

Ceramics



Real Sector Division - Economic Research Department
Central Bank of Sri Lanka

Industry background

Main sectors

Floor tiles
&
Wall tiles



Bathroom
fittings



Tableware
&
Kitchenware



Handicraft
& lab
equipment



Other building
material
Bricks, pipes...



Other related sectors

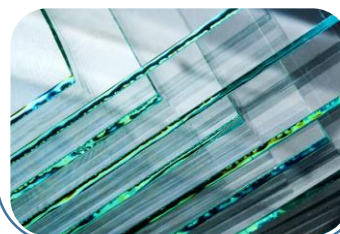
Pottery
items



Roofing tiles
& bricks



Glass
related



- This presentation covers the main sectors. They use distinct raw material and companies are inter-related.
- All sectors other than glass are covered under Chapter 69 of the Harmonised System of classifying traded products

Main characteristics of the ceramic industry

- Manufacturing companies involved are large-scale, since outlay needed is large

- Provides value addition for local minerals

Feldspar, Ball-clay, Kaolin, Quartz, Calcite, Silica, Dolomite, Red Clay etc.



- Lower use of imported material

Companies stated that “local value addition is 80%”

- Dependent on miners and transporters of minerals

- Direct employment - 22,000 (including clay and glass)

Indirect employment - 30,000

(according to the Ceramics and Glass Council)



Three sub-groups in the ceramic industry....

