



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

**NOTIFICATION UNDER ARTICLE 12.1(C)
OF THE AGREEMENT ON SAFEGUARDS
(NOTIFICATION OF A PROPOSAL TO IMPOSE A MEASURE)**

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

MADAGASCAR

(Blankets and Travelling Rugs)

The following communication, dated 25 June 2019, is being circulated at the request of the delegation of Madagascar.

On 20 September 2018, the National Trade Remedies Authority (ANMCC) initiated a safeguard investigation on blankets and travelling rugs imported into Madagascar. The initiation of the investigation and the imposition of the provisional measure were notified to the WTO Committee on Safeguards in documents G/SG/N/6/MDG/2 and G/SG/N/7/MDG/2.

Consistent with Article 12.3 of the Agreement on Safeguards, Madagascar is prepared to consult with those Members having a substantial interest as exporters of the product concerned.

The evidence gathered by the competent authority during the investigation is set out below.

**1 NOTIFICATION UNDER ARTICLE 12.1(B) AND 12.1(C) OF THE AGREEMENT ON
SAFEGUARDS UPON MAKING A FINDING OF SERIOUS INJURY**

SERIOUS INJURY

The determination of serious injury to the domestic blanket and travelling rug industry was based on all relevant factors of an objective and quantifiable nature having a bearing on the situation of that industry. On the basis of the data collected during the injury investigation, the following was determined:

i. Rate of increase in imports

During the investigation period, blankets and travelling rugs were imported in greatly increased quantities, both in absolute terms and relative to domestic production. The increase in imports was sudden, recent, sharp and significant. According to data provided by the company SOMACOU, the increase had a negative effect on domestic industry performance indicators such as market share, the production capacity utilization rate, productivity, profitability, production volume and sales.

ii. Market share taken by imports

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|------|------|
| Market share of the industry (index base 100 in 2013) | 100 | 55 | 47 | 19 | 12 | 20 |
| Market share taken by imports (index base 100 in 2013) | 100 | 236 | 260 | 344 | 344 | 340 |

The domestic industry's market share fell sharply from 2013, declining 80 points between 2013 and 2018. In contrast, the market share taken by imports of blankets and travelling rugs increased.

iii. Production of the industry

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------|------|------|------|------|------|
| Volume of production (index base 100 in 2013) | 100 | 75 | 91 | 126 | 70 | 45 |

The domestic industry's volume of production fell 25 points from 2013 to 2014. The slight improvement in 2015 and 2016 did not last; from 2017, the volume of production dropped significantly below its 2013 level. The domestic industry's production declined continuously over the last three years, reaching its lowest level of the investigation period in 2018.

iv. Change in level of sales and turnover

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------------|------|------|------|------|------|------|
| Turnover (index base 100 in 2013) | 100 | 98 | 122 | 129 | 109 | 118 |
| Sales volume (index base 100 in 2013) | 100 | 91 | 108 | 107 | 85 | 70 |

The applicant company recorded a 2-point decline in its turnover from 2013 to 2014 and a 20-point one from 2016 to 2017. The other years, turnover appears to improve because the company attempted to refocus on high-end products. This accounts for the difference in the trends in turnover and sales volume. SOMACOU's sales volume declined continuously during the last three years of the investigation period.

v. Production capacity utilization rate

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------|------|------|------|------|------|
| Capacity utilization (index base 100 in 2013) | 100 | 72 | 88 | 118 | 75 | 54 |

The production capacity utilization rate of the blanket and travelling rug industry declined during the investigation period. Over the course of the investigation period, the applicant company's production capacity utilization rate fell 46 index points. Despite a slight improvement in 2016, the production capacity utilization rate sunk steadily over the last three years and reached its lowest level, 15%, in 2018.

vi. Employment

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|------|------|
| Number of employees (index base 100 in 2013) | 100 | 116 | 86 | 96 | 89 | 74 |

