NOTIFICATION UNDER ARTICLE 12.4 OF THE AGREEMENT ON
SAFEGUARDS BEFORE TAKING A PROVISIONAL SAFEGUARD
MEASURE REFERRED TO IN ARTICLE 6

NOTIFICATION PURSUANT TO ARTICLE 9, FOOTNOTE 2
OF THE AGREEMENT ON SAFEGUARDS

Indonesia

(Yarn (Other Than Sewing Thread) Of Synthetic and Artificial Staple Fibres)

The following communication, dated 5 November 2019, is being circulated at the request of the delegation of Indonesia.

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*NOTIFICATION UNDER ARTICLE 12.4 BEFORE TAKING PROVISIONAL SAFEGUARD MEASURES*

# Specify the product subject to the proposed provisional safeguard measure

Yarn (Other Than Sewing Thread) of Synthetic and Artificial Staple Fibres ("the product concerned"), under HS Code 5509.22.00, 5509.32.00, 5509.51.00, 5509.53.00, 5510.12.00, 5510.90.00.

# Specify the proposed provisional safeguard measure

The proposed provisional safeguard measure is in the form of specific tariff as much as Rp. 1,405/kg.

# Specify the proposed date of the introduction of the proposed provisional safeguard measure

The provisional safeguard measure is proposed to enter into force after the publication of the decree of the Minister of Finance of the Republic of Indonesia, which will be promulgated at the Official Gazette.

# Specify the expected duration of the provisional safeguard measure

The provisional safeguard measure will be applied for 200 days from the date of its entry into force.

# Provide the basis for:

1. **Making a preliminary determination, as provided for in Article 6, that increased imports have caused or are threatening to cause serious injury;**

 **Unforeseen Development**

1. The yarn industry in People's Republic of China (PRC) experienced an increase in production capacity by 14.8% during 2015‑2018, which lead to an increase in yarn production in PRC. This condition unexpectedly led to a significant growth in production and export of PRC's yarn throughout the world, including Indonesia, which is unforeseeably causing a surge increase in imports of staple yarn in Indonesia.
2. There has been a significant increase in yarn production in China with a trend of 6.91% over the 2015‑2018 periods. In addition, the productivity of the PRC's yarn industry also increased during 2015‑2018 with a trend of 6.33%. This situation led to the surge increase of yarn exports from PRC to other countries, including Indonesia, causing a surge increase in imports of yarn in Indonesia.

 **Increased Imports**

1. **absolute**

The absolute increased imports of the product concerned are presented at the table below:

|  |  |  |
| --- | --- | --- |
| **Description** | **Period of Investigation** | **Trend (%)** |
|  | **2016** | **2017** | **2018** | **January‑June** | **2016‑2018** |
| **2018** | **2019** |
| Import Volume (Ton) | 10,036 | 15,846 | 20,922 | 9,966 | 7,364 | 44.38 |

Source: Indonesian Statistics (BPS).

The import volume of the product concerned has increased during the period of 2016‑2018, from 10,036 tons in 2016 to 15,846 tons in 2017 and increased again to 20,922 tons in 2018. During the period of 2016‑2018, import volume has increased in absolute terms with the trend by 44.38%.

The import volume of the product concerned in the period of January‑June 2018 to of January‑June 2019 decreased from 9,966 tons to 7,364 tons. Although imports experienced a decline in January‑June 2018‑2019 period, the economic indicators of the domestic industry has not yet improved due to the impact of increased imports in previous years. It is worried that in the coming years the volume of imports will increase again and it will worsen the injury of the domestic industry in Indonesia.

1. **relative to domestic production**

The imports relative to domestic production of the product concerned are presented at the table below:

|  |  |  |
| --- | --- | --- |
| **Description** | **Period of Investigation** | **Trend (%)** |
|  | **2016** | **2017** | **2018** | **January‑June** | **2016‑2018** |
| **2018** | **2019** |
| Import relative to domestic production (Index) | 100 | 156.52 | 206.69 | 100 | 78.60 | 43.79 |

Source: Indonesian Statistics (BPS).

As seen in table above, there was a surge in import relative to domestic production during the period of 2016‑2018, from 100 index points in 2016 to 156.52 index points in 2017, and continued to increase to 206.69 index points in 2018.

The import volume relative to domestic production of the product concerned also increased in the period of January‑June 2018‑2019 from 100 index points to 78.60 index points.

