are matches made of paper instead of wooden sticks.
- (ii) The product enters Egypt under tariff classification H.S. Tariff Heading No. 36 05 00.
- (iii) The product under investigation is subject to the regular customs duty of 30 per cent.

3. Domestic Industry

- (i) The application was submitted by the Nile Company and supported by Egyptian Company for Matches which also provided detailed information to the Department.
- (ii) Both companies are privately owned, the Nile Company was privatized during 1997.
- (iii) These two companies produce more than 96 per cent of all domestic production.
- (iv) A third domestic producer, Hiekal Company "Al-Ahtam", is privately owned and supported the industry application but did not provide any industry information.

4. Period of Investigation

With respect to the period of investigation to assess the impact of increased imports, generally it is necessary to analyze the relevant data comparatively for over a longer period, usually data for a period of the most recent three years.

The investigation was initiated on 5 August 1998, and all domestic producers had submitted data covering the period from the year 1995 to April 1998, and the decision to initiate the investigation was taken on the basis of this data.

5. Increased Imports

- (i) The data provided showed that the imports increased by 165 per cent in 1997 compared to 1995 and increased by 411 per cent in the first four months of 1998 compared to the first four months of 1995.
- (ii) The following Table shows the absolute increase in quantities of imports of the goods under investigation to Egypt:

Table: Absolute Volume of Imports
(000 Cartons)

Year	1995	1996	1997	1998 (4 months)
Imports	70,749	85,178	187,712	120,568
% Increase from 1995	-	20.4	165	411*

* Compared to the same period of 1995.

The data in the above table shows that in absolute terms the imports have increased each year since 1995. The level of imports in the first four months of 1998 indicates that the imports for all of 1998 will be approximately double those of 1997.

6. The Situation of the Domestic Industry

The Department analyzed all data submitted by the domestic industry and the industry figures showed a sudden and sharp decrease in production, market share, profitability, and capacity of utilization and selling prices.

A careful examination has been carried out on the above-mentioned factors, and leads to the facts set below:

- (i) Sales declined significantly in 1997 by 18.4 per cent compared to the year 1996, and in the first four months of 1998 sales declined by 8.8 per cent compared to the first four months of 1997. On the basis of sales for the first four months of 1998, the annual sales in 1998 will show a further decline against sales in 1997.

- (ii) Production declined in 1997 by 13.7 per cent compared to the year 1996, and it declined by 4 per cent in the first four months of 1998 compared to the first four months of 1997. On the basis of the production for the first four months of 1998, the annual production for that year will be below that in 1997. The evidence shows that there has been significant decline in production over the period that is associated with the rising level of imports.
- (iii) Capacity utilization declined in 1997 significantly to 51 per cent which corresponds to a decline in production in that year. In the first four months of 1998 there was a further decline in capacity utilization from that achieved in 1997 to reach 47 per cent.
- (iv) In 1997 average selling prices declined by 1.6 per cent compared to the year 1996 and in the first four months of 1998 declined significantly by 7.2 per cent compared to the first four months of 1997. Depression of prices in the first four months of 1998 may have caused partly the reduction in the rate of decline in sales, production and capacity utilization in the same period.
- (v) Profits per carton declined by 30.2 per cent in 1997 compared to the year 1996, and this decline accelerated significantly in the first four months of 1998 to reach 61 per cent compared to the first four months of 1997, due to the large increase in import volumes in that period.
- (vi) Employment has declined significantly in 1997 and in 1998, however some of the reduction in employment have occurred as a result of the privatization of the Nile Company in 1997.
- (vii) The following Table shows a significant decline in the market share of the industry.

Year	1995	1996	1997	1998 (4 months)
Market share	94%	94%	85%	74%

7. Customs Duties applied

The actual duty rate was only 35 per cent and reduced to 30 per cent by virtue of presidential Decree No. 243/1998 issued on 29 September 1998.

8. Causal Link

It is concluded on the basis of the following findings that the domestic industry has suffered from serious injury which can be attributed to a significant increase in the volume of imports, in absolute terms.

- (i) There has been a significant reduction in production and sales since 1996.
- (ii) The market share of the industry has declined significantly since 1996.
- (iii) There has been a significant decline in capacity utilization since 1996.

