



5 March 2021

(21-1852)

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Committee on Safeguards

Original: English

NOTIFICATION UNDER ARTICLE 12.1(B) (FINDING)

NOTIFICATION OF A PROPOSAL TO IMPOSE A MEASURE

INDONESIA

Cigarette Paper

The following communication, dated and received on 4 March 2021, 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 "Cigarette Paper" 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 1 October 2020, an application for a safeguard measures was received by the Investigating Authority from the Indonesia Pulp and Paper Association (*Asosiasi Pulp dan Kertas Indonesia/APKI*) 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 26 October 2020, the Investigating Authority initiated a safeguard investigation on the import of "Cigarette Paper". The commencement of the investigation was announced in the *Bisnis Indonesia* newspaper on 26 October 2020 and the Ministry of Trade's website on 27 October 2020. The said initiation was also notified in the WTO document G/SG/N/6/IDN/37, circulated on 28 October 2020.

2. PERIOD OF INVESTIGATION

The period of investigation covers 2016 to 2020 (January-June).

3. MAJOR PROPORTION

The total production of the Applicant is 70.6% of the total domestic production of the Subject Goods. Therefore, it represents a major proportion as required by Article 4.1(c) of the WTO Agreement on Safeguards.

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 has held public hearings on 19 November 2020. (The said public hearing was also notified in the WTO document G/SG/N/6/IDN/37, circulated on 28 October 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 analysed import data of the Subject Goods during the period of investigation.

1. ABSOLUTE INCREASE IN IMPORTS

Table 1. Volume of Imports

Description	Unit	Year					
		2016	2017	2018	2019	January-June	
						2019	2020
Volume of Imports	Ton	5,201	5,696	7,900	8,024	4,554	7,434
Growth	%		9.50	38.70	1.57	63.24	
Trend 2016-2019	%	17.67					

Source: Statistics Indonesia/Badan Pusat Statistik (BPS)

It can be seen from the Table 1, import volume of the Subject Goods increased in absolute terms with a trend of 17.67%, during the period of investigation. The volume of imports was increase 5,201 ton in 2016 to 5,696 ton in 2017, continued to increase to 7,900 ton in 2018 and increased again to 8,024 ton in 2019. With the biggest increase in 2017 to 2018 with a growth of 38.70% and the most significant increased in period January-June 2019-2020 with a growth of 63.24%.

2. RELATIVE INCREASE IN IMPORTS TO TOTAL DOMESTIC PRODUCTION

Table 2. Volume of Imports, Total Domestic Production, and Relative to Total Domestic Production

Description	Unit	Year					
		2016	2017	2018	2019	January-June	
						2019	2020
Volume of Imports	Ton	5,201	5,696	7,900	8,024	4,554	7,434
Total Domestic Production	Index	100	98.66	97.97	81.90	100	85.63
Imports Relative to the Domestic Production	Index	100	111.01	155.03	188.36	100	191.65
Growth	%		11.01	39.65	21.50		90.65
Trend 2016-2019	%	25.03					

Source: Statistics Indonesia and as verified by Investigating Authority

As seen in Table 2 above, there was a surge increased in imports relative to the national production during the investigation period, from 100 indexed points in 2016 to 111.01 indexed points in 2017, continued to increase to 155.03 indexed points in 2018 and increased again to 188.36 indexed points in 2019. During 2016-2019, imports relative to the national production was increased with a trend of 25.03%. Imports relative to the national production continue to increased from 100 indexed points in 2019 (Jan-Jun) to 191.65 indexed points in 2020 (Jan-Jun) with a growth of 90.65%.

3. IMPORTS FROM MAIN COUNTRIES

Table 3. Import Shares

Country	Year					
	2016 (%)	2017 (%)	2018 (%)	2019 (%)	January-June	
					2019 (%)	2020 (%)
Austria	31.88	43.96	31.74	32.12	42.82	47.57
People's Republic of China (PRC)	46.47	33.71	34.90	31.59	30.49	20.96
Viet Nam	1.05	0.33	16.87	17.97	8.64	16.08
Spain	1.82	4.22	9.40	12.75	13.48	11.33
Other Countries	18.78	17.78	7.09	5.58	4.58	4.05
World	100	100	100	100	100	100

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

From the table above, Table 3 indicates that the biggest shares of import in 2019 are Austria, PRC, Viet Nam and Spain with total shares of 94.43%.

