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Committee on Safeguards

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**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

Carpets and Other Textile Floor Coverings

The following communication, dated 21 September 2020, is being circulated at the request of the delegation of Indonesia.

Pursuant to Articles 12.1(b) of the Agreement on Safeguards, the Government of the Republic of Indonesia submits a notification on finding serious injury or threat thereof, to the domestic industries producing "Carpets and Other Textile Floor Coverings" and a notification of proposed safeguard measures. This notification contains all pertinent information relating to the proposed safeguard measures in accordance with Article 12.2 of the Agreement on Safeguards and an offer of consultations pursuant to Article 12.3 of the Agreement on Safeguards.

A. GENERAL BACKGROUND

1. Initiation of Investigation

On 5 June 2020, an application for a safeguard measure was received by the Investigating Authority from the Indonesian Textile Association/*Asosiasi Pertekstilan Indonesia* (API) hereinafter referred as "The Applicant", against the importation of the product under investigation. After examining the properly documented application, the Investigating Authority concluded that there was a sufficient evidence to justify the initiation of a safeguard investigation.

Subsequently, on 10 June 2020, the Investigating Authority initiated a safeguard investigation on the import of "*Carpets and Other Textile Floor Coverings*". The commencement of the investigation was announced in the *Bisnis Indonesia* newspaper on 10 June 2020 and the Ministry of Trade's website on 12 June 2020. (G/SG/N/6/IDN/35).

2. Period of Investigation

The period of investigation covers 2017 to 2019.

3. Major Proportion

The total production of the Applicant is 71.94% of the total domestic production of the Subject Good. Therefore, it represents a major proportion as required by Article 4.1(c) of the WTO Agreement on Safeguards.

Table 1. Major Proportion (2019)

Companies	Proportion (%)
PT Universal Carpet & Rugs	52.54
PT Classic Prima Carpet Industries	15.26
PT Velvet Tekstil Indonesia	2.17
PT Anugerah Esa Mulia	1.31
PT Admiralindo Bintang Terang	0.67
Applicant's Proportion	71.94
Non Applicant's Proportion	28.06
National Production	100

4. Views and Comments of the Interested Parties

In accordance with Article 3.1 of the WTO Agreement on Safeguards, during the process of investigation, the Investigating Authority has provided opportunities to all interested parties, to submit their views, evidences, comments, and responses concerning the investigation. In light of the aforementioned, the Investigating Authority held public hearings on 20 July 2020.

B. INFORMATION ON WHETHER THERE IS AN ABSOLUTE INCREASE IN IMPORTS OR AN INCREASE IN IMPORTS RELATIVE TO DOMESTIC PRODUCTION

In the light to provide evidence whether there is an absolute increase in imports or an increase in imports relative to domestic production, the Investigating Authority has analyzed import data of the Subject Goods during the period of investigation.

1. Absolute increase in imports

Table 2. Import Quantities

Description	Unit	Year			Growth (%)		Trend % (2017-2019)
		2017	2018	2019	2017-2018	2018-2019	
Import quantities	Meter ²	13,867,411	18,170,721	21,748,204	31.03	19.69	25.23

Source: Statistics Indonesia/Badan Pusat Statistik (BPS), processed.

During the period of 2017-2019 imports increased in absolute terms with a trend of 25.23%. The import quantities increased each year from 13,867,411 m² in 2017 to 18,170,721 m² in 2018 or by 31.03% and experienced another increase to 21,748,204 m² or by 19.69% in 2019.

2. Relative increase in imports to Total Domestic Production

Table 3. Import Quantities, Total Domestic Production, and Relative to Total Domestic Production

Description	Unit	Year			Growth (%)		Trend % (2017-2019)
		2017	2018	2019	2017-2018	2018-2019	
Import quantities	Meter ²	13,867,411	18,170,721	21,748,204	31.03	19.69	25.23
Total Domestic Production	Index	100	103.24	95.98	3.24	(7.04)	(2.03)
Imports Relative to the Domestic Production	Index	100	126.94	163.43	7.77	10.54	27.83

Source: Statistics Indonesia, Ministry of Industry of the Republic of Indonesia, and as verified by Investigating Authority.

As seen in Table above, during 2017-2019 the imports relative to the national production increased with trend of 27.83%. The import relative to the national production increased each year from 100 indexed points in 2017 to 126.94 indexed points in 2018, and continued to increase to 163.43 indexed points in 2019.

3. Imports from Main Countries

Table 4. Imports Shares

Country	2019	
	Volume (Meter ²)	%
People's Republic of China	13.795.446	63.43
Turkey	4.167.254	19.16
Republic of Korea	952.704	4.38
Japan	807.595	3.71
Other Countries	2.025.204	9.32

Source: Statistics Indonesia/*Badan Pusat Statistik* (BPS), processed.