Despite efforts made by SOMACOU since 2013 to maintain the size of its workforce and to recover the skill sets lost in 2015 and 2016, the new conditions of competition on the domestic market, which is largely flooded with imported blankets and travelling rugs, have led to the loss of a large percentage of jobs. From 2017 to 2018, the level of employment declined 15 points. There was a 26-point drop in employment over the course of the investigation period.

vii. Productivity

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Coverage (index base 100 in 2013) | 100 | 65 | 106 | 131 | 79 | 61 |

Source: Questionnaire responses

The domestic industry's productivity, significantly affected by the weak production capacity utilization rate, fell 35 points from 2013 to 2014. The slight improvement from 2015 to 2016 was only fleeting. It was immediately followed by a stunning 52-point drop from 2016 to 2017. Productivity was at its lowest level of the investigation period in 2018.

viii. Inventory

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Final inventory (index base 100 in 2013) | 100 | 97 | 99 | 177 | 176 | 146 |

The preceding analyses show that the domestic industry's annual production volume was in decline during the investigation period. Despite this low annual production volume, the domestic industry had difficulty selling its products on the market. As a result, the annual inventory volume was very high during the period analysed, with more than 50% of the blankets and travelling rugs manufactured remaining in inventory. Inventory levels were at their highest in 2016 and 2017. Inventory amounts even exceeded sales volumes in 2017. They decreased slightly in 2018.

ix. Profitability

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Losses (index base 100 in 2013) | -100 | -19 | -139 | -126 | -66 | -20 |

From 2013, the company consistently incurred huge financial losses, which varied according to the volume of sales. The highest losses occurred in 2015, the year when sales volume was also at its highest. This means that the company took a financial loss on every unit sold. The losses continued through 2018.

x. Selling price

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Selling price (index base 100 in 2013) | 100 | 108 | 112 | 120 | 129 | 164 |

The table of the annual changes in selling prices reveals that the domestic industry has been attempting to adjust its selling prices since 2013. However, because of competition from imports, it has had to align its prices with the market. Its selling prices have been stuck below its cost prices despite the constant rise in production costs.

xi. Change in production costs

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Production cost (index base 100 in 2013) | 100 | 112 | 126 | 134 | 139 | 152 |

There was an upward trend in production costs owing to the decrease in production volume during the investigation period. Production costs rose 52 points between 2013 and 2018.

UNFORESEEN DEVELOPMENTS

The ANMCC's consideration of unforeseen circumstances under Article XIX(1)(a) of the GATT was based on the following elements:

- China's rise in international trade rests on its comparative advantage in labour-intensive industries, which is due to its almost limitless workforce.
- China is the world's largest exporter of blankets and travelling rugs, and it is almost impossible for the world's manufacturers to withstand that domination.
- Egypt was Africa's top importer of blankets and travelling rugs before 2015. Its safeguard measure on imports of blankets and travelling rugs resulted in a significant decrease in Chinese exports of those products to Africa. That situation prompted China to modify its export pattern and channel exports to other markets, including, it would seem, the Madagascar market.
- China used that opportunity to redirect its exports to Madagascar in an attempt to regain the market share lost in Egypt. In 2016, Egypt's imports of blankets and travelling rugs decreased by 3,838 tonnes while Madagascar's imports of those products increased by 1,334 tonnes, or 35% of the market lost.

These developments could not be foreseen when tariff concessions were being negotiated in the WTO framework and occurred after Madagascar's accession to the WTO. They are undoubtedly responsible for the increase in imports of blankets and travelling rugs to Madagascar.

CAUSAL LINK

The causal link between the increase in imports of blankets and travelling rugs and the serious injury to the domestic industry was demonstrated through the following elements:

i. Increase in imports

According to the data collected during the investigation, the volume of imports of blankets and travelling rugs increased steadily and significantly, both in absolute terms and relative to domestic production, from 2013. Madagascar's imports of blankets and travelling rugs increased 792% from 2013 to 2018. The rise continued through April 2019. The applicant demonstrated that there had been a continuous and very sharp increase in the share of imported blankets and travelling rugs relative to domestic production from 2013 and that the rate of increase had been quite remarkable.

