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

NOTIFICATION OF A PROPOSAL TO IMPOSE A MEASURE

INDONESIA

(Cotton Yarn Other Than Sewing Thread)

Supplement

The following communication, dated 18 March 2014, is being circulated at the request of the Delegation of Indonesia.

Pursuant to Article 7.2 and Article 12.1(b) of the WTO Agreement on Safeguards, the Government of the Republic of Indonesia, hereinafter referred as "GOI", hereby notifies the Committee on Safeguards on the investigation findings concerning the extension of safeguard measure against the importation of Cotton Yarn Other than Sewing Thread.

A. GENERAL BACKGROUND

1. The KPPi hereinafter referred as the "Investigating Authority", received an application from The Indonesian Textile Industries Association (Asosiasi Pertekstilan Indonesia/API), hereinafter referred as the "Applicant", requesting for the extension of safeguard measure on the importation of the Subject Goods, which necessary to prevent serious injury and that the domestic industry is still adjusting.

The Investigating Authority initiated a safeguard investigation against importation of Subject Goods on 15 January 2014 (as announced in "Bisnis Indonesia" daily newspaper), and was notified to the WTO which had been circulated on 17 January 2014 (G/SG/N/6/IDN/11/Suppl.1).

2. Major Proportion

Based on data and information submitted by the Applicant, the total production of the Applicant representing a major proportion of the total domestic production of the Subject Goods in Indonesia.

3. Views and Comments by Interested Parties

In accordance with the Article 3.1 WTO Agreement on Safeguards, during the said investigatory proceeding, the Investigating Authority has provided sufficient opportunities to Interested Parties to submit their views, evidences, and responses. In light of the aforementioned, a public hearing was also conducted on 14 February 2014, in order to meet the requirement of transparency and procedural due process. During the public hearing, the Interested Parties, as invited, were given the same opportunities to address their evidences and views.
4. The WTO document referring to the notification of initial application of the measure

G/SG/N/10/IDN/4/Suppl.2-G/SG/N/11/IDN/9, dated 21 June 2011.

5. Precise description of the product involved.

Referring to the notification made in accordance with Article 7.2 and Article 12.1(a) as circulated in document number G/SG/N/6/IDN/11/Suppl.1, and in light of the notification made in accordance Article 12.1(c) as circulated in document G/SG/N/10/IDN/4/Suppl.2-G/SG/N/11/IDN/9, the Subject Goods under investigation is Cotton Yarn Other Than Sewing Thread under HS Codes 5205 and 5206:

### Table 1: Subject Goods

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5205</td>
<td>Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale.</td>
</tr>
<tr>
<td>5206</td>
<td>Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale.</td>
</tr>
</tbody>
</table>

Source: Indonesia Customs Tariff Book

6. Period of Investigation

The period of investigation are 2010 to 2013 (January-June).

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

1. Information on absolute increase in imports

### Table 2: Volume of Imports

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth (%)</th>
<th>Trend 10-12 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>18,960</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>15,302</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>24,038</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>12,264</td>
<td></td>
</tr>
<tr>
<td>10-11</td>
<td>16,017</td>
<td>(19)</td>
</tr>
<tr>
<td>11-12</td>
<td></td>
<td>57</td>
</tr>
<tr>
<td>12-13 (Jan-Jun)</td>
<td></td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Indonesian Statistic

As shown in Table 2, it is verified that:

1) The volume of imports increased in 2010 to 2012 with trends of 13%. Although there was a decreased by 19% from 2010 to 2011, but there was an increase in volume of imports by 57% in 2012 compared to 2011.

2) Safeguard measure on Subject Good has been imposed since 6 June 2011 and effective up to 5 June 2014, but increased in import still occurred from 2011 to 2012 by 8,736 tons or 57% and also in the period of January-June 2012 compared to January-June 2013 by 3,808 or 31%. As a result of such an increased in import, the domestic industry had not fully recovered from financial losses and may threaten the sustainability of the domestic industry.