From the table above, the biggest shares of import in 2019 is the People's Republic of China, which its shares of import accounted for 63.43%. Other countries with share of imports above 3% during 2018 are Turkey (19.16%), the Republic of Korea (4.38%), and Japan (3.71%).

4. Unforeseen Development

The increased imports of the Subject Goods from the exporting countries were unforeseeable. This is caused by the trade war between US and China in 2018 and 2019 which made a significant impact on the rapid supply of imported goods from China to Indonesia, especially for textile derivative products such as Carpets and Other Textile Floor Coverings. As a result of imposing high tariffs on these goods, producers in China diverted their exports unforeseeably from the US to other countries that have large markets, including Indonesia which has the largest market in the ASEAN, causing a surge increased in imports of Subject Good in Indonesia.

Moreover, the weakening of the Turkish Lira against the United States Dollar was unexpectedly caused the export price of Carpet and Other Textile Floor Coverings from Turkey looks cheaper so that exports increased worldwide, one of which was exporting into Indonesia in large quantities and causing a surge increased in imports of Subject Good in Indonesia.

C. EVIDENCE OF SERIOUS INJURY OR THREAT THEREOF CAUSED BY INCREASED IMPORTS

In a view to determine the existence of serious injury or threat of serious injury that is caused by increased imports, the Investigating Authority has analyzed and made an evaluation of all relevant factors in an objective and quantifiable natures. The following analyses are based on data provided by the Applicant, which has been verified by the Investigating Authority.

1. Evidence of serious injury or threat of serious injury

The general economic indicators related to Subject Goods in the safeguard investigation are presented at the table below.

Table 5. National Consumption, Import Quantities, and Market Shares

No.	Description	Unit	Year			Trend % (17-19)
			2017	2018	2019	
1.	National Consumption	Index	100	109.47	109.61	4.70
2.	Import quantities	M ²	13,867,411	18,170,721	21,748,204	25.23
3.	Applicant's Domestic Sales	Index	100	93.57	91.07	(4.57)
4.	Non-Applicant's Domestic Sales	Index	100	117.09	102.99	1.49
5.	Imports' market share	Index	100	119.70	143.07	19.61
6.	Applicant's market share	Index	100	85.48	83.09	(8.85)
7.	Non-Applicant's market share	Index	100	106.96	93.96	(3.07)

Source: Statistics Indonesia and as verified by the Investigating Authority.

Based on the table above, it can be concluded that during the investigation period the surge in market share of imports has eroded the domestic market share of both the Applicant and the Non-Applicant.

From 2017 to 2019 national consumption has increased with a trend of 4.70% and import quantities experienced a surge increase with a trend of 25.23%. The increase in the imports of the Subject Good resulted in a decline in the market share of the Applicant and Non-Applicant with a trend of 8.85% and 3.07%, respectively. Meanwhile, in the same period the market share of imports increased with a trend of 19.61%.

Table 6. The Applicant's Indicators of Injury

No.	Description	Unit	Year			Trend % (17-19)
			2017	2018	2019	
1.	Production	Index	100	101.21	86.88	(6.79)
2.	Domestic Sales	Index	100	93.57	91.07	(4.57)
3.	Productivity	Index	100	101.77	105.00	2.47
4.	Utilization Capacity	Index	100	89.34	76.69	(12.43)
5.	Profit/Loss	Index	100	59.88	43.29	(34.21)
6.	Employment	Index	100	99.45	82.74	(9.04)
7.	Inventory	Index	100	161.78	166.69	29.11

Source: As verified by the Investigating Authority.

As shown in Table above, the performance of the applicant can be seen as follows:

- a) Production experienced a decrease with a trend of 6.79% from 100 indexed points in 2017 to 101.21 indexed points in 2018 and decreased to 86.88 indexed points in 2019.
- b) Domestic Sales decreased with a trend of 4.57% during 2017-2019, from 100 indexed points in 2017 to 93.57 indexed points in 2018 and then decreased again to 91.07 indexed points in 2019.
- c) Productivity in 2017 was 100 indexed points, increased to 101.77 indexed points in 2018 and experienced another increase to 105.00 indexed points in 2019. During 2017-2019 the applicant's productivity has increased with a trend of 2.47% because the decline of the employment was larger than the decline of the production in the same period.