Moreover, the market share held by imports increased 160 points between 2013 and 2015. It rose continuously throughout the period examined and amounted to []% of the market in 2017. Conversely, the domestic industry's market share declined considerably from year to year over the period analysed. In 2017, the domestic industry's share was miniscule and represented only 12 index points. It is therefore concluded that the increased imports cannot be seen as a response to changes in domestic consumption, but rather occurred at the expense of domestic production.

Furthermore, a comparison of the selling prices offered to end consumers revealed a big difference in domestic markets. Imported blankets and travelling rugs are around 40 to 50% cheaper than blankets and travelling rugs manufactured domestically.

For the reasons laid out above, there is a clear correlation between the increase in imports and the serious injury to the domestic industry.

ii. Coinciding trends

The volume of imports was at its highest in 2017; that was also the year when the domestic industry's market share was at its lowest, there was the biggest year-on-year drop in production, of 56 points, and an enormous financial loss was incurred.

The drop in sales volume, which was accompanied by a big increase in production costs, resulted in huge financial losses. It is key that they occurred at the same time, as it attests to the existence of a causal link between the increase in imports and the serious injury.

iii. Export sales of the domestic industry

Since SOMACOU has never exported its products, the injury it suffered cannot be attributed to poor export performance.

iv. Contraction in demand or change in the pattern of consumption

As shown in the table below, the analysis of the investigation data has revealed that the injury to the domestic industry is not caused by a reduction in domestic demand or consumption. It is instead caused by the choices of its customers being redirected to imported products sold at low prices. During the investigation period, consumption of blankets and travelling rugs increased steadily, but the industry was unable to take advantage of this favourable situation.

Table 9: Consumption of blankets and travelling rugs

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------|------|------|------|------|------|
| Consumption (index base 100 in 2013) | 100 | 169 | 231 | 584 | 694 | 365 |

Indeed, its sales and production decreased substantially in 2014, 2017 and 2018. The slight improvement in sales recorded for 2015 is not significant in the face of the changes in domestic demand and the increase in imports. This is why SOMACOU's market share declined by 80 index points from 2013 while imports aggressively gained ground. This shows that the decline in sales and production was certainly caused by the increase in imports of blankets and travelling rugs.

v. Change in domestic prices and costs

As explained above, the industry's production costs rose year after year from 2013. Given the increase in imports, SOMACOU stressed that, in order to respond to its customers' choices being redirected to imported products and to remain on the market, its selling prices had to be aligned with those of imported products, even if they were below its cost price. Despite this effort, however, the company's market share has continued to fall over several years. Furthermore, the import and selling prices of imported blankets and travelling rugs consistently declined. The import price in 2018 was around half of what it had been in 2015. The following table shows this decline:

Table 10: Unit import price

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------------|------|------|------|------|------|------|
| Unit import price (dollars/piece) | 5.05 | 5.81 | 6.05 | 5.77 | 3.48 | 3.25 |
| Change (%) | - | 15% | 4% | -4% | -40% | -7% |

vi. Competition between domestic producers

Given that SOMACOU is Madagascar's sole producer of blankets and travelling rugs, competition between domestic producers does not exist and could never be a factor in the injury to the domestic industry.