.... the interplay among whom determines industry outcomes



Miners & Sand Transporters

Government

- Import Tax
- Mining regulation
- Customs inspection
- Import quality control

Manufacturers

Importers



Main players in the manufacturing sector

Floor & Wall
Tiles



Main raw
material
supplier



Bathroom
fittings



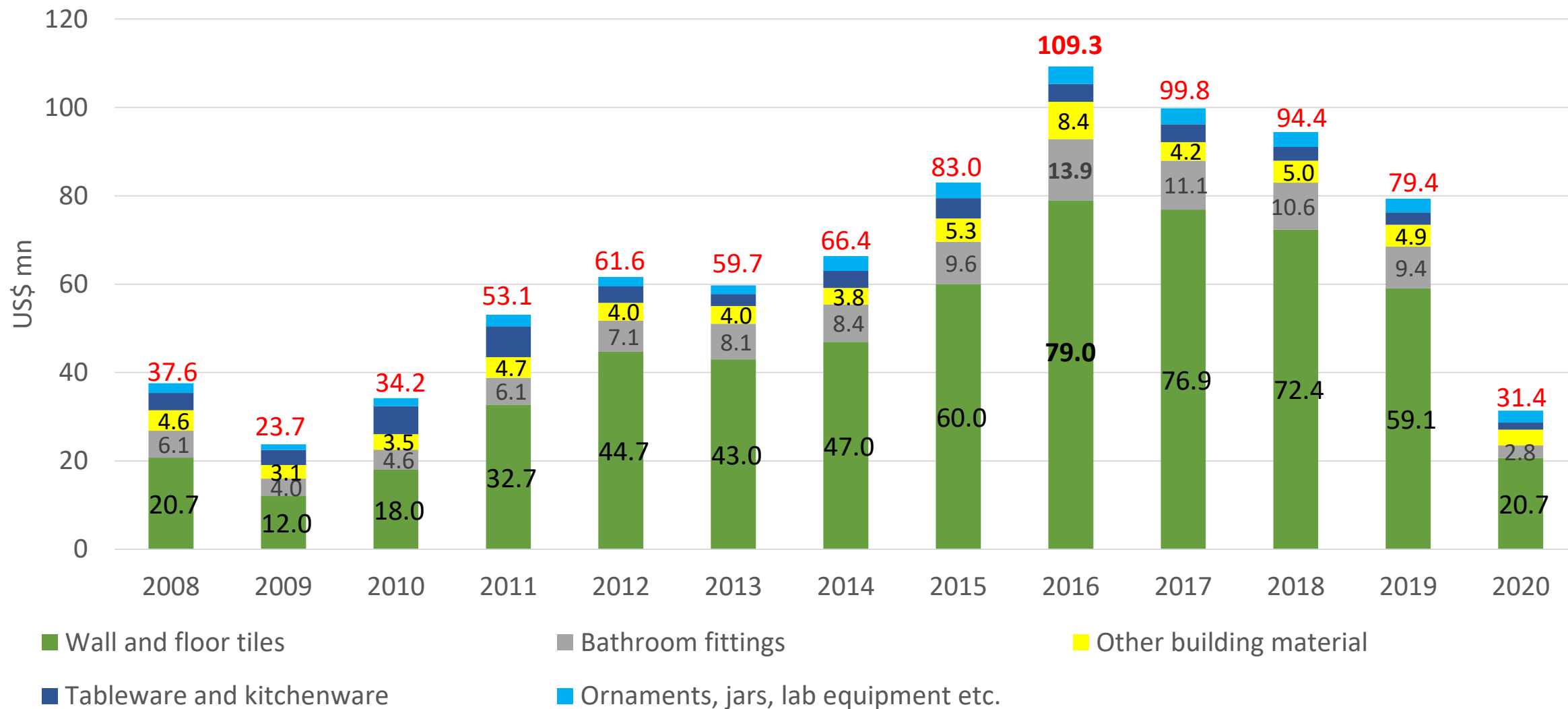
Tableware &
kitchenware



Decorative
items



Imports of Ceramic Items

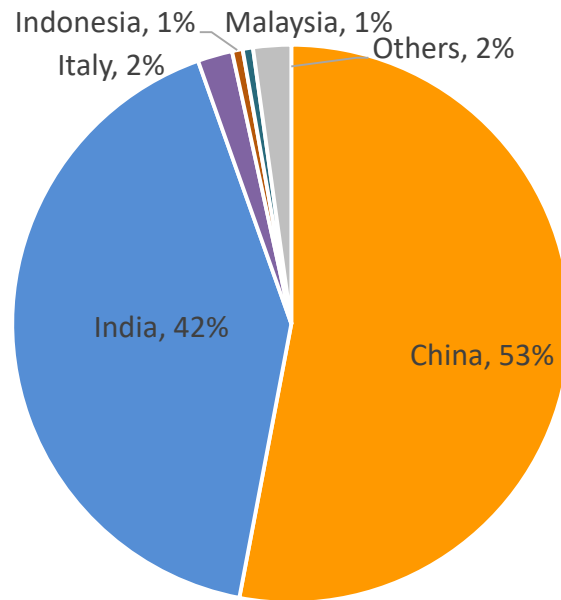


Source: SL Customs

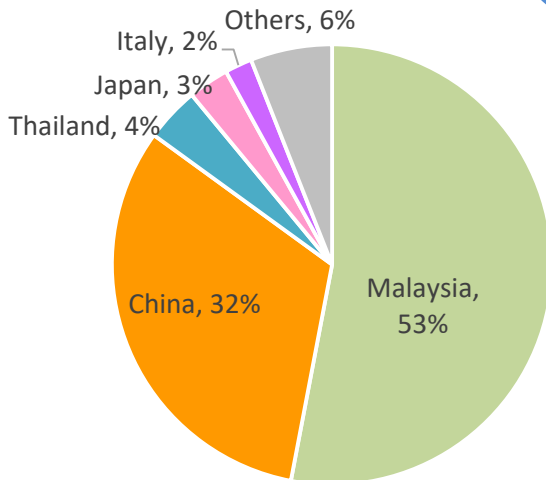
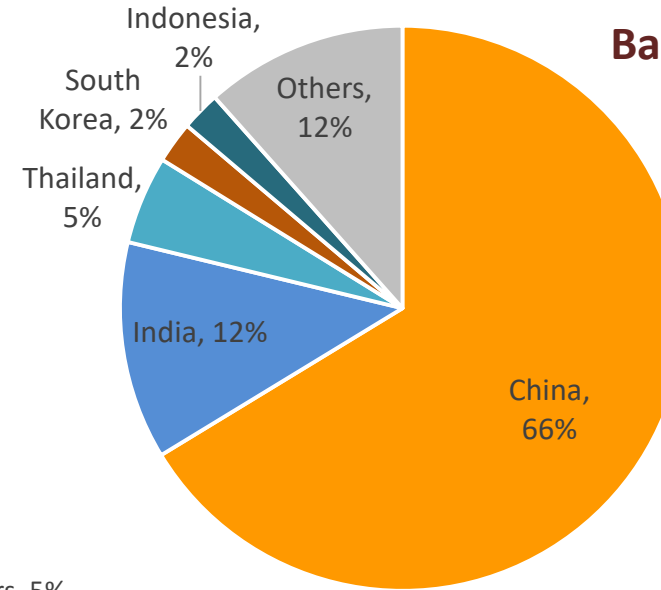
Countries from which ceramics were imported (2017-2019)

