China, the challenge of the ceramic sector

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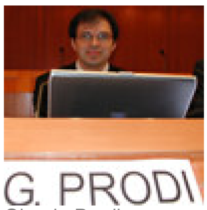

Giorgio Prodi

Riccardo Rossotto

The conference entitled **'China: the challenge of the ceramic sector'**, organised by Assopiastrelle and held in the association's auditorium last 29th March, was attended by more than 150 people. Moderated by director general of Assopiastrelle Franco Vantaggi, the conference speakers outlined the key economic and social aspects of this very topical issue in the light of the results of an original study of the Chinese tile sector. Speakers included **Alfonso Panzani, chairman of Assopiastrelle, Giorgio Prodi from the University of Ferrara, Eugenio Emiliani, general manager of Sacmi, Riccardo Rossotto from the Hammond & Rossotto law firm, and Alberto Forchielli, chairman of Osservatorio Asia**.

Although precise figures are not available, China is the world's largest ceramic tile market (estimated at around 2.5 billion square metres) and also the largest producer country. In view of the profile of the building industry and the purchasing models of the wealthiest consumers, it is estimated to have a 20-30 million square metre market segment that is already accessible to Italian products, concentrated entirely in new high-quality building in large metropolitan areas. Although restricted by administrative measures to reduce property speculation and easy access to mortgages, this volume of demand is bound to increase significantly through the growth of second-line cities, about 100 cities that already have more than a million inhabitants and rapidly expanding economies.

In spite of the rapid growth in demand for tiles and the fact that China's admission to the WTO is progressively reducing constraints and barriers, the flow of imports is still very limited, both directly to China and through the gateway of Hong Kong. This situation is essentially a result of the characteristics of the distribution structure, where a key role is played by the figure of the wholesaler who prefers to maintain relations with the Chinese producers and is capable of exploiting the excess supply on the part of local ceramic companies through optimal management of the finished product warehouse and by maintaining strict control over the various retail distribution channels. In the relationship between companies and distribution system, there is a clear subdivision of corporate roles and missions. The manufacturer is responsible for minimising costs, in many cases resorting to operating methods and behaviours that would be socially unacceptable in advanced countries. The distributor has the task of monitoring consumption as closely as possible.

One of the main achievements of the study is that of clarifying what lies behind the 2.5 billion square metres of Chinese ceramic production. The first aspect revealed is that 60% of the total consists of low-quality products, mainly single fired tile geared exclusively to the domestic market. The mid market segment, making up 30%, has higher technical characteristics but aesthetic qualities that fall far short of the standards acceptable to international consumers. Only the remaining 10%, approximately 250 million square metres (including a significant share of large-format polished porcelain tile), satisfies the tastes of the most sophisticated consumers in China and abroad.

This subdivision is important to an understanding of how, even for Chinese products, there exist price segments consisting of products with very different characteristics. Through a comparison between the main cost items faced by the Italian and the Chinese industries, the study shows that while the lower costs are associated with the well-known factors of very low salaries and energy costs, they also make it very difficult to achieve consistency in production and a wide variety of aesthetic solutions. Chinese producers wishing to meet international product standards find themselves facing higher production costs.

Like many ceramic tile producer countries, China's production is concentrated in clusters. The most important cluster, that of Foshan, accounts for between 50% and 60% of the national total, followed by the Zibo area with just over 20% and the Yangtze River Delta clusters in the Fujian, Sichuan and Chongqing provinces. These areas have different degrees of availability of resources, energy and development, which are reflected in very different final production costs and product quality.

About a tenth of Chinese production is aimed at international markets, a value that has increased significantly since 2001. Of the 250 million square metres exported in 2004, two-thirds consisted of single fired tile and the rest porcelain tile. Until 2004 export prices fell, but in recent months we have seen a gradual increase in average unit prices, which however remain significantly lower than those faced by producers in developed countries. With respectively 58%, 22% and 8% of volumes, Asia, the Middle East and Africa are the most important and in some ways natural areas of export of Chinese tiles, although sales are also made in other areas, including the United States.

The study, commissioned by Assopiastrelle from Osservatorio Asia, provides a detailed analysis of the methods available for combating the practice of dumping and their relative degrees of effectiveness. It ends with an examination of the possible strategies that Italian companies can adopt in order to enter the Chinese market, including the decision to produce locally. This can be done in essentially four different ways: green field investment with total foreign capital; green field investment as a joint venture; acquisition of a local producer company; outsourcing contracts with local producers.