Absolute increase in imports or increase in imports relative to domestic production

The absolute increase in imports is presented in the table below:

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | April 2018 | April 2019 |
|--|------|------|------|-------|-------|-------|------------|------------|
| Imports (in tonnes) | 133 | 379 | 566 | 1,900 | 2,404 | 1,186 | 86 | 156 |
| Annual change | - | 185 | 49 | 236 | 27 | -50 | - | 81 |
| Increase (index base 100 in 2013 and April 2018) | 100 | 285 | 426 | 1,429 | 1,808 | 892 | 100 | 181 |

From 2013 to 2017, there was a significant and unprecedented increase, of 1,708%, in imports of blankets and travelling rugs. The most notable increases occurred from 2013 to 2014 and from 2015 to 2016. During those two periods, imports jumped 185% and 236%, respectively. This means that the volume of imports rose from 133 tonnes to 379 tonnes between 2013 and 2014, and from 566 tonnes to 1,900 tonnes between 2015 and 2016. Import volumes were at their highest in 2017, when they amounted to 2,404 tonnes.

The decrease in import volumes in 2018 seems questionable, given the flooding of the local market by imported blankets and travelling rugs. The significant difference between the quantity of blankets and travelling rugs imported, amounting to 551 tonnes according to the Madagascar customs service, and the quantity exported by China, amounting to 1,186 tonnes according to Trade Map data, for a single year confirms the suspicion.

In any case, the rate of increase in imports of blankets and travelling rugs over the entire investigation period comes to a considerable 792%.

Furthermore, the increase in imports of blankets and travelling rugs regained momentum in the most recent period analysed. There was an 81% increase in imports of blankets and travelling rugs in the first four months of 2019 compared to the same period the preceding year.

It is therefore concluded that, in absolute terms, there was a significant, sharp and continuous increase in imports of blankets and travelling rugs, both over the entire investigation period and in a very recent period.

Increase in imports relative to domestic production

Imports of blankets and travelling rugs consistently increased relative to domestic production at a significant annual rate, going from 100 index points in 2013 to 1,962 in 2018 and peaking at 2,559 in 2017. This increase continued through April 2019, as shown in the table below.

Table 12: Increase in imports relative to domestic production

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | April 2019 | April 2019 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|-------------------|
| Domestic production (index base 100 in 2013 and April 2018) | 100 | 75 | 91 | 126 | 70 | 45 | 100 | 94 |
| Imports (in tonnes) | 133 | 379 | 566 | 1,900 | 2,404 | 1,186 | 86 | 156 |
| Imports/Production (%) | 39 | 147 | 181 | 441 | 998 | 765 | 128 | 66 |
| Imports/Production (index base 100 in 2013 and April 2018) | 100 | 377 | 464 | 1,131 | 2,559 | 1,962 | 100 | 52 |

i. Adjustment plan

The domestic industry has prepared an adjustment plan that is based on enhancing its production utilization and its marketing strategy.

ii. Public interest

Given the latent production capacity of the domestic industry, the risk of the market being insufficiently supplied is very slim. The increase in the domestic industry's market share after implementation of the safeguard measure will allow it to increase its production volume and thereby reduce its unit production costs. Consequently, the concern over a significant rise in consumer prices will only be relevant for imported blankets and travelling rugs.

iii. Provide a precise description of the product involved

The products involved are blankets and travelling rugs of all colours, dimensions and weights, generally of wool, animal hair, cotton or man-made fibres, with a surface that is often brushed, classified under the following Madagascar customs tariff codes:

- 6301 1000: Electric blankets
- 6301 2000: Blankets and travelling rugs, of wool
- 6301 3000: Blankets and travelling rugs, of cotton
- 6301 4000: Blankets and travelling rugs, of synthetic fibres
- 6301 9000: Other blankets and travelling rugs

Blankets and travelling rugs are generally made with fabric thick enough to provide good protection from the cold. Travelling rugs often have a fringe made from the weave of the fabric itself, while blankets usually have hemmed, trimmed or otherwise finished edges.

iv. Provide a precise description of the proposed measure

The proposed definitive safeguard measure consists of an additional duty on top of the *ad valorem* customs duty of **41% of the c.i.f. value**.

v. Provide proposed date of introduction of the measure

The definitive safeguard measure will enter into force on the date of publication of the related notice.

vi. Provide expected duration of the measure

If adopted, the safeguard measure will remain in force for four years, including the period of application of the provisional measure beginning 3 June 2019.

vii. For a measure with a duration of more than three years, provide the proposed date for the review (under Article 7.4) to be held not later than the mid-term of the measure, if such a date for the review has already been scheduled

Not applicable

viii. If the expected duration is over one year, provide expected timetable for progressive liberalization of the measure.