7

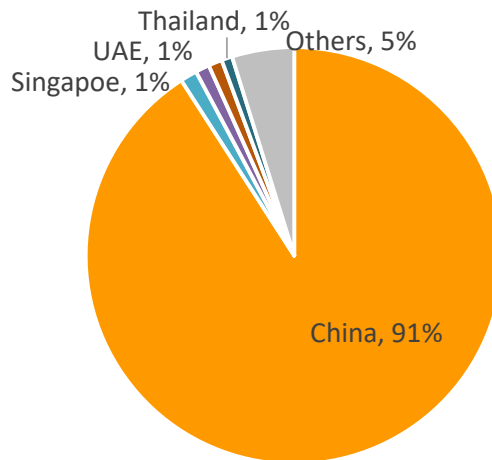
Wall and Floor Tiles



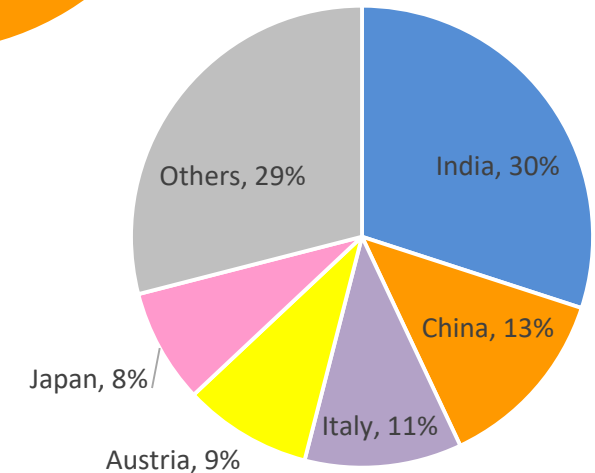
Bathroom Fittings



Ornaments and others



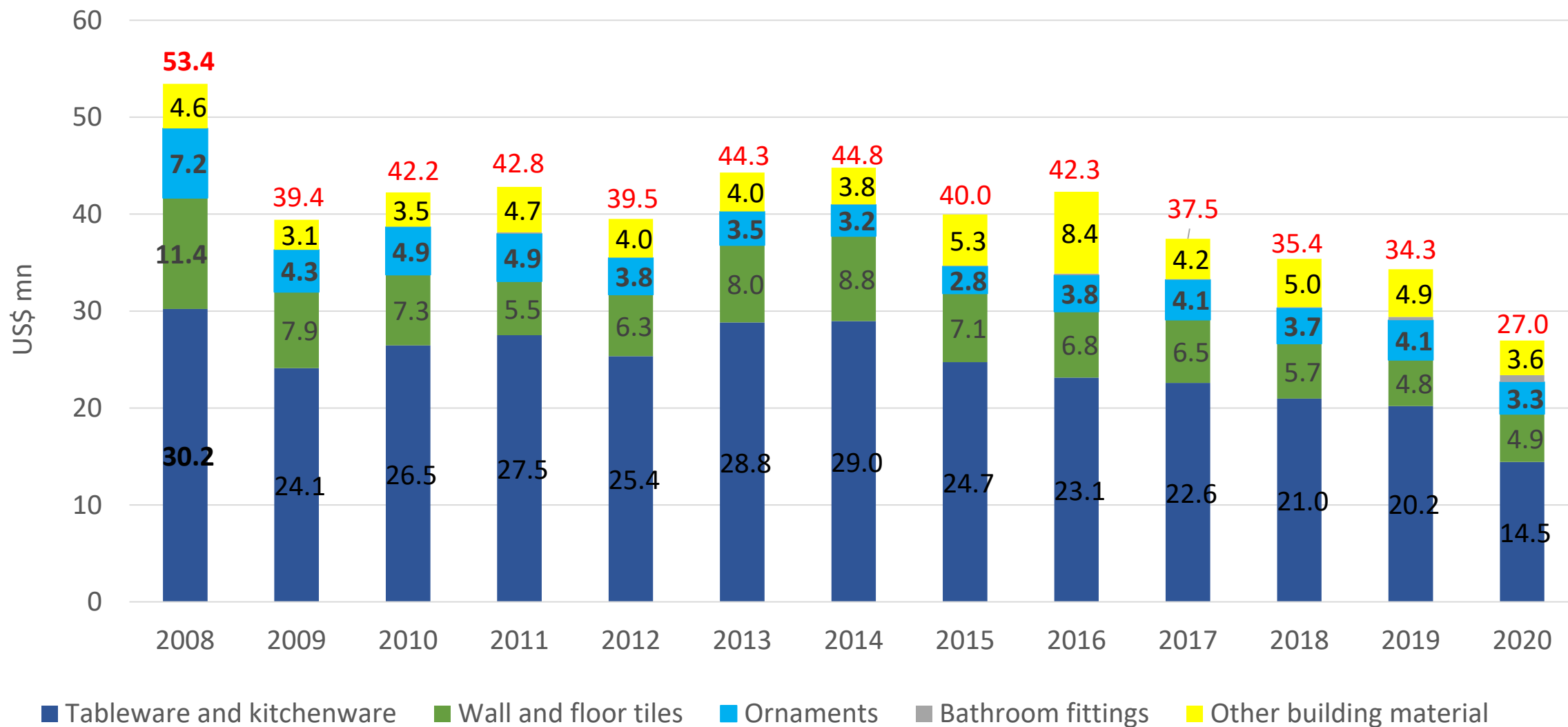
Tableware and Kitchenware



Other building material

Source: SL Customs

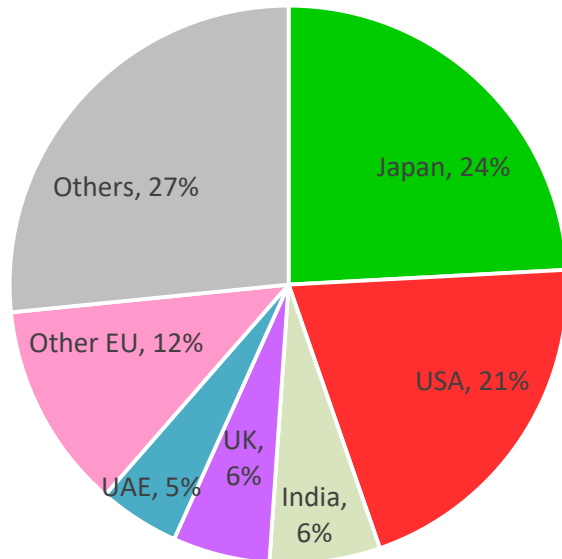
Exports of Ceramic Items



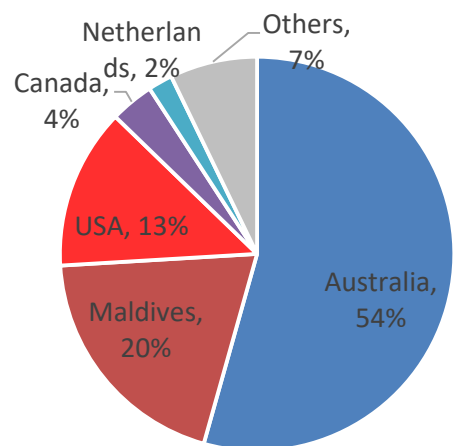
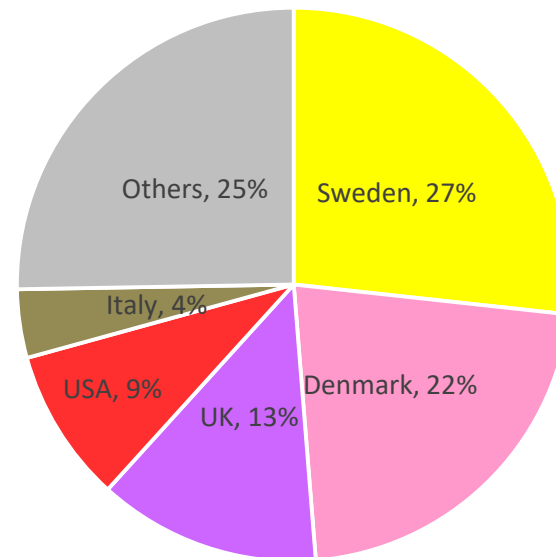
Source: SL Customs

Countries to which ceramics were exported (2017-2019)

