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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

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

(Single Mode Optical Fibre)

INDIA

The following communication, dated 19 November, 2019, is being circulated at the request of the delegation of India.

This document is the notification of Preliminary finding of serious injury or threat thereof caused by increased imports Single Mode Optical Fibre. This is in continuation to Document G/SG/N/6/IND/46.

1 INFORMATION ON WHETHER THERE IS AN ABSOLUTE INCREASE IN IMPORTS

The product "Single Mode Optical Fibre" (hereinafter also referred to as the "product under consideration" or "PUC") is being imported into India from various countries including China PR, Japan, and Korea RP. The major quantity of the PUC is being imported from China PR. The Domestic Industry ("DI") has submitted that there has been a sudden and significant increase in imports in 2018-19, which has continued to be at increased levels in 2019-20 as well. As seen from the below table, the Imports (non-DI) has increased from 1,903 KFKM in 2016-17 to 7066 KFKM in 2018-19, and have continued to be at increased levels in the most recent period (6,534 KFKM). There has been significant increase of 271 % in 2018- 19 from the base year 2016-17.

| In KFKM | 2016-17 | 2017-18 | 2018-19 | Jan'19 - June'19 | Jan'19 - June'19 (annl.) |
|-------------------------|---------|---------|---------|------------------|-----------------------------|
| Imports (non-DI) | 1,903 | 2,469 | 7,066 | 3,267 | 6,534 |
| Trend | 100 | 130 | 371 | 371 | 343 |

Further, there has been a significant surge in each quarter of 2018-19 and Quarter 1 of 2019-20, compared to previous year(s), as indicated below. The DI has submitted that in Quarter 2 of 2018-19 there was an unprecedented rise in imports, which completely disrupted the domestic market. The imports thereafter have decreased, nevertheless, they have continued to be alarmingly at high levels.

| Imports (Non-DI) KFKM | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 |
|-----------------------|-----------|-----------|-----------|-----------|
| 2017-18 | 769 | 545 | 540 | 615 |
| 2018-19 | 1244 | 2797 | 1436 | 1589 |
| 2019-20 | 1678 | | | |

2 SERIOUS INJURY OR THREAT THEREOF CAUSED BY INCREASED IMPORTS

a. Serious injury

During the period of investigation there is an overall deterioration in the functioning of the Domestic Industry (DI). The parameter-wise finding of the serious injury suffered by the DI on account of enhanced imports of the product under consideration is summarized as under:

- a) The volume of imports of the PUC have increased significantly and are continuing to be at increased level both in absolute and relative terms;
- b) The DI's market share has declined, whereas the market share of imports has increased;
- c) The increased imports of the PUC have substituted for the market share of DI;
- d) The capacity utilization has decreased significantly despite increase in demand;
- e) The Domestic sales of the DI has declined significantly during the most recent period, and their market has been completely taken over by the imports;
- f) The DI has now shut-down a part of their manufacturing facility and now running at very low capacity utilization
- g) The DI have been forced to lay-off their work force in Quarter 2, 2019-20;
- h) The productivity per employee of the DI has shown a declining trend;
- i) The DI which were earning profit in 2017-18 are now experiencing significant losses;
- j) The inventories of the PUC have significantly increased within the DI; and
- k) There is significant price underselling and price suppression by the imported PUC.

b. Threat of Serious injury

The trend in import volumes strongly suggests that imports of PUC are likely to increase in future due to excess capacity in China, export orientation of producers in China and opportunities lost by Chinese producers/exporters in other significant international markets which would force such producers/exporters to target India. The trend of the deteriorating parameters demonstrated in paragraphs below is indicative of the threat of serious injury continuing in future.