- d) Utilization capacity experienced a decrease during 2017-2019 with a trend of 12.43% from 100 indexed points in 2017 to 89.34 indexed points in 2018 and 76.69 indexed points in 2019.
- e) Applicant's Profit experienced a significant decrease during 2017-2019 with a trend of 34.21% from 100 indexed points in 2017 to 59.88 indexed points in 2018 and 43.29 indexed points in 2019.
- f) The Applicant's employment decreased by 9.04% from 100 indexed points In 2017 to 99.45 indexed points in 2018 and 82.74 indexed points in 2019.
- g) The Applicant's inventory increased with a trend of 29.11% from 100 indexed points in 2017 to 161.78 indexed points in 2018 and 166.69 indexed points in 2019.
- h) Based on the explanation above, it can be concluded that during the investigation period, the Applicant experienced a threat of serious injury based on the Applicant's performance that indicated a downward trend in production, domestic sales, utilization capacity, employment, profit, and increased inventory.

2. Other Factors That May Contribute to Injury

In order to ensure that the serious injury or threat of serious injury is only caused by increased imports, the Investigating Authority has examined the following other known factors:

a. Technology

Based on the results of the investigation, the Applicant already has the latest and modern technology in producing the Subject Good. This argument is supported by the fact that the Applicant's machinery is able to produce sophisticated goods for the consumers. This shows that the threat of a serious injury suffered by the Applicant is not caused by technology.

b. Quality

The quality of goods produced by the Applicant has met the local and international standards such as *Halal* Certificate; Health, Safety, Security and Environmental Standards; ISO 9001:2015 designing, manufacturing, and marketing of Carpet and Rugs; Carpet Tile Test Report; Carpet Tile/Tufted Test Report; and Carpet loop pile Test Report. Thus, in terms of quality, goods produced by the Applicant are able to compete with imported goods because they already met the internationally recognized standards.

c. National Production Capacity and National Consumption

Table 7. Portion of National Consumption to the National Production Capacity

Unit: %

Description	Year		
	2017	2018	2019
National Consumption to the National Production Capacity	60.60	57.84	57.92

Source: Ministry of Industry of the Republic of Indonesia, processed.

As shown in Table above, the national production capacity is sufficient enough to meet the national consumption. In 2017 the national consumption was 60.60% of the national production capacity. Meanwhile, national consumption in 2018 was 57.84% of the national production capacity, and national consumption in 2019 was 57.92% of the national production capacity.

Based on the facts of a) to c) above, it can be concluded that during the period of investigation there were no other factors that caused a threat of serious injury to the Applicant besides increased volume of imports of the Subject Goods.

3. Causal Link

The Investigating Authority has examined all relevant factors having a bearing in the Applicant situation, and came into a conclusion that serious injury suffered by the Applicant mainly caused by significant increased volume of imports and not due to the other factors, as follows:

- a. There was a surge increase of Subject Good in absolute terms in 2017-2019 with a trend of 25.23%.
- b. There was a surge increase of Subject Good in relative to domestic production in 2017-2019 with a trend of 27.83%.
- c. Imports' market share has increased with a trend of 19.61% in 2017-2019. Conversely, the Applicant's market share has decreased with a trend of 8.85% and the Non-Applicant's market share has also decreased with a trend of 3.07% during the same period.
- d. Downward trend in production, domestic sales, utilization capacity, employment, profit, and increased inventory.
- e. There were no other factors that caused a threat of serious injury to the Applicant besides increased volume of imports of the Subject Goods.

D. DESCRIPTION OF THE PROPOSED SUBJECT GOODS

Carpets and Other Textile Floor Coverings, under Harmonized System (HS.) codes 57.

E. DESCRIPTION OF THE PROPOSED MEASURE

In a view of the aforementioned findings, a safeguard measure has been proposed in form of specific duty with HS codes, proposed date of introduction, and expected duration of the measure as follow:

Table 8. The Proposed on Safeguard Measure

Period	Specific Duty Safeguard Measures
First Year	Rp. 85.679/meter ²
Second Year	Rp. 81.763/ meter ²
Third Year	Rp. 78.027/ meter ²

In a view of the aforementioned conclusion of the causal link, the Investigating Authority has proposed to the Government of the Republic of Indonesia to impose a safeguard measure on the importation of the Subject Goods for three periods.

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.

The non-confidential version of the Final Report of this investigation, can be found in the website of the Indonesian Safeguard Committee: <http://kppi.kemendag.go.id>.

F. PROVIDE PROPOSED DATE OF THE APPLICATION OF THE MEASURE

The 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.

G. CONSULTATIONS

Members who have a substantial interest of the Subject Goods, shall submit a written request of consultation within a period of 7 days from the date of circulation of this notification. All written requests must be sent both in written letter and in electronic format, and must indicate the name, address, e-mail address, phone and fax number of the Members.

In Accordance with Article 12.3 WTO Agreement on Safeguard, the Government of the Republic of Indonesia is open for consultation in order to provide opportunities for those Members, consultation is scheduled to be held no later than 16 October 2020.

The contact information for correspondence is:

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