2. Evidence of serious injury or threat thereof caused by increased imports

The Investigating Authority examined all data and information available based on the actual condition of the domestic industry. In addition, the Investigating Authority also conducted on-site verifications to the domestic industry. The following table 3 and table 4, contained data and information of the situation of the domestic industry, which is provided in indices.
Table 3: National Consumption and Market Share

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Unit</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2012 (Jan-Jun)</th>
<th>2013 (Jan-Jun)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Market Share of Imports</td>
<td>Index</td>
<td>100</td>
<td>92</td>
<td>112</td>
<td>100</td>
<td>110</td>
</tr>
<tr>
<td>2.</td>
<td>Market Share of the Applicant</td>
<td>Index</td>
<td>100</td>
<td>113</td>
<td>111</td>
<td>100</td>
<td>94</td>
</tr>
<tr>
<td>3.</td>
<td>National Consumption</td>
<td>Index</td>
<td>100</td>
<td>87</td>
<td>113</td>
<td>100</td>
<td>119</td>
</tr>
<tr>
<td>4.</td>
<td>Domestic Sales</td>
<td>Index</td>
<td>100</td>
<td>99</td>
<td>126</td>
<td>100</td>
<td>112</td>
</tr>
</tbody>
</table>

Source: As verified by the Investigating Authority

Although the domestic sales experienced an increase in trend during the period of investigation, yet the Applicant's market share decreased from 113 points in 2012 to 111 points in 2011. Furthermore, in the period of January-June 2012 compared to the same period in 2013, the Applicant’s domestic sales remain increased but the Applicant's market share decreased from 100 points to 94 points.

From 2011 to 2012, when the Applicant’s market share decreased from 113 points to 111 points, the market share of imports had increased from 92 points to 112 points. In line with the changes in 2011 to 2012, in the period of January-June 2012 to January-June 2013 the Applicant's market share decreased from 100 points to 94 points, while the market share of imports increased from 100 points to 110 points. From the analysis above, it can be concluded that the Applicant’s market share could not be increased due to import.

Table 4: The Applicant’s Indicators of Injury

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Unit</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2012 (Jan-Jun)</th>
<th>2013 (Jan-Jun)</th>
<th>Trend 10-12 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Production</td>
<td>Index</td>
<td>100</td>
<td>86</td>
<td>100</td>
<td>100</td>
<td>120</td>
<td>(0.1)</td>
</tr>
<tr>
<td>2.</td>
<td>Domestic Sales</td>
<td>Index</td>
<td>100</td>
<td>99</td>
<td>126</td>
<td>100</td>
<td>112</td>
<td>12.1</td>
</tr>
<tr>
<td>3.</td>
<td>Production Capacity</td>
<td>Index</td>
<td>100</td>
<td>100</td>
<td>102</td>
<td>100</td>
<td>100</td>
<td>1.2</td>
</tr>
<tr>
<td>4.</td>
<td>Capacity Utilization</td>
<td>Index</td>
<td>100</td>
<td>86</td>
<td>97</td>
<td>N/A</td>
<td>N/A</td>
<td>(1.3)</td>
</tr>
<tr>
<td>5.</td>
<td>Profit and Losses</td>
<td>Index</td>
<td>(100)</td>
<td>(177)</td>
<td>(241)</td>
<td>(100)</td>
<td>(79)</td>
<td>(81.8)</td>
</tr>
<tr>
<td>6.</td>
<td>Productivity to Target of Productivity</td>
<td>%</td>
<td>81</td>
<td>73</td>
<td>91</td>
<td>N/A</td>
<td>N/A</td>
<td>6.0</td>
</tr>
<tr>
<td>7.</td>
<td>Employment</td>
<td>Index</td>
<td>100</td>
<td>96</td>
<td>89</td>
<td>100</td>
<td>99</td>
<td>(5.7)</td>
</tr>
<tr>
<td>8.</td>
<td>Inventory</td>
<td>Index</td>
<td>100</td>
<td>135</td>
<td>51</td>
<td>100</td>
<td>98</td>
<td>4.4</td>
</tr>
<tr>
<td>9.</td>
<td>Cost of Production</td>
<td>Index</td>
<td>100</td>
<td>123</td>
<td>119</td>
<td>122</td>
<td>116</td>
<td>9.3</td>
</tr>
<tr>
<td>10.</td>
<td>Selling price</td>
<td>Index</td>
<td>84</td>
<td>103</td>
<td>100</td>
<td>102</td>
<td>97</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: As verified by the Investigating Authority

1)From 2010 to 2012 the Applicant's Production has decreased with the trend of 0.1%. Due to existence of increased in consumption during the same period, then the decreased in production is inversely proportional to the volume of imports which has increased with the trend of 13%.

2)In the period of January to June 2012-2013 production increased from 100 to 120. Furthermore, in the same period the volume of imports experienced a higher increased by 31%. During the period of 2010 to 2012 the capacity utilization was always below the
normal average of capacity utilization, so it can be concluded that the capacity utilization could not be optimized.

3) During the period of 2010-2012, the Applicant suffered financial losses every year with a negative trend. As a result of the significant losses, the Applicant performed efficiency by reducing the employment with the trend of decrease by 5.7% over the same period, so the target of production could not be achieved, which in turn lower the productivity of the Applicant which was also under the target of productivity.