1. **share of imports**

The share of imports of the major exporters in 2018 are presented at the table below:

| **Exporters** | **Volume (Ton)** | **Share (%)** |
| --- | --- | --- |
| People's Republic of China (PRC) | 14,104 | 67.42 |
| Thailand | 2,697 | 12.88 |
| Turkey | 1,575 | 7.53 |
| Vietnam | 1,050 | 5.02 |
| India | 659 | 3.15 |
| Other Countries  | 837 | 4.00 |
| **Total** | **20**,**922** | **100** |

Source: Indonesian Statistics (BPS).

Based on the table above, the largest exporters of product concerned to Indonesia in 2018 were the PRC with a share of 67.42%, followed by Thailand with a share of 12.88%, Turkey with a share of 7.53%, Vietnam with a share of 5.02%, India with a share of 3.15% and Other Countries with a share of 4%.

 **Serious Injury or Threat of Serious Injury**

In order to make a determination of serious injury or threat thereof to the domestic producers of the products concerned, an evaluation of all relevant factors of an objective and quantifiable nature having a bearing on the situation of the domestic industry has been undertaken between 2016‑2018 and period of January‑June 2018‑2019. Figures on economic indicators of the domestic producers are based on the petition submitted by domestic producers.

The general economic indicators related to all products concerned in the safeguard investigation are presented at the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Indicators** | **Unit** | **Year** | **Trend (%)** | **Growth (%)** |
|  |  | **2016** | **2017** | **2018** | **January‑June** | **16‑18** | **Jan‑Jun****18‑19** |
| **2018** | **2019** |
| Production | Index | 100 | 100.94 | 101.31 | 100 | 94.36 | 0.65 | ‑5.64 |
| Domestic Sales | Index | 100 | 103.48 | 92.30 | 100 | 93.56 | ‑3.93 | ‑6.43 |
| Productivity | Index | 100 | 106.89 | 111.42 | 100 | 98.22 | 5.55 | ‑1.78 |
| Capacity Utilization | Index | 100 | 100.66 | 101.25 | 100 | 93.19 | 0.62 | ‑5.37 |
| Loss | Index | (100) | (195.61) | (107.89) | (100) | (58.37) | 4.22 | 41.63 |
| Employment | Index | 100 | 94.44 | 90.93 | 100 | 96.07 | ‑4.64 | ‑3.93 |
| Inventory | Index | 100 | 110.38 | 116.72 | 100 | 122.63 | 8.03 | 22.63 |
| Market Share of Applicant | Index | 100 | 100.98 | 94.00 | 100 | 101.90 | ‑3.05 | 0.91 |
| Market Share of Non‑Applicant | Index | 100 | 92.74 | 94.25 | 100 | 102.56 | ‑2.92 | 1.07 |
| Market share of Imports | Index | 100 | 154.09 | 212.30 | 100 | 80.41 | 45.71 | ‑1.99 |

Source: Indonesian Textile Association (API)'s Petition.

Based on table above, Applicant's production during 2016 to 2018 were relatively stable with a trend of 0.65%, but in the January‑June 2019 period it declined again by 5.64% compared to the previous period.

The Applicant's domestic sales during the period of 2016‑2018 decreased with a trend 3.93%. Moreover, in the period of 2016 to 2017 domestic sales increased from 100 index points to 103.48 index points, and then decline to 92.30 index points in 2018. Furthermore, in the period of January‑June 2018‑2019 the Applicant's domestic sales also decreased by 6,43% from 100 index points in the January‑June 2018 period to 93.56 index points in the January‑June 2019 period.

Productivity during 2016 to 2018 increase with a trend of 5.55%, and again decreased 1.78% in 2019 January‑June compared to the same period the previous year.

The capacity utilization relatively stabled during the period of 2016‑2018. However, in the period of January‑June 2018‑2019 the Applicant's capacity utilization experienced a decrease by 5.37% from 100 index points in the January‑June 2018 period to 93.19 index points in the January‑June 2019 period.

In terms of operating profit/loss, the Applicant had experienced a loss of 100 points in 2016, and in 2017 the Applicant suffer another financial losses of 195.61 index points in 2017 and 107.89 index points in 2018. Furthermore, financial losses continued in the period of January‑June 2018‑2019 by 100 index points and 58.37 index points.

The decline in domestic sales has an impact to the financial situation of the Applicant, which led to the financial losses and an increase of operational cost. This situation forced the Applicant to reduce employment in 2016‑2018 with a trend of 4.64% and also in period of January – June in 2018 – 2019 by 100 index points to 96.07 index points.

The decrease in national consumption that occurred in 2016‑2018 was in line with the decrease of the Applicant's domestic sales. This situation was inversely with the increase volume of import. The increase volume of import has taken the market share of the Applicant's and Non‑Applicant's during the period of 2016‑2018 with the decrease of trend by 3.05% and 2.92% respectively, while in the same period the import market share increased with a trend of 45.71%.