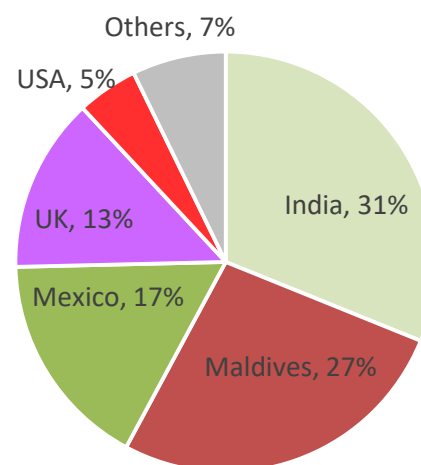
Tableware & Kitchenware



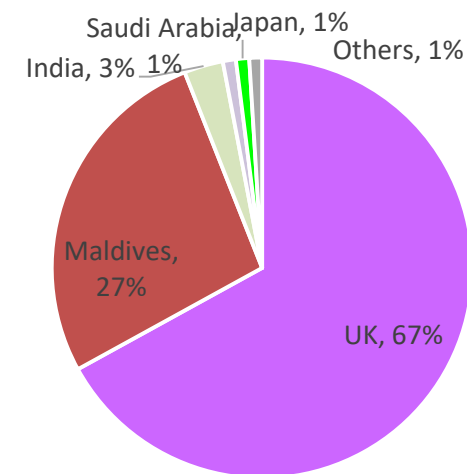
Ornaments, jars, lab equipment etc



Wall and Floor Tiles



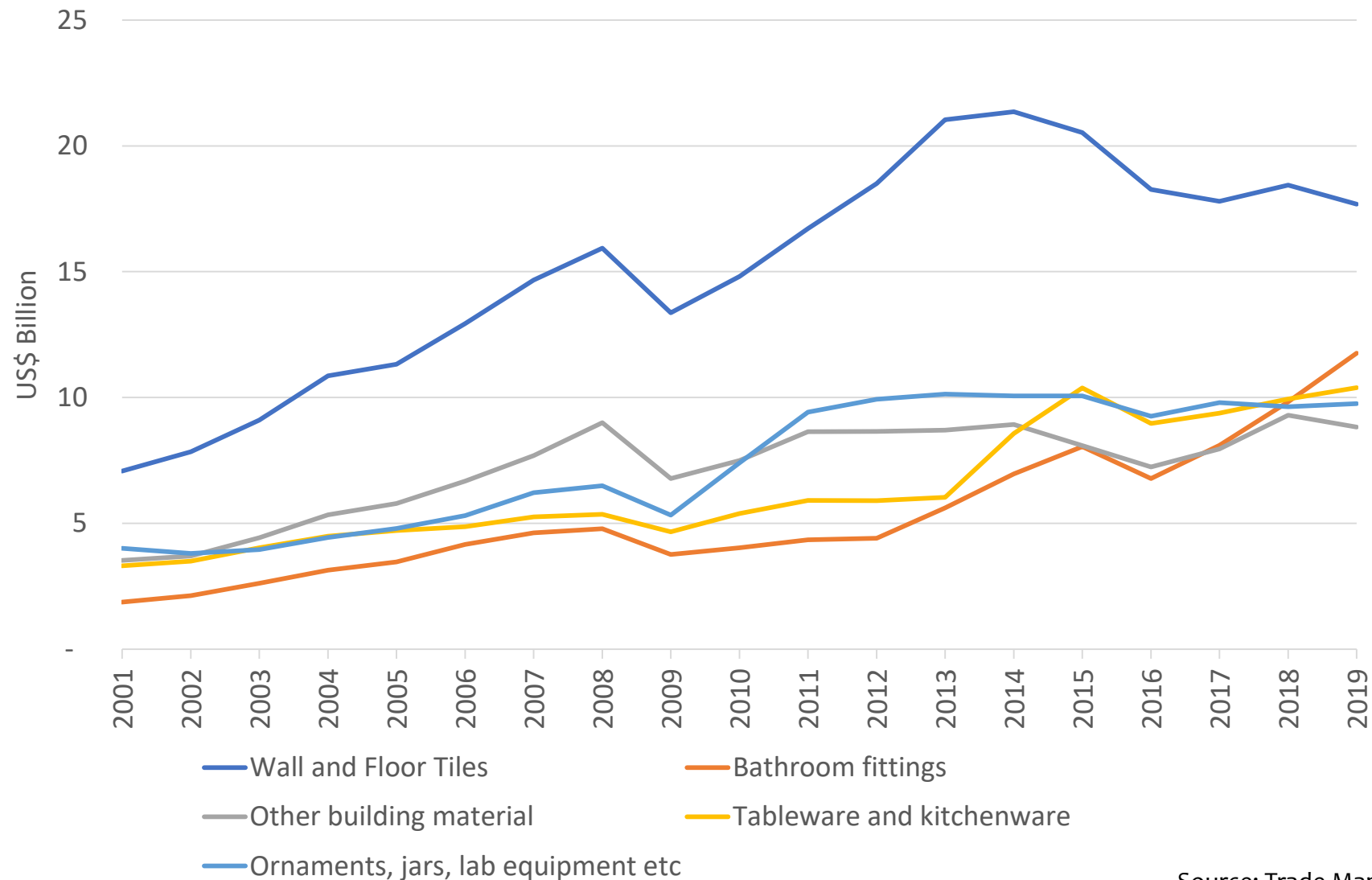
Bathroom fittings



Other building material

Source: SL Customs

World Trade in Ceramics



Source: Trade Map

Sri Lanka's export share
(2017 – 2019 average)

Wall and Floor Tiles	0.04%
Bathroom fittings	0.00%
Other building material	0.06%
Tableware & kitchenware	0.35%
Ornaments, jars, lab equipment etc	0.05%

Sources: Trade Map
SL Customs

World Trade: Top 10 importing and exporting countries (out of total trade from 2017 to 2019)

Top 5 Importing countries									
Wall and Floor Tiles		Bathroom fittings		Other building material		Tableware and kitchenware		Ornaments, jars, lab equipment etc	
Country	Share%	Country	Share%	Country	Share%	Country	Share%	Country	Share%
USA	12.2	USA	21.3	USA	6.9	USA	20.3	USA	16.7
France	6.2	Germany	7.0	South Korea	5.3	Germany	6.2	Germany	11.4
Germany	4.8	UK	4.8	Germany	4.3	UK	4.7	China	6.2
Saudi Arabia	3.2	France	4.8	UK	4.1	France	3.9	South Korea	5.5
Philippines	3.1	Canada	3.5	China	3.6	Italy	3.8	Japan	4.7

Top 5 Exporting countries									
Wall and Floor Tiles		Bathroom fittings		Other building material		Tableware and kitchenware		Ornaments, jars, lab equipment etc	
Country	Share%	Country	Share%	Country	Share%	Country	Share%	Country	Share%
Italy	25.3	China	61.8	China	29.9	China	65.1	China	27.5
China	25.2	Mexico	4.8	Germany	14.8	Germany	4.5	Germany	11.9
Spain	17.5	Germany	4.6	USA	6.3	Portugal	2.7	USA	11.4
India	5.8	Italy	2.9	Italy	3.8	UK	2.7	Japan	11.2
Turkey	3.4	Turkey	2.6	Japan	3.5	Thailand	2.1	Poland	4.1

Source: Trade Map

Import restrictions on ceramics

Category	HS Codes	Date of Gazette from the Dept. of Import and Export Control							
		16-Jul-20	17-Aug-20	15-Sep-20	19-Oct-20	29-Oct-20	24-Dec-20	11-Feb-21	11-Jun-21
Wall and Floor Tiles	69072110, 69072190, 69072210, 69072290, 69072310, 69072390, 690730, 690740	TS	TS	TS	TS	TS	TS	TS	TS
Bathroom fittings	69101010, 69101090, 69109010, 69109090	TS	TS	TS	TS	TS	TS	All moved to 180 day credit with cess increase	All restrictions removed. Cess increase in place.
Other building material	690410, 690490, 690510, 690590, 690600	TS	TS	TS	TS	TS	TS on 690410 & 690490 removed (bricks, flooring blocks etc) with cess increase	690600 moved to the 180 day credit list (pipes)	All restrictions removed for all HS Codes except 690510, 690590 (roofing tiles, and other constructional goods)
Table & kitchenware	691110, 691190, 691210, 691290	TS	TS	TS	69120010 moved to 90 day credit (tableware)	TS	TS	TS	All restrictions removed
Ornaments, jars, lab equipment etc	691310, 69139010, 69139090, 69141090, 69149000, 69149010, 69149090	TS	TS	TS	TS	TS	TS	TS imposed on 69149010 & 69149090 (ornaments)	All restrictions on 6913 on statuettes and ornaments and some handicraft removed. 691400, 691410, 691490 still suspended.

Imports after relaxation of restrictions (before June 2021)

In USD

HS Code	Monthly imports from 2015 to 2019	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
690410 & 690490 (bricks, flooring blocks etc.)	3,768	162	26	24	9	24	9,535
690600 (pipes)	52,697	-	-	-	-	11,247	135,931
6910 (all bathroom fittings)	909,193	127,083	90,048	129,337	68,795	1,079,994	1,520,472
69120010 (tableware)	116,311	31,263	70,681	95,107	190,123	132,160	118,350

Monthly imports have generally increased after relaxation of import restrictions



Import tax changes from 2008 to March 2021 for ceramics

Import taxes have a large bearing on whether tiles and bathroom fittings are manufactured in Sri Lanka or imported.