- (iv) There was a significant depression of average selling prices in the first four months of 1998 compared with average selling prices achieved in 1997.
- (v) The industry has suffered a serious and substantial decline in profits over the period under review, particularly since 1996, and the rate of decline is accelerating.
- (vi) All above facts clearly showed that the domestic industry is facing critical circumstances, and the further importation would cause damage that would be difficult to repair, thus justifying immediate action under the Agreement on Safeguards. The serious injury is directly related to the increase of imports.

9. Public interest

- (i) The WTO Agreement on Safeguards is designed to clarify and reinforce the disciplines of GATT 1994, specifically those of Article XIX Emergency Action on Imports of Particular Products. Article XIX of GATT provides for the suspension of the obligations of a contracting party in whole or in part, or in the modification or withdrawal of concessions in limited circumstances. If as a result of unforeseen developments and of the effect of obligations incurred, any product is being imported into the territory in such increased quantities and under such conditions as to cause or threaten serious injury to domestic industry, then safeguard action may be considered to prevent or remedy such injury.

In the preamble to the WTO Agreement, it states;

"Recognizing the importance of structural adjustment and the need to enhance rather than limit competition in the international markets;..."

- (ii) The Egyptian Government has signed the WTO Agreement in order to benefit from the trade and other economic effects of trade. Included among these benefits is competition for local industry, which helps to ensure that the Egyptian economy in general attracts resources to efficient industries and consumers pay no more than is necessary for the goods being purchased.
- (iii) The Department takes the view that Safeguard measures are an exception to free trade, and can only be applied as a temporary exception where the volume of imports has increased sharply and rapidly so that it causes serious injury to a local industry. The measures are only available to act as a temporary buffer against unforeseen shocks from open borders. This temporary period gives an industry time to make adjustments to meet competition from other sources. The public interest is therefore only served where an industry can demonstrate that adjustment will be made which will result, in a fixed time-frame, in an industry in Egypt that is competitive.
- (iv) The Department agrees with the domestic industry view that the continuation of the domestic industry will realize social benefits for employment and wages, and availability of matches at steady prices in the domestic market. If the industry closes down, the consumer will pay a high price in the absence of the real competition.
- (v) The domestic producers provide employment to a large number of people and make a valuable contribution to the Egyptian economy. Safeguard duty would thus enable them to survive in face of competition offered by imports which should also be in the long-term interest of the society.

10. Serious Injury Conclusions

The following is a summary of the conclusions reached during the investigation of serious injury:

- Imports have increased significantly since 1996, both in absolute terms and in relation to production, and the rate of increase is accelerating.
- There has been a significant reduction in production and sales since 1996.
- The market share of the industry has declined significantly since 1996.
- There has been a significant decline in capacity utilization since 1996.
- There was a significant depression of average selling prices in the first four months of 1998 compared with average selling prices achieved in 1997.
- The industry has suffered a serious and substantial decline in profits over the period under review, particularly since 1996, and the rate of decline is accelerating. Other factors have also affected profitability.
- Employment in the industry has declined significantly since 1996, but this cannot be attributed entirely to increased imports.
- The injury effects noted above have occurred in association with a significant increase in imports.

11. Adjustment Plan for Industry

(i) Industry plans

(a) *The Nile Company*

1. Restructure its factories at present in Cairo and Alexandria, and invest about twenty million pounds to develop such factories.
2. Restructure its labour force and decrease the number of workers in the company.
3. Develop sales and marketing systems to enable the distribution of matches in the whole country.
4. Increase exports to Arab and African countries which would enable the company to make use of its full production capacity and that would lead to a decrease in its cost of production.
5. The company was privatized in 1997 and the contract to privatize the industry imposed substantial legal requirements for the new owners to increase the efficiency and cost effectiveness of the company.

(b) *The Egyptian Company:*

1. Replace and renew its machines to increase its production capacity.

2. Take more care of packing and packaging and buy new machines for that purpose.
 3. Full automation of the whole production process to increase efficiency and increase production which will decrease production costs.
 4. Get acquainted with new technology in the match industry, transfer and implement it.
 5. Continue training technicians and hire experts.
 6. Consider establishing a distribution company in which all domestic producers would participate, so that it can have the ability to study all markets, open new export markets and enable distribution to the whole domestic market.
 7. Get better raw material sources, plant and equipment at reasonable prices and coordinate the purchasing process collectively so that the industry can benefit from discounts for large purchases.
- (ii) The Department considers that the plans of the local industry to make adjustments to enable it to meet international competition in the near future as a critical feature of the investigation.
- (iii) From the reconstructing plans of the domestic industry it appears that they need a period of about three years to substantially complete their plans and to restructure their units.