Based on the paragraphs above, the Investigating Authority provisionally concluded that during the investigation period, the Applicant suffered a threat of serious injury based on performance indicators which showed that there had been an upward trend in financial losses and inventory and a downward trend in domestic sales and employment.

 **Causal Link**

Based on the results of the preliminary determination as mentioned in paragraphs above, the Investigating Authority provisionally concluded that there is a causal link between a threat of serious injury suffered by domestic industry to the increase in imports of the product concerned, based on:

1. There was a sharp, sudden, recent, and significant increased in imports of product concerned in absolute and relative terms during 2016‑2018 and January‑June 2018‑2019.
2. There had been an upward trend in financial losses and inventory and a downward trend in domestic sales and employment.
3. During period of 2016‑2018 the market share of imports increased with a trend of 45.71%, which caused the market share of Applicant declined with a trend of 3.05%, and the market share of Non‑Applicant also declined with a trend of 2.92%.

The Investigating Authority has not identified other factors that would weaken the causal link between the increase in imports and the serious injury of the domestic industry. Nevertheless, a more detailed examination of all other factors that have or may have contributed to the injury will be undertaken in the remainder of the investigation.

1. **Determining that there are critical circumstances where delay would cause damage which it would be difficult to repair.**

There are a number of the Applicant's member companies that are currently in a critical situation that is very problematic and can adversely affect the business activities of the referred members.

These critical circumstances can be seen in its financial ratio where the Applicant experiencing financial problems in terms of liquidity, solvency, activities, and profitability which if not immediately addressed will lead to business bankruptcy as stipulated from z‑score.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Ratios** | **Unit** | **Result** | **Benchmark** |
| **1** | **Liquidity Ratio** |  |  |  |
|  | Current Ratio | % | Average95.7 | ≥ 100 |
| Quick Ratio  | % | Average38.2 | ≥ 100 |
| Cash Ratio | % | Average2.7 | ≥ 100 |
| **2** | **Solvability Ratio** |  |  |  |
|  | Debt to Equity Ratio | % | Average208.1 | ≤ 100 |
| **3** | **Activity Ratio** |  |  |  |
|  | Account Receivable Turnover Ratio  | X | Average6.0 | ≥ 10 |
|  | Inventory Turnover Ratio | X | Average2.8 | ≥ 10 |
|  | Fix Asset Turnover Ratio | X | Average1.4 | ≥ 10 |
|  | Total Asset Turnover Ratio | X | Average0.7 | ≥ 10 |
| **4.** | **Profitability Ratio** |  |  |  |
|  | Profit Margin  | % | Average0.1 | ≥ 5 |
| Operating Profit Margin  | % | Average(1.1) | ≥ 5 |
| Return on Investment  | % | Average(23.7) | ≥ 5 |
| Return on Asset  | % | Average(0.2) | ≥ 5 |
| **5** | **Z‑score** | Score | Average1.0 | ≥ 2.9 |

Source: Indonesian Textile Association (API).

As it can be seen from the above ratios, the very viability of the producers concerned is a stake, and the preliminary determination of the Investigating Authority is that unless provisional safeguard measures are urgently taken, irreparable damage will result in terms of capacity shut downs, plant closures and eventual bankruptcy.

The table below shows eight yarn manufacturers in Indonesia who went bankrupt and closed their yarn businesses during 2016‑2019 (January‑June).

|  |  |  |
| --- | --- | --- |
| **No** | **Companies** | **Employment** |
| 1 | PT. Daya Samatex | 1,000 |
| 2 | PT. Firman Jaya Pertenunan | 180 |
| 3 | PT. Indopanca Centratex | 500 |
| 4 | PT. Mercu Prima | 2,000 |
| 5 | PT. Pasific Texindo | 1,500 |
| 6 | PT. Tristate Indonesia | 950 |
| 7 | PT. Unilon | 1,000 |
| 8 | PT. World Yamatex | 1,000 |
| **Total** | **8,130** |

Source: Indonesian Textile Association (API).

# Offer of Consultations

The Government of the Republic of Indonesia offers consultations on the provisional safeguard measures.

*NOTIFICATION UNDER ARTICLE 9, FOOTNOTE 2 UPON TAKING A DECISION NOT TO APPLY THOSE PROVISIONAL SAFEGUARD MEASURES TO CERTAIN PRODUCTS ORIGINATING IN DEVELOPING COUNTRIES*

# Specify the measure

The proposed provisional safeguard measure is in the form of specific tariff as much as Rp. 1,405/kg.