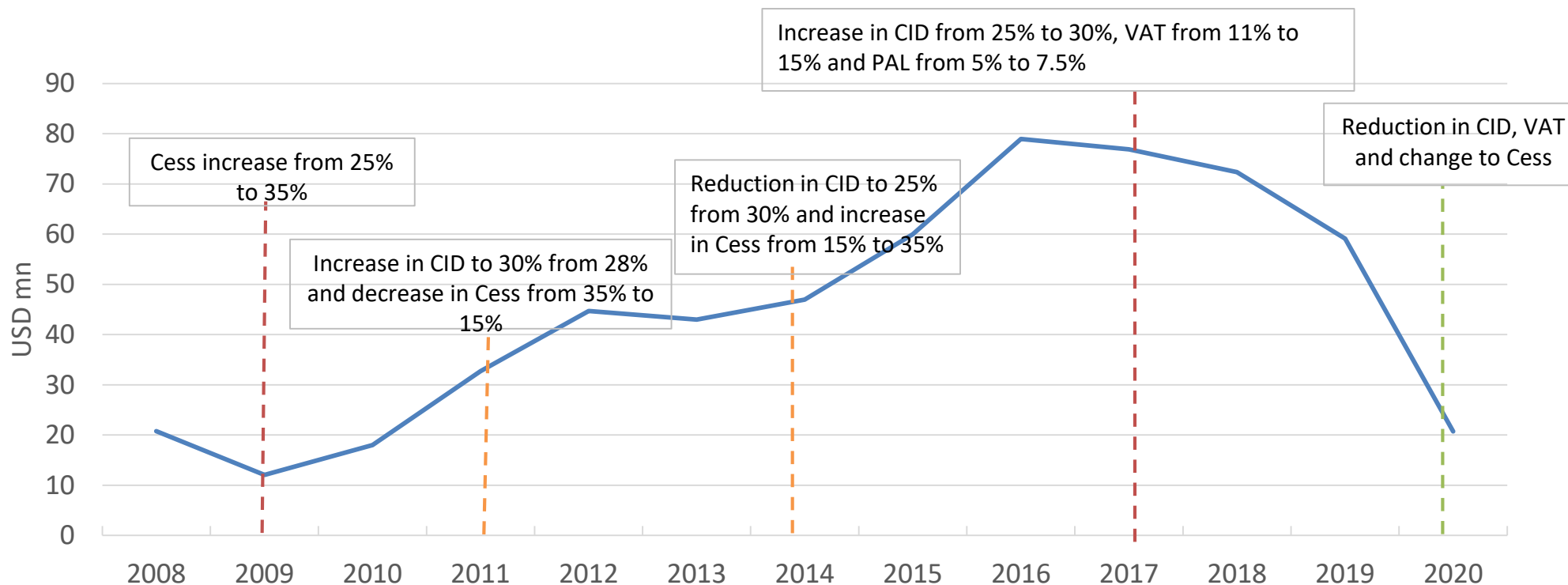
Companies that have been into manufacturing have turned to importing due to lower cost of importing (eg: Lanka Tiles made in India, and Otto bathware imported from China)

For all ceramic imports, Customs Import Duty (CID) was reduced to 15% through the National Budget of November 2020 from the 25% to 30% that prevailed in the previous years (except for the few HS Codes under other building material which already had a CID of 15%).

The impact of this large reduction in CID could not be assessed as the effects of the COVID-19 pandemic affected imports soon after.

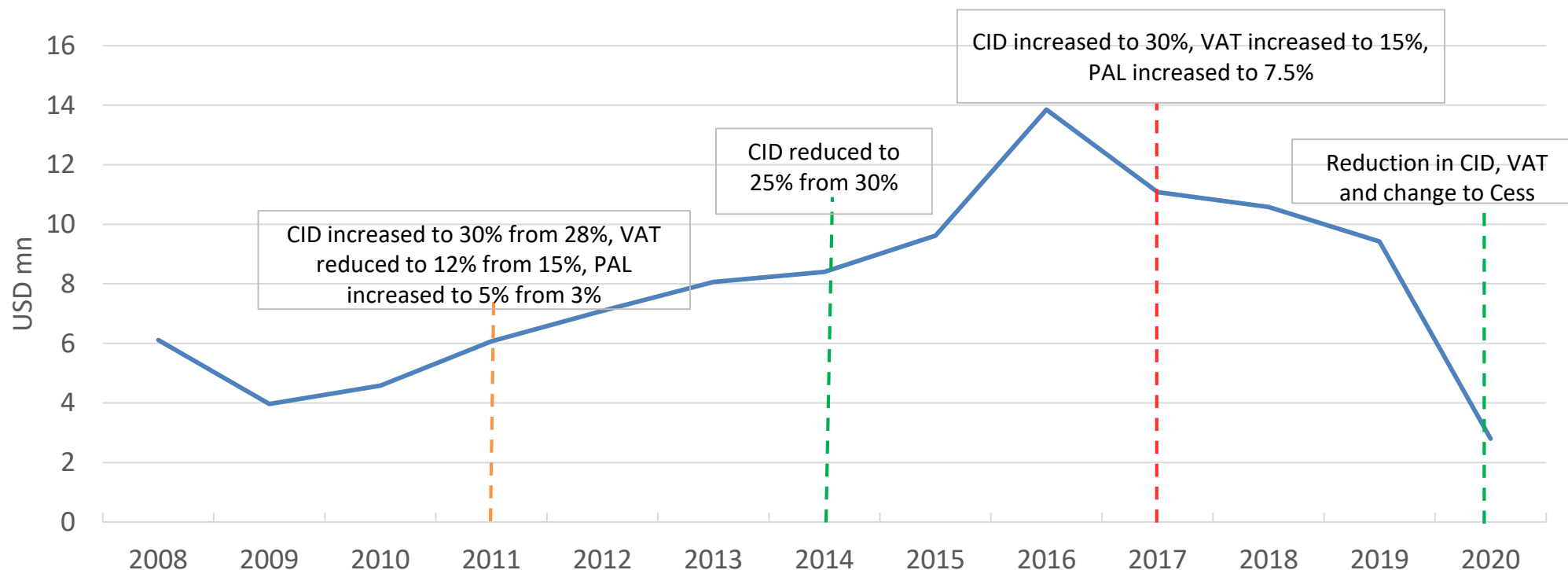
Manufacturers of tiles and bathroom fittings bargained with the Ministry of Finance for an increase in Cess, while importers resented. Cess for these imports were increased. Whereas the restriction on bathroom fittings were changed to mandatory credit of 180 days from suspension, tiles still remain under suspension according to Gazettes.