4. UNFORESEEN DEVELOPMENT

The increasing imports of goods investigated from the exporting country cannot be predicted (unforeseen/unexpected) based on the following matters:

- Delfort Group as an FDI in Viet Nam gain the right to supply of cigarette paper in Indonesia due to the acquisition of PT. Pusaka Prima Mandiri, formerly known as a producer of cigarette paper in Indonesia, in 2017. Thus, Delfort Group continues to supply a large amount of subject goods to Indonesian market which causes a significant increase in imports from Viet Nam.
- Viet Nam's import quota limitation policy in 2018 (Circular No. 57/2018/TT-BCT)¹ resulted in cigarette paper products from European countries that are usually exported to Viet Nam being diverted to other countries including 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 4. National Consumption, Volume of Imports, and Market Shares

No.	Description	Unit	Year						Trend 17-19 (%)
			2016	2017	2018	2019	January-June		
							2019	2020	
1.	National Consumption	Index	100	99.37	114.36	116.70	100	126.26	6.22
2.	Volume of Imports	Ton	5,201	5,696	7,900	8,024	4,554	7,434	17.67
3.	Applicant Domestic Sales	Index	100	98.13	115.08	115.69	100	97.90	6.15
4.	Non-Applicant's Domestic Sales	Index	100	92.70	75.43	82.33	100	162.28	(7.59)
5.	Import's Market Share	Index	100	110.21	132.82	132.20	100	129.29	10.78
6.	Applicant's Market Share	Index	100	98.74	100.63	99.14	100	77.54	(0.07)
7.	Non-Applicant's Market Share	Index	100	93.28	65.96	70.55	100	128.53	(13.01)

Source: Statistics Indonesia and as verified by the Investigating Authority

¹ <http://vbpl.vn/bocongthuong/Pages/vbpg-toanvan.aspx?ItemID=133903&Keyword=>

- a) The amount of national consumption during the period 2016-2019 has increased with the trend of 6.22%.
- b) Import volume of the Subject Goods increased in absolute terms with a trend of 17.67%, during the period of investigation.
- c) The Applicant domestic sales during the investigation period had increased with the trend of 6.15%.
- d) The Non-Applicant's domestic sales during the investigation period decreased with the trend of 7.59%.
- e) The imports market share during the investigation period has increased significantly with the trend of 10.78%.
- f) The Applicant market share during the investigation period decreased with the trend of 0.07%.
- g) The Non-Applicant's market share during the investigation period decreased with the trend of 13.01%.
- h) Based on explanation above, can be seen that imports market share increased significantly with the trend of 10.78% during the investigation period. The increased of imports market share lead to injury for the Applicant market share with the trend of 0.07%, and the Non-Applicant's market share with the trend of 13.01%.

Table 5. The Applicant Indicators of Injury

No.	Description	Unit	Year						Trend 17-19 (%)
			2016	2017	2018	2019	January-June		
							2019	2020	
1.	Domestic Sales	Index	100	98.13	115.08	115.69	100	97.90	6.15
2.	Production	Index	100	99.59	99.86	84.45	100	89.39	(4.92)
3.	Inventory	Index	100	156.75	169.66	155.16	100	46.28	14.99
4.	Productivity	Index	100	100.44	101.58	87.68	100	89.39	(3.76)
5.	Capacity Utilization	Index	100	99.59	99.85	84.45	100	89.39	(4.92)
6.	Profits/Losses	Index	100	39.85	7.38	(20.19)	100	(59.03)	(96.30)
7.	Employment	Index	100	99.15	98.31	96.33	100	100	(1.20)

Source: As verified by the Investigating Authority.