4) In 2010 to 2011 when the selling price increased, the domestic sales volume has decreased which resulted in increased inventory. Furthermore, from 2011 to 2012 selling price decreased and sales volume increased, which lead to decreasing inventory.

5) During 2010-2012, despite the selling price likely to increase, but the Applicant had suffered financial losses during the period of investigation with a declining trend. This was happened because the increased in cost of production during the period of investigation is not proportional to the increased in the selling price.

6) Furthermore, in the period of January-June 2012-2013, although the cost of production has decreased and the Selling price has increased, but the applicant was still experiencing financial losses because the Applicant still selling Subject Good below the cost of production.

3. Evidence that the Applicant is adjusting

During the imposition of the initial safeguard measure the Applicant has undertaken the following adjustment program:

1) Machinery

The Applicant has done the modernization by replacing old machines with new machines that aims to:

- Efficiency in energy use by using alternative energy other than electricity, such as gas or coal;
- Minimize residual materials in the production process.

Since the imposition of a safeguard measure, the Applicant is able to reach around 64% of the renewing machine's plan target.

2) Human Resources

Besides machines modernization, the Applicant try to improve efficiency by improving the workforce competency. This improvement of workforce competency is built through training which would increase the productivity of companies in general. From this effort, The Applicant could reach productivity by 91% of the productivity target 2012.

3) Quality Control and Packaging Facilities

In the effort to improve the product's quality, the Applicant has improved the quality control management system by reducing the amount of defective/ damaged product.

Furthermore, the Applicant is also improving packaging facilities to comply with international standards by using carton box packaging (international standards) instead of originally by the Pack sack to reduce the number of damaged or defective goods during the distribution.

4. Causal link

1) While the safeguard measure on the importation of the Subject Goods was imposed during the investigation period, however the import volume showed an increasing trend, and the
domestic industry has yet to recover from the condition of serious injury as incurred before the imposition of the said safeguard measure.

2) In line with the increasing trend of import volume of the Subject Goods during the investigation period, the market share of import remained high in 2012 and in the same year the Applicant’s market share has been decreased. Furthermore, in the period of January-June 2012 to the period of January-June 2013 the market share of imports continued to increase and the Applicant’s market share keeps declining.

3) In its effort to maintain their market share, the Applicant had been forced to sell its product at prices below the reasonable cost of production, which cause significant financial losses in 2010 to 2012, and during the period of January-June 2013.

4) Even though the Applicant was able to regain some of the market share in 2011, but this increase in market share proven to be temporary because in 2012 the Applicant’s market share stumbled back below the level of market share in 2011.

5) Based on the aforementioned, during the investigation period there has been clearly a strong correlation between the increasing trend of import volume of the Subject Goods and the Applicant’s failed effort to recover from financial losses. For this reason, the Investigating Authority concludes that the expiry of the safeguard measure would likely result in further increases in import volume of the Subject Goods, which in turn would impede altogether the recovery progress of the domestic industry from financial losses and threaten the sustainability of Applicant's performance that would lead to a serious injury.

5. Evidence that the safeguard measure continues to be necessary to prevent or remedy serious injury.

Albeit the relevant safeguard measure on the importation of the Subject Goods has had been imposed from 6 June 2011 to 5 June 2014, the Applicant has not fully recovered from serious injury. Therefore, if the safeguard measure were not extended, it may trigger a sudden and sharp increase in import volume of the Subject Goods, which in turn would bring the Applicant back to the unfavorable condition before the imposition of safeguard measures in 2011. Consequently, the ongoing adjustment undertaking by the Applicant may be disturbed and all relevant achievements to strengthen the Applicant’s competitiveness would be also affected negatively.

Based on the abovementioned, the Investigating Authority concluded that the relevant safeguard measure needs to be extended, in particular to prevent or to remedy the recurrence of serious injury suffered by the Applicant. The extension of such Safeguard measure will also give the Applicant opportunity to continue and to complete the ongoing adjustment program in order to improve the competitiveness of domestic industry vis a vis cheaper imported like products.

C. NOTIFICATION OF A PROPOSAL TO EXTEND A MEASURE

1. Proposed date of introduction of the measure

In view of the section B above, and taking into account the initial measure as previously imposed, the Investigating Authority has proposed to extend the imposition of the safeguard measure on the importation of the Subject Goods.

The proposed safeguard measure to be imposed is now being circulated for inputs from relevant government agencies, and will be elaborated in the notification under the Article 12.1(c) of the WTO Agreement on Safeguards.

2. The imposition of the safeguard measure will be carried out in accordance with the Article 2.2 and Article 9 of the WTO Agreement on Safeguards.

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