Import tax changes from 2008 to March 2021 for wall and floor tiles



- The largest change occurred in November 2020 when,
 - the Customs Import Duty was reduced to 15% or Rs. 55 per square meter from 30%
 - VAT was reduced to 8% from 15%
 - PAL was increased to 10% from 7.5%
 - Cess changed to 50% or Rs. 183 per square meter from 35%
- After a few rounds of talks with manufacturers and importers, wef 16 March 2021, Cess was increased to 50% or Rs. 490 per square meter

Import tax changes from 2008 to March 2021 for bathroom fittings



- The largest change occurred in November 2020 when,
 - the Customs Import Duty was reduced to 15% or Rs. 12 per Kg from 30%
 - VAT was reduced to 8% from 15%
 - PAL was increased to 10% from 7.5%
 - Cess changed to Rs. 12 per Kg or 15% from 30% or 23 per Kg
- After a few rounds of talks with manufacturers and importers, wef 16 March 2021, Cess was increased to 155 per Kg
- Squatting pans have a different tax structure and was the subject of separate lobbying

Interviewees

Organisation	Name	Position
Ceramics and Glass Council	Mr. Anura Warnakulasooriya	President
Lanka Tiles	Mr. Mahendra Jayasekara	CEO
Rocell	Mr. Aravinda Perera	CEO
Macktiles	Mr. Mizver Makeen	Managing Director
Art Decoration International/ Otto bathware	Mr. Bandula Karunaratna	Chairperson
Noritake Lanka	Ms. Sujatha Egodagedara	General Manager
Midaya Ceramics	Mr. Anura Warnakulasooriya	Managing Director
Salruk Enterprises	Ms. Bhagya Senanayake	Owner
Ministry of Industries	Mr. Ashoka Kumara	Director
Geological Surveys and Mines Bureau	Mr. T Dahanayake	Senior Registrar

- Responses varied from company to company, sometimes not in conformity with the Council's views.



Interview summaries.....

1. Lanka Tiles (CEO Mr. Mahendra Jayasekara)



On Production vs Importing

- A portion of “Lanka Tiles” are imported from India (since 2017)
- The tiles are produced in partnership with Ambani Vittrified (Pvt) Ltd in Gujarat
- Due to the importing suspension, “several shiploads of tiles are stuck in India” (in March)
- Initially considered setting up a plant in Andhra Pradesh.
 - “In India, they help companies to make money. In Sri Lanka, they help companies to set up business only”
 - “In Sri Lanka you only get a tax holiday and accelerated capital allowances. BOI is very inefficient”
 - In India, the transfer tax paid when buying land is refunded when the factory starts operating, 15% of the electricity bill is refunded, and there are attractive VAT exemptions
- Has decided to import because of the low cost competition from importers
- Believes in the ability to increase production in Sri Lanka

- “Scared to make investments” because of “ad hoc policy changes of the Government”.
- “Government should state that *this* is the policy for the next 5 years and never change it”

On importers

- Elaborated on incident of an importer importing finished tiles claiming they are raw material for tile manufacture
- Removal of Cess on squatting pans forced 3 out of 5 manufacturers out of business
- Importers are undervaluing invoices



On exporting

- Lanka Tiles is exporting to 12 countries
- 15% of production in Sri Lanka exported to the USA (mosaic tiles)
- Entered into collaboration with a Chinese and US company and has set up a factory for this

On sourcing raw material

- Lanka Ceramic which is under Lanka Tiles is the only company to mine certain clays
- Mining is very difficult since licenses have to be obtained by 19 authorities
- People and farmers protest mining in some areas
- There are many illegal miners

Main request

- Exporters should be allowed to import using 50% of their export proceeds
- Import taxes should be increased to protect producers

Interview summaries.....

2. Macktiles (MD Mr. Mizver Makeen)



On expanding production in Sri Lanka

- The current capacity is 14,000 square meters
- This will be increased to 30,000 square meters in 2021 (with a loan from HNB) and Macktiles will be bigger than Lankatiles and Rocell put together. This will lower prices of Macktiles
- Low interest rates make it possible to invest and expand production in Sri Lanka. The industry can borrow at 5% to 7% now
- Will consider exporting to USA as anti-dumping regulations on China has made it possible

On importing

- The Cess on tiles and bathware must be increased
- Lankatiles should be encouraged to produce in Sri Lanka since interest rates are low now
- Low quality imports are coming in. The testing capacity of Sri Lanka Standards Institute in practice is not satisfactory

- The companies that used to import (exclusively) are now looking into domestic production. Main example is Puwakaramba, which is trying to collaborate with an Indian company. However, this should not be encouraged as profits, which are derived from local minerals, will be repatriated. Other companies like Maharaja are also considering investing in the sector
- In relation to promotion of domestic production “the Government is heading in the right path”

On sourcing raw material

- Macktiles buys from small suppliers and mining is done in an environmentally-friendly way

Issues

- Energy cost in Sri Lanka is high since LPG is used for kilns. However, when LNG becomes available, cost will decrease
- Issues with the Ministry of Industries over Indians employed in factories



Interview summaries.....

3. Rocell (CEO Mr. Aravinda Perera)



On current operations of the company

- Company produced tiles for 30 years and started with bathroom fittings 10 years ago
- In 2018 and 2019, had to hire 5 warehouses as sales were low due to imports
- Because of import controls, sales picked up
- When there are lockdowns, showrooms have to close and there are no sales
- Duty and cess changes are too frequent in Sri Lanka
- No plans for a new factory. “Uncertainties over Government policies keep us from investing”
- But will add a night shift for bathware, and a kiln for tiles (need experts from Italy to set it up)



On production and sales of bathroom fittings

- 20% to 25% of produce exported to Australia, Maldives, India, China, Mexico, UK
- Producing for the 2nd largest international company
- Profit margin from exports is lower than domestic sales
Exporting because of low sales in Sri Lanka due to imports
- Quality standards to export to Australia very high
- One aspect of sanitaryware quality is water absorption (commodes retain water, and can stain and smell if poor quality)
- Low quality products from China are dumped in Sri Lanka
- Tried to educate the SLSI, but no success
- Imports accessories like taps, showers, flushing mechanism and toilet seats



On imports

- Sri Lanka is a “dumping ground for 2nd grade batches from India and China”.
- The Cess on tiles and bathware must be increased (achieved)



On costs of production

- 40% energy, 10% direct raw material like ball clay and feldspar, 10% other raw material like pigment, 40% salaries and overheads
- Difficulties in sourcing raw material is an issue for the industry. The regulatory framework for mining and transportation of minerals needs to be strengthened
- LPG and some thermal energy and electricity are used for energy. India's advantage is from using LNG

Interview summaries.....