3 EVIDENCE OF SERIOUS INJURY

a. Changes in level of Sales:

The Domestic industry's sales to independent customers have declined significantly as compared to the previous years.

| (KFKM) | 2016-17 | 2017-18 | 2018-19 | Jan'19 to June'19 | Jan'19 to June'19 (Annl.) |
|--|---------|---------|---------|-------------------|---------------------------|
| Combined DI Domestic Sales (Non- captive/Non related) | *** | *** | *** | *** | *** |
| Trend | 100 | 65 | 48 | 31 | 31 |
| Imports (Non DI) | 1,903 | 2,469 | 7,066 | 3,267 | 6,534 |
| Trend | 100 | 130 | 371 | 343 | 343 |

It follows from the above table that in 2016-17 the imports was 1903 KFKM and DI sales was *** KFKM. The situation has reversed in 2018-19 with imports increasing to 7066 KFKM and DI sales being reduced to *** KFKM. The share of market lost by DI has been substituted by the increased imports.

b. Market Share of imports and domestic producers in domestic demand:

From the below table, it can be seen that there is a significant decline in the Domestic industry's market share in 2018-19 and the most recent period, which has been captured by imports. For the analysis of share in market for independent consumers, the consumption of PUC by the domestic industry (either by captive/related party sale or imports) has been excluded from the Total Indian consumption as reported in CRU (which has been considered for preliminary determination of Indian market size).

| | 2016-17 | 2017-18 | 2018-19 | Jan'19- June'19 | Jan'19- June'19 (Annl.) |
|--|---------|---------|---------|-----------------|----------------------------|
| Imports (Non DI) share in demand for independent customers (excluding DI's Captive/Related party sales and DI imports) | 11% | 16% | 55% | 37% | 37% |
| Trend of DI's Share in demand for independent customers (excl. DI's Captive consumption and related party sales) | 100 | 77 | 67 | 31 | 31 |

c. Changes in level of Production:

The production of the domestic industry in the most recent period has substantially declined in comparison to 2017-18 & 2018-19 though the demand has increased.

| Production (KFKM) | 2016-17 | 2017-18 | 2018-19 | Jan'19- June 19 | Jan' 19- June 19 (Annl.) |
|------------------------------------|---------|---------|---------|-----------------|-----------------------------|
| STL (Trend) | 100 | 115 | 123 | 117 | 117 |
| BFL (Trend) | 100 | 111 | 109 | 62 | 62 |
| Total DI Production (Trend) | 100 | 114 | 120 | 103 | 103 |

d. Capacity Utilisation:

The capacity utilisation of the Domestic industry is given below.

| Capacity Utilization | 2016-17 | 2017-18 | 2018-19 | Jan'19- June'19 |
|------------------------------|---------|---------|---------|-----------------|
| DI Installed Capacity (KFKM) | 100 | 112 | 135 | 143 |
| DI Production (KFKM) | 100 | 114 | 120 | 103 |
| DI Capacity Utilization | 100 | 103 | 89 | 73 |

The capacity utilisation of the Domestic industry has declined significantly in the most recent period, by 27 index points, from 2016-17.

e. Employment

The DI has submitted that there has not been any substantial change in employment levels during the POI.

| Locations | 2016-17 | 2017-18 | 2018-19 | Jan-June'19 |
|----------------------------|---------|---------|---------|-------------|
| STL, Waluj (Trend) | 100 | 110 | 110 | 107 |
| STL, Shendra (Trend) | 100 | 201 | 167 | 153 |
| BFL (Trend) | 100 | 112 | 112 | 110 |
| Total DI Employees (Trend) | 100 | 125 | 120 | 115 |

However, in view of the reducing market share and capacity utilization, the DI has claimed that they have shut-down a part of their manufacturing capacity in Quarter 2' 2019-20 (July 2019 to September 2019), and had to lay-off some of their work-force.

f. Productivity

Productivity has marginally declined in the most recent period due to decrease in production.

| Productivity | 2016-17 | 2017-18 | 2018-19 | Jan- June'19 (annl.) |
|----------------------|---------|---------|---------|-------------------------|
| DI Production | *** | *** | *** | *** |
| Trend | 100 | 114 | 120 | 103 |
| Employees | *** | *** | *** | *** |
| Trend | 100 | 125 | 120 | 115 |
| Productivity | *** | *** | *** | *** |
| Trend | 100 | 90 | 99 | 89 |

g. Profit/loss

The profitability of the domestic industry has declined in 2018-19 as compared to previous year, 2017-18 and they are running in losses in the most recent period. Due to imports coming at such lower prices, the domestic industry is not able to earn reasonable return/profit. The profit/loss trend, as claimed by the DI, during the POI is as below:

fig. in Trend

| | 2016-17 | 2017-18 | 2018-19 | Jan- June' 19 |
|---|---------|---------|---------|---------------|
| DI Wt. Avg. Unit Selling Price (Non-captive/Non-related) | 100 | 117 | 121 | 82 |
| DI Wt. Avg. Cost of Sale | 100 | 103 | 112 | 118 |
| DI Profit/ Loss | 100 | 173 | 158 | (65) |