The timetable for liberalization is as follows:

- Year 1: 41%
- Year 2: 38%
- Year 3: 35%
- Year 4: 32%

ix. Date of prior consultation with those Members having a substantial interest as exporters of the product concerned

Members having a substantial interest as exporters of the product concerned and wishing to consult with Madagascar under Article 12.3 of the Agreement on Safeguards may send a request to the Director General of the ANMCC at the following email address: dg.anmcc@gmail.com / dg@anmcc.gov.mg

The consultations will take place no later than **5 July 2019**.

2 NOTIFICATION UNDER ARTICLE 9, FOOTNOTE 2**i. Specify the measure**

The definitive safeguard measure consists of an additional duty on top of the *ad valorem* customs duty of **41% of the c.i.f. value**.

ii. Specify the products subject to the measure

The definitive safeguard measure applies to blankets and travelling rugs imported under the following Madagascar customs tariff codes:

- 6301 1000: Electric blankets
- 6301 2000: Blankets and travelling rugs, of wool
- 6301 3000: Blankets and travelling rugs, of cotton
- 6301 4000: Blankets and travelling rugs, of synthetic fibres
- 6301 9000: Other blankets and travelling rugs

iii. Specify the developing countries to which the measure is not applied under Article 9.1 of the Agreement on Safeguards, and the import shares of these countries individually and collectively

Afghanistan; Albania; Angola; Antigua and Barbuda; Argentina; Armenia; Bahrain; Bangladesh; Barbados; Belize; Benin; Bolivia, Plurinational State of; Botswana; Brazil; Brunei Darussalam; Burkina Faso; Burundi; Cabo Verde; Cambodia; Cameroon; Central African Republic; Chad; Chile; Colombia; Congo; Costa Rica; Côte d'Ivoire; Cuba; Democratic Republic of the Congo; Djibouti; Dominica; Dominican Republic; Ecuador; Egypt; El Salvador; Eswatini; Fiji; Gabon; Gambia; Georgia; Ghana; Grenada; Guatemala; Guinea; Guinea-Bissau; Guyana; Haiti; Honduras; India; Indonesia; Israel; Jamaica; Jordan; Kazakhstan; Kenya; Kuwait; Kyrgyz Republic; Lao People's Democratic Republic; Lesotho; Liberia; Malawi; Malaysia; Maldives; Mali; Mauritania; Mauritius; Mexico; Moldova; Mongolia; Montenegro; Morocco; Mozambique; Myanmar; Namibia; Nepal; Nicaragua; Niger; Oman; Pakistan; Panama; Papua New Guinea; Paraguay; Peru; Philippines; Qatar; Rwanda; Saint Kitts and Nevis; Saint Lucia; Saint Vincent and the Grenadines; Samoa; Saudi Arabia; Senegal; Seychelles; Sierra Leone; Solomon Islands; South Africa; Sri Lanka; Suriname; Tajikistan; Tanzania; Thailand; The former Yugoslav Republic of Macedonia; Togo; Tonga; Trinidad and Tobago; Tunisia; Turkey; Uganda; Ukraine; United Arab Emirates; Uruguay; Vanuatu; Venezuela, Bolivarian Republic of; Viet Nam; Yemen; Zambia; Zimbabwe.

iv. Further information

Information on the determination may be obtained from:

Monsieur Le Directeur Général de l'ANMCC
 Enceinte Ex conquête Antanimena - BP: 7653
 Email: dq.anmcc@gmail.com ; dq@anmcc.gov.mg
 101- ANTANANARIVO – MADAGASCAR