4. Art Decoration International (Chairperson Mr. Bandula Karunaratne)

About the company

- Started in 1992 under the BOI. Now has 250 employees
- South Asia's largest manufacturer of ceramic decorative items
 - specializes in vases/flower pots

- Almost all of production exported to 47 countries (EU countries under GSP+)
- Even in 2020, there was no lack of orders.
- Customers send designs usually. Sometimes company also designs
- Showcase at the Frankfurt trade fair
- Because of US-China trade dispute, more orders to Sri Lanka



Bathware sector

- Recently started manufacturing bathware (Otto) and when the taxes are low, imports them
- Believes that Government should increase import taxes (achieved)
- Company wants to manufacture 300 sets a day to meet about 20% of demand
- A lot of low quality bathware are being imported



- The “Customs Book Value” which refers to the assessment of the minimum amount that has to be paid for one bathroom set is US\$ 35. But in reality, it is about US\$ 55. Importers declare values as low as US\$ 35 to pay less taxes. The Customs Book Value must be increased
- Customs should also fix a floor on container size. Whereas one bathroom set is a minimum of 65 kg with a container weighing 18,000 kg, importers declare low weight to pay low Cess

Investment plans

- Considered investing Rs. 2 bn in the tile industry. But without the “Government’s firm commitment to import controls we don’t want to invest”
- Consistency in policies is necessary to create entrepreneurs in the country

Raw material issues

- Company is buying mostly from informal suppliers
- All kaolin is imported from the UK because kaolin is not mined in Sri Lanka anymore
- Lanka Ceramic was weakened under the ownership of Cargills, when the land was sold to various parties and the machinery was sold as scrap metal
- Streamlining mining process and regulation is important



Interview summaries.....

5. Noritake (Ms. Sujatha Egodagedara, Managing Director)



On current operations of the company



- Main issue for the company is that several containers are stuck in various ports. Freight charges are 3 times higher
- Production and sales in 2021 expected to be 80% of 2019
- There is no plan to expand or reduce operations in Sri Lanka



- COVID management cost was very high, transporting employees to work. Only 1/3 brought to work (i.e. 400)
- Union is a problem demanding bonus for 2020,
- Import controls are helping
- Importers are bringing in tableware with harmful paint containing lead and cheating the Customs in many ways



Interview summaries....

6. Salruk Enterprises (Ms. Bhagya Senanayake, Owner)

- Produces pottery and some ceramics
- Supplies pots to resorts in Maldives through companies like Sanken and Dole Lanka
- Import ban and ban on plastics helping a lot
- “SMEs really need an R&D Center”. They lack technical know-how
- Lack of market information hinders exports
- Students of the visual arts university get some training but they lack specialized skills
- A pottery school like in India is needed



Raw material issues

- Geological Surveys and Mines Bureau does not have an estimate of the amount of minerals used in ceramics and where they are located in Sri Lanka
- Miners/manufacturers find mines and apply for license to mine.
- Illegal mining takes place but there are no statistics to share on action taken
- Ball clay is primarily found in paddy fields. Paddy Lands Act and the Agrarian Development Act prevents using paddy fields for any other purpose

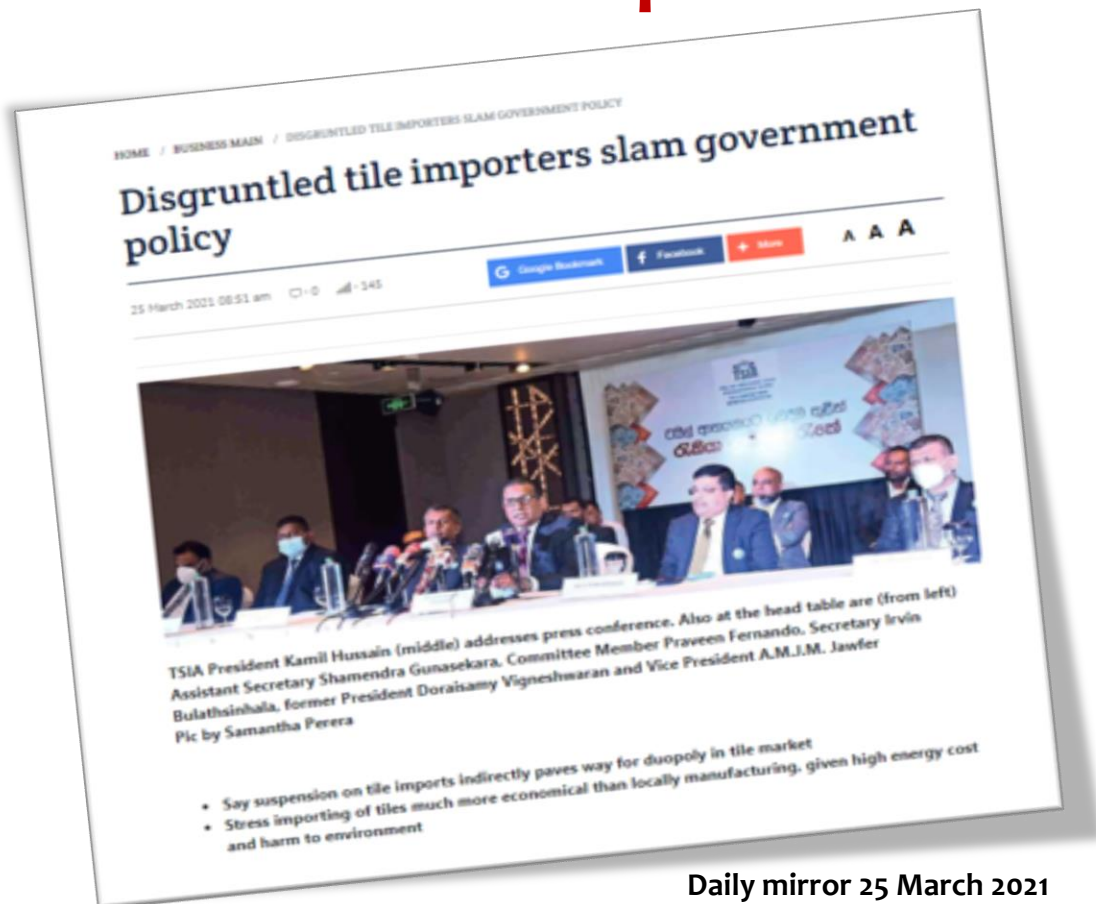


- Mining near people's houses causes conflicts
- Extracting mud from tanks/lakes also is an issue
- Illegal transportation is thought to take place abundantly, but no statistics