The above table depicts that during the most recent period, the DI forced to sell at prices substantially below their cost of sales, thereby suffering huge losses in the most recent period. The quarterly analysis of profitability as submitted by the DI for the last 4 quarters is as below:

| Profit/Loss | Q2' FY 18-19 | Q3' FY 18-19 | Q4' FY 18-19 | Q1' FY 19-20 |
|--------------------|--------------|--------------|--------------|--------------|
| STL (Trend) | 100 | 99 | 11 | (60) |
| BFL (Trend) | 100 | (36) | (144) | (200) |

h. Price Underselling, undercutting and Price suppression

Price Underselling, undercutting and Price suppression is shown in the table below:

Fig.- In Rs/ FKM

| Per Unit | Jan- June 2019 |
|---|----------------|
| DI- Weighted Avg. Unit Selling Price (SP) | *** |
| Weighted Avg. Fair Selling Price (FSP) | *** |
| Landed Value (Rs/KFKM) (LV) | 411 |
| Price Undercutting (SP-LV) | (***) |
| Price Underselling (FSP-LV) | *** |
| Price Suppression | *** |

In the most recent period, the landed price of the subject goods is significantly below the level of Fair Selling Price of the domestic industry. This shows that the imports are suppressing the prices of the domestic industry, making it unviable for them to continue in the domestic market.

i. Inventory

The table below depicts the inventory levels which have witnessed a significant increase during the POI.

fig- In Trend

| Financial Year/Quarter | Inventory (STL) | Inventory (BFL) | Total DI |
|------------------------|-----------------|-----------------|----------|
| 2016-17 | 100 | 100 | 100 |
| 2017-18 | 79 | 67 | 73 |
| 2018-19 | 567 | 171 | 356 |
| Jan'19 to June'19 | 588 | 193 | 377 |

j. Unforeseen Developments

From the data available on record, it has been preliminarily found that the sudden and sharp increase in imports of the PUC during 2018-19 and the most recent period is an outcome of a combination of various global events, which were unforeseen or unexpected. It is seen that there was a sudden diversion of imports to India from Quarter I and 2 of 2018-19. This coincides with the period when Chinese market had started facing over-supply issues, inter alia because of sudden increase in its Fibre manufacturing capacity, delay in tender of China Mobile, which is the biggest consumer of Optical Fibre in China as well as globally. Further, with the slump in Chinese market which consumes around 50% of global Optical Fibre production, foreign producers in other countries were also left with excess production.

4 PRODUCT INVOLVED

The product concerned is "Single-mode Optical Fibre" ("SMOF"). SMOF refers to the Optical Fibre which facilitates transmission of a single spatial mode of light as a carrier and is used for signal transmissions within certain bands. It is used for manufacture of Optical Fibre Cables, including Uni-tube and Multi tube stranded cables, tight buffer cables, Armoured and Un-armoured cables, ADSS & Fig-8 cables, Ribbon cables, Wet core and Dry core cables and etc. Single-mode Optical Fibre is mainly applied to high-data rate, long distance and access network transportation, therefore, is mainly used in long-haul, metro area network, CATV, optical access network (for example FTTH) and even over short distance networks as applicable. Major consumption is driven by 3G/4G/5G rollout by Telco's, Connectivity of Gram Panchayat, Defence (NFS Project) and Data center.

5 PRECISE DESCRIPTION OF THE PROPOSED MEASURE

DG Safeguards, the competent authority, has recommended to impose provisional safeguard duty at the rate of 25% ad valorem for 200 days on imports of "Single Mode Optical Fibre" from all countries with the exception of the developing countries other than China PR.

6 FURTHER INFORMATION

The Preliminary Findings were published in gazette of India on 6 November 2019. Details of the Preliminary Findings can be accessed from the DGTR website at <http://dgtr.gov.in/countervailing-duty-investigation>.

7 PROPOSED DATE OF IMPOSITION OF SAFEGUARD MEASURE

The safeguard measure will be applicable from the date of issue of notification in this regard by the Department of Revenue, Ministry of Finance, Government of India.