# Specify the product subject to the measure

Yarn (other than sewing thread) of Synthetic and Artificial Staple Fibres, under HS Code 5509.22.00, 5509.32.00, 5509.51.00, 5509.53.00, 5510.12.00, 5510.90.00.

# Specify the developing countries to which the measure is not applied under Article 9.1 of the Agreement on Safeguards

The developing countries which are excluded from the provisional measure as their export in quantities less than 3% of imports to Indonesia are listed below under Article 9.1 of the Agreement on Safeguards.

Table. List of Developing Countries Members of The WTO to Which The Provisional Measures Do Not Apply

| **No.** | **Developing Countries** | **No.** | **Developing Countries** |
| --- | --- | --- | --- |
| 1 | Afghanistan | 48 | Honduras  |
| 2 | Albania | 49 | Hong Kong, China  |
| 3 | Angola | 50 | Israel  |
| 4 | Antigua and Barbuda | 51 | Jamaica  |
| 5 | Argentina | 52 | Jordan  |
| 6 | Armenia | 53 | Kazakhstan |
| 7 | Bahrain, Kingdom of | 54 | Kenya |
| 8 | Bangladesh | 55 | Korea, Republic of |
| 9 | Barbados | 56 | Kuwait, the State of |
| 10 | Belize | 57 | Kyrgyz Republic |
| 11 | Benin | 58 | Lao People's Democratic Republic |
| 12 | Bolivia, Plurinational State of | 59 | Lesotho |
| 13 | Botswana | 60 | Liberia |
| 14 | Brazil | 61 | Liechtenstein |
| 15 | Brunei Darussalam | 62 | Macao, China |
| 16 | Burkina Faso | 63 | Madagascar |
| 17 | Burundi | 64 | Malawi  |
| 18 | Cabo Verde | 65 | Malaysia  |
| 19 | Cambodia | 66 | Maldives  |
| 20 | Cameroon | 67 | Mali  |
| 21 | Central African Republic | 68 | Mauritania  |
| 22 | Chad | 69 | Mauritius  |
| 23 | Chile | 70 | Mexico  |
| 24 | Colombia | 71 | Moldova, Republic of  |
| 25 | Congo | 72 | Mongolia  |
| 26 | Costa Rica | 73 | Montenegro  |
| 27 | Côte d'Ivoire  | 74 | Morocco |
| 28 | Cuba  | 75 | Mozambique |
| 29 | Democratic Republic of the Congo  | 76 | Myanmar  |
| 30 | Djibouti  | 77 | Namibia  |
| 31 | Dominica  | 78 | Nepal  |
| 32 | Dominican Republic  | 79 | Nicaragua  |
| 33 | Ecuador  | 80 | Niger  |
| 34 | Egypt  | 81 | Nigeria  |
| 35 | El Salvador  | 82 | Oman  |
| 36 | Eswatini | 83 | Pakistan  |
| 37 | Fiji  | 84 | Panama  |
| 38 | Gabon  | 85 | Papua New Guinea  |
| 39 | The Gambia  | 86 | Paraguay  |
| 40 | Georgia  | 87 | Peru  |
| 41 | Ghana  | 88 | Philippines  |
| 42 | Grenada  | 89 | Qatar  |
| 43 | Guatemala  | 90 | Russian Federation  |
| 44 | Guinea  | 91 | Rwanda  |
| 45 | Guinea‑Bissau  | 92 | Saint Kitts and Nevis  |
| 46 | Guyana  | 93 | Saint Lucia  |
| 47 | Haiti  | 94 | Saint Vincent and the Grenadines  |
| 95 | Samoa  | 109 | Togo  |
| 96 | Saudi Arabia, Kingdom of  | 110 | Tonga  |
| 97 | Senegal  | 111 | Trinidad and Tobago  |
| 98 | Seychelles | 112 | Tunisia |
| 99 | Sierra Leone  | 113 | Uganda |
| 100 | Singapore  | 114 | Ukraine  |
| 101 | Solomon Islands  | 115 | United Arab Emirates  |
| 102 | South Africa  | 116 | Uruguay  |
| 103 | Sri Lanka | 117 | Vanuatu |
| 104 | Suriname | 118 | Venezuela, Bolivarian Republic of  |
| 105 | Chinese Taipei  | 119 | Yemen  |
| 106 | Tajikistan | 120 | Zambia  |
| 107 | Tanzania  | 121 | Zimbabwe  |
| 108 | The former Yugoslav Republic of Macedonia (FYROM)  |  |  |

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