Dissent from importers

- Importers claim that tile manufacturers can cater to only 45% of demand
- Import cost of manufacturing is 50%
- After import controls, price of a 2x2 foot tile increased from **Rs. 550 to Rs 800** by manufacturers
- Importers pay Rs 12 bn in import taxes a year
- Manufacturing leads to emissions of gaseous effluents containing pollutants, dust, lead and fluorine



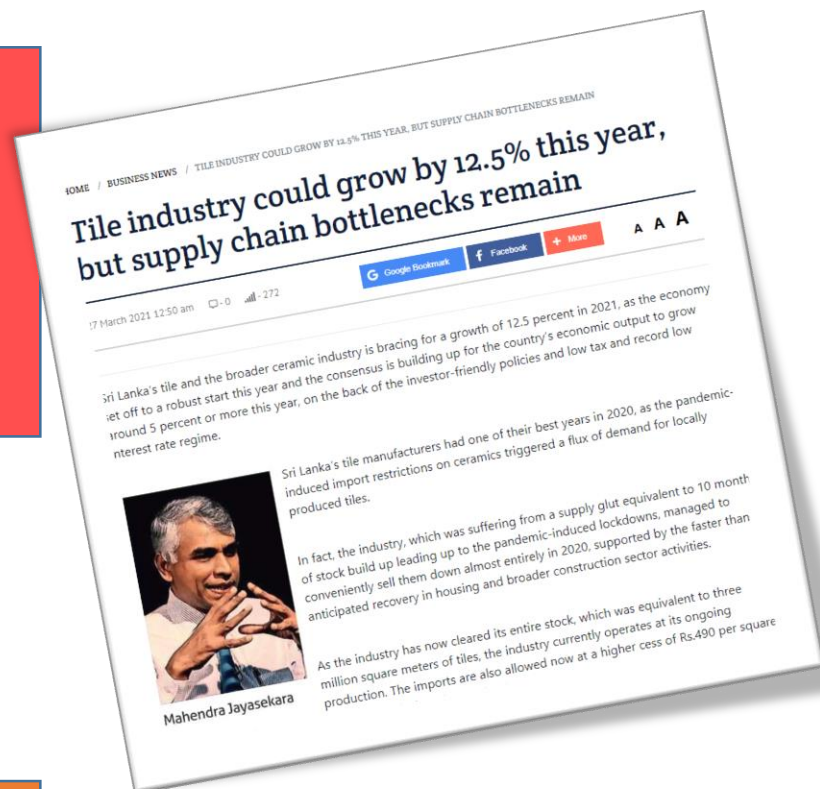
Daily mirror 25 March 2021

- Manufacturers are seeking to mine 7000 acres of paddy land in Kalutara – can lead to rice shortage
- 100,000 individuals in related industries affected
- Underemployment of professionals in the construction field



Main findings

Lack of statistics on market size and production capacity of local manufacturers



No data/study/methodology to substantiate the “80% domestic value addition” claim of the Council and all manufacturers

- Ceramic and Glass Council stated to the press in January 2021 that around 65-70% ceramic tiles and sanitary-ware for domestic requirements is produced locally.
- LankaTiles CEO stated 16 mn out of 18mn M² of tile demand can be manufactured. Demand in normal times is 25- 30mn
- Importers' Association estimates are different
- Data provided by the Council to us in March 2021 on market size and imported, exported and manufactured shares are not realistic
- It is possible that industry participants have better estimates but do not like to share them with others as such market information give them competitive power

“With my 20 years of experience in this industry, generally the demand for tiles grow at two and a half times the GDP growth. That has been the trend in the past,” If the economy is projected to grow at 5 percent this year, “I can expect the demand for tiles to grow at 12 1/2 percent,” (Daily Mirror, 27 March 2021)

Main findings continued....

Ministry of Industries was to play a coordinating/leading role for the industry. However, the role played and being played by the Ministry is very weak

There are weaknesses and loopholes in the regulatory mechanism over mining.

Weaknesses in Customs procedure allows undervaluing imports and other malpractices.

Weaknesses of the Sri Lanka Standards Institute is allowing low quality and hazardous products to enter the country.

Manufacturers were highly affected by import duty reduction by the Government to 15%

Import controls helped the industry though not requested by manufacturers

Government's firm commitment to a policy of import controls (through suspension or other means) is key to encourage investments in production of goods.

FTAs and GSP Schemes have been instrumental for exports as well as imports (Indo-SL FTA).

Manufacturers have not used anti-dumping regulations to fight Chinese imports.

Anti-dumping measures against China in the USA diverted orders to Sri Lanka.

Recommendations

1. The Ministry of Industries to play a leading role by coordinating with manufacturers, Government authorities involved in mining regulations, Customs, SLSI etc. and plan,
 - i. Market size
 - ii. Production capacity at present
 - iii. Import requirement
 - iv. Availability of mineral resources and annual mining amounts
 - v. Quality management measures

The Government should also have realistic estimates of market size, growth, production capacity and import requirement

Leadership for the above should be given by higher officers of the Ministry since measures to organize and plan industry requirements in the past have not been very successful

2. Above information to be used when manufacturers and importers lobby for tax and regulation changes
3. Verify the methodology of the local value addition calculation by industry participants (companies and the Council stated it is 80%)



....recommendations....

4. Sri Lanka Standards Institution should impose high quality standards for all ceramic imports. Use them as non-tariff barriers as well
5. Geological Survey and Mines Bureau to provide publicly accessible information on resources available in Sri Lanka with their quantities and amounts. The Bureau should also publicize information on illegal mining activities and illegal transportation of minerals detected together with action taken (similar to the Central Environment Authority)
6. The Government to regulate mining activities strongly while resolving issues of farmers/public as well as the industry
7. Increase the stated book value in the valuation department of SL Customs
8. Impose a floor value on container weight
9. Revisit FTAs that encourage dumping of ceramics



.....recommendations

10. Support production of accessories and packing material in Sri Lanka (such as toilet seats and the paint)
11. Educate and encourage the private sector to make use of anti dumping Laws in Sri Lanka.
12. Increase taxes for importing statuettes and ornaments
13. Suspend the importation of tableware and kitchenware to Sri Lanka as there are many Sri Lankan companies with excellence in production of these goods, while the paints and material used in imports are sometimes hazardous for the public to consume food using them
14. Commitment of the Government to maintain decisions that it took for a long and specified period of time is essential to give confidence for investors to start new production projects. Maintaining policy consistency is paramount



Thank you!