As shown in Table 5, the performance of the Applicant can be seen as follows:

- a) Domestic sales increased with a trend of 6.15% during 2016-2019, meanwhile production experienced a decrease with a trend of 4.92% during the same period as a result increased import.
- b) The Applicant inventory has increased significantly during the period 2016-2019 with a trend of 14.99% as a result increased import.
- c) The Applicant productivity during the investigation period has decreased with the trend of 3.76% as a result of decreased in production and employment.
- d) The Applicant profits experienced a significant decrease during 2017-2019 with a trend of 96.30% with the significant losses from 100 indexed points in 2016 to 39.85 indexed points in 2017 due to the increased in volume of imports of the Subject Goods.
- e) Based on the explanation above, it can be concluded that during the investigation period, the Applicant experienced threat of serious injury based on the Applicant performance that indicated a downward trend in production, productivity, capacity utilization, profits/losses, employment and increased of 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 technology in producing the Subject Goods. This argument is supported by the fact that the Applicant 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. Installed Capacity

Table 6. Installed Capacity

Description	Unit	Year					
		2016	2017	2018	2019	January-June	
						2019	2020
Installed Capacity	Index	100	100	100	100	100	100
National Consumption	Index	28.25	28.07	32.30	34.66	21.39	27.01

Source: The Applicant and Ministry of Industry, as verified by the Investigating Authority.

As shown in Table 6, the installed capacity of the domestic industry is adequate to meet national consumption. Therefore, it can be concluded that the injury which suffered by the applicant is not caused by the inability of the domestic industry to fulfill the national consumption, but due to the increased of the imports.

c. Quality

The quality of goods produced by the Applicant has met the national standards and the internationally recognized standards to compete with imported goods.

d. Competition between domestic producers

Table 7. Competition between Domestic Producers

Description	Unit	Year						Trend 2017- 2019
		2016	2017	2018	2019	January-June		
						2019	2020	
Imports' Market Share	Index	100	110.21	132.82	132.20	100	129.29	10.78
Applicant Market Share	Index	100	98.74	100.63	99.14	100	77.54	(0.07)
Non-Applicant's Market Share	Index	100	93.28	65.96	70.55	100	128.53	(13.01)

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

As shown in Table above, during period of 2016 to 2019 the Applicant's market share and Non-Applicant's market share decreased with the trend of 0.07% and 13.01%. As oppose, during the same period the import market share increased significantly with the trend of 10.78%. This proves that the competition between the Applicant and Non-Applicant is not a factor that causes a threat of serious injury to the Applicant.

Based on the facts of 2.a. to d. 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 other than 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 threat of serious injury suffered by the Applicant mainly caused by significant increased volume of imports and not due to the other factors, as follows:

- There was a surge increase of Subject Goods in absolute terms in 2016-2019 with a trend of 17.67%.
- There was a surge increase of Subject Goods in relative to domestic production in 2016-2019 with a trend of 25.03%.

- c) Import's market share has increased with a trend of 10.78% in 2016-2019.
- d) The Applicant market share has decreased with a trend of 0.07% and the Non-Applicant's market share has also decreased with a trend of 13.01% during 2016-2019.
- e) Downward trend in production, productivity, capacity utilization, profits/losses, employment, and increased of inventory.
- f) There were no other factors that caused a threat of serious injury to the Applicant other than increased volume of imports of the Subject Goods.

D. DESCRIPTION OF THE PROPOSED SUBJECT GOODS

Cigarette paper and plug wrap paper non-porous, under Indonesia HS codes ex. 4813.20.00, ex. 4813.90.10 and ex. 4813.90.90.

E. DESCRIPTION OF THE PROPOSED MEASURE

In a view of the aforementioned findings, a safeguard measures 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 Measures

Specific Duty (Rupiah/Ton)		
Period I	Period II	Period III
7,513,743	7,363,468	7,216,199

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 measures on the importation of the Subject Goods for three periods.

The imposition of the safeguard measures 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 measures 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 26 March 2021.

The contact information for correspondence is:

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