12. Conclusions and recommendations of International Trade Policies Department

The following is a summary of the overall conclusions reached by the Department on the investigation:

- (i) Safety matches are being imported into Egypt in such increased quantities in absolute terms, that serious injury has been, is being and will continue to be caused to the domestic industry producing like or directly competitive products.
- (ii) Safeguard measures are required to allow the industry to adjust to import competition. Such measures should be in the form of duties, which would be phased out proportionately over a period of three years.
- (iii) It is in the public interest that imports be allowed to continue.
- (iv) The domestic industry is in need of adjustment and the industry has plans for such adjustment, which may meet with differing degrees of success but which will be monitored by the Department.
- (v) The Department does not consider that safeguard measures are a substitute for a competitive domestic industry supported only by long-term tariffs, and does not consider that a "tax" should be imposed upon consumers in any case, without the industry having firm plans for improvement which will be implemented. The Department would only contemplate measures if it can be assured by the industry that the Egyptian consumer is only to be disadvantaged temporarily. At the end the local industry must be in a position to meet international competition and provide the local consumer with value for money.

In view of the findings above, it is concluded that the increased imports of Safety Matches in Boxes to Egypt has caused serious injury to the domestic producers and the imposition of the safeguard duty for a period of three years will be in the public interest and the measures should be in the form of duty because the quota system would not provide price restraint through competition with the industry. It is the Department's view that price competition is an essential element in any scheme of structural adjustment for the industry.

Considering the need to progressively liberalize the safeguard duty in order to facilitate positive adjustment by the domestic industry, a safeguard duty at the rates mentioned below is recommended to be imposed on Safety Matches in Boxes imported into Egypt for a period of three years according to the following table:

Years	First year ¹	Second year	Third year ²
Duration	From 19.02.1999 to 18.02.2000	From 19.02.2000 to 18.02.2001	From 19.02.2001 to 04.08.2001
Duty rate C.I.F. export price value	34%	22%	11%

¹ The introduction of the measure starting from 19 February 1999.

² The measure is expected to last through to 4 August 2001.

**NOTIFICATION PURSUANT TO ARTICLE 12.1 (C)
OF THE AGREEMENT ON SAFEGUARDS UPON TAKING
A DECISION TO APPLY OR EXTEND A SAFEGUARDS MEASURE**

Pursuant to the above referenced provisions of the Agreement on Safeguards and in the light of the agreed format for notifications (G/SG/I, 1 July 1996) Egypt provides the following notification to the Committee on Safeguards.

Notification under Article 12.1 (c) upon taking a decision to apply a safeguard measure

1.-2. This information was provided in previous notifications. See G/SG/N/6/EGY/1 (11 August 1998) and G/SG/N/7/EGY/1 (11 August 1998).

3. *Provide a precise description of the product involved.* Safety Matches in Boxes and do not include "Comb Matches" which are matches made of paper instead of wooden sticks, which enter Egypt under tariff classification H.S. Tariff Heading No. 36 05 00 and subject to input duty (30 %).

4. *Provide a precise description of the proposed measure.* The measure is a surtax on imports of Safety Matches in Boxes, for a period of three years.

5. *Provide the proposed date of introduction of the measure.* The measure will be introduced on 19 February 1999.

6. *Provide expected duration of the measure.* The measure is expected to last through to 4 August 2001.

7. Not applicable.

8. *If the expected duration is over one year, provide expected timetable for progressive liberalization of the measure.* The expected measure will be decreased progressively each year to reach zero per cent after the end of the three years* as indicated in the following table:

Years	First year	Second year	Third year
Duration	From 19.02.1999 to 18.02.2000	From 19.02.2000 to 18.02.2001	From 19.02.2001 to 04.08.2001
Duty rate C.I.F. export price value	34%	22%	11%

* The three years period includes 200 days over which provisional measures are in place ie. from 8 August 1998 to 20 February 1999.

9. Not applicable.
