

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

REPUBLIC OF KOREA

The following communication, dated 18 February 2000, has been received from the Permanent Mission of the Republic of Korea.

In accordance with the provisions of Article 12.1(b) of the WTO Agreement on Safeguards, and in light of the format for notifications adopted by the Committee on Safeguards (G/SG/W/1, 23 February 1995), the Republic of Korea notifies the Committee on Safeguards of the fact that the Korean Trade Commission (the Commission, hereinafter) has made a finding on 2 February 2000 of a serious injury to the domestic industries caused by increased imports of garlic.

1. Evidence of serious injury caused by increased imports

On the basis of the evidence and information verified through the course of the investigation, the Commission determined that the rapid increase in garlic imports caused serious injury to the domestic industry producing like or directly competitive products. To determine whether increased imports caused serious injury to the domestic industry, the Commission has made a broad examination on relevant factors including those provided in Article 4.2 of the Agreement on Safeguards.

Before analyzing these factors, the Commission identified and took note of characteristics of supply and demand in the domestic garlic market. It is difficult to adjust garlic production because: 1) it takes ten months from planting to harvesting, 2) there are few substitutable products with garlic in the winter season, and 3) weather conditions influence the fluctuation of yields. In addition, price and income elasticity of demand for garlic is very low, and thus price flexibility of garlic to the supply change is very high. The influence on the domestic garlic price of an additional supply from imports becomes accelerated after a certain consumption level.

Garlic imports increased 93.6 per cent in 1997, 95.7 per cent in 1998, and 28.2 per cent during January to September in 1999, compared with the same period of the previous year. As a result, the domestic market share of imported products increased from 3.3 per cent in 1996 to 6.2 per cent in 1997, and 11.0 per cent in 1998, then 12.2 per cent during January to September in 1999, compared with the same period of the previous year. The Commission found that these import increases became the major cause for the price decrease of domestic products, resulting in the decrease in sales value and profitability, the increase in inventory, and the decrease of the number of farm households and the investment to the industry. The Commission also found that production,

productivity and capacity utilization were not appropriate factors to evaluate injury due to the characteristics of the garlic industry.

The Commission also considered whether import increase coincided with factors affecting the injury to the domestic garlic industry. While garlic imports have continued to increase since 1996, several indicators for showing injury to the garlic industry such as price decrease, profit decrease, sales value decrease, and inventory increase have shown trends of deterioration since 1999. It is quite general that a trend in deterioration of injury indicators appears with a time lag behind a trend in import increase. More specifically, the time lag can be explained by the critical role of market share of imported garlic. The imported garlic with low market share until 1998 resulted in the injury to domestic industry only at a level of the suppression of the normal price increase. However, the injury in terms of deterioration of several indicators became serious after 1999 since the market share of imported garlic increased higher than a certain level.

After considering all the relevant factors, the Commission reached the conclusion that the increase in imports caused serious injury to the domestic industry. The details of the factors the Commission considered are as follows:

- (a) **Market share of the imported products:** During the investigation period from 1996 to 1999, the market share of imported garlic increased almost four times, from 3.3 per cent in 1996 to 6.2 per cent in 1997, 11.0 per cent in 1998 and 12.2 per cent during January to September in 1999.
- (b) **Price:¹** The farmgate price of garlic increased from W 1,638 per kilogram in 1996 to W 2,001 per kilogram in 1997, and W 2,719 per kilogram in 1998. However, it fell to W 1,560 per kilogram during the period from January to September 1999, the lowest during the investigation period, with a decrease rate of 42.4 per cent compared with the same period of the previous year. The wholesale price of garlic increased from W 1,317 per kilogram in 1996 to W 1,965 per kilogram in 1997, and W 3,097 per kilogram in 1998. Then it fell to W 1,901 per kilogram during January to September in 1999 with a decrease rate of 37.9 per cent compared with the same period of previous year.
- (c) **Production:** The production amount of domestically produced garlic was 455,955 tons in 1996, 393,834 tons in 1997, 393,903 tons in 1998, and 483,778 tons in 1999, showing 13.6 per cent decrease in 1997, slight change in 1998, and 22.8 per cent increase in 1999, each compared with the previous year. Year-to-year fluctuation of production is mainly attributed to changes in acres and weather conditions.
- (d) **Inventory:** The year-end inventory of domestically produced garlic was 61,000 tons in 1996, 62,300 tons in 1997, 45,000 tons in 1998, and 189,216 tons at September in 1999. As of September 1999, garlic inventory increased by 24.4 per cent or 37,122 tons compared with the previous year. The Commission determined that the inventory increase was mainly caused by import increase, considering the fact that garlic imports were 42,221 tons during the period from October 1998 to September 1999.

¹ Garlic prices are available in the forms of farmgate price and wholesale price according to different marketing stages. Farmgate price, the price at which producers sell garlic to the collectors or storing merchants, is the most appropriate indicator of the degree of injury to the domestic industry which is just a group of garlic producers. Meanwhile, wholesale price, at which collectors and storing merchants are selling garlic at wholesale markets, is an appropriate indicator of price competitiveness of domestically produced garlic compared with imported garlic.

- (e) **Sales:** The sales of domestically produced garlic were 354,165 tons in 1996, 303,921 tons in 1997, 322,575 tons in 1998, and 230,712 tons during January to September in 1999. The yearly change rates were 14.2 per cent decrease in 1997, 6.1 per cent increase in 1998, and 7.1 per cent increase during January to September in 1999, compared respectively with the same period of previous year.

The sales value of domestically produced garlic was W 580,122 million in 1996, W 608,146 million in 1997, W 877,081 million in 1998, W 359,911 million during January to September in 1999. The year-to-year change rates were 4.8 per cent increase in 1997, 44.2 per cent increase in 1998, and 38.3 per cent decrease during January to September in 1999, compared with the same period of previous year. The decrease of the sales value of domestic garlic in 1999 was caused by sharp decrease in domestic price in spite of the increase of sales amounts.

- (f) **Profits:** The profits of the domestic garlic industry increased from W 7,490 thousand per hectare in 1996 to W 12,140 thousand per hectare in 1997 to W 14,790 thousand per hectare in 1998. However, profits fell to W 6,360 thousand per hectare in 1999, recording the lowest level during the investigation period and showing 57 per cent decrease compared with the same period of previous year.²
- (g) **Productivity:** Productivity of the domestic garlic industry in terms of production per hectare showed an upward trend from 10,860 kilograms in 1996 to 10,850 kilograms in 1997, 10,550 kilograms in 1998, and 11,410 kilograms in 1999. However, the Commission determined that the land productivity of the domestic garlic industry was not an appropriate factor to evaluate the injury of the domestic industry on the ground that the year-to-year changes of garlic yields are heavily influenced by weather conditions.
- (h) **Capacity utilization:** It is impossible to calculate any meaningful indicator for capacity utilization of garlic industry due to characteristics of Korean agriculture. Therefore, capacity utilization cannot be an appropriate factor to evaluate the injury of the domestic industry.
- (i) **Employment:** There are no data on employment in domestic garlic industry because small-scale family farms grow garlic together with other crops. The Commission instead used the number of garlic farm households as an indicator of employment. The number of garlic farms has decreased from 533,000 in 1996 to 490,000 in 1997, 452,000 in 1998, and 424,000 in 1999.
- (j) **Investment:** Investment in the garlic industry decreased gradually from W 79,252 million to W 64,971 million in 1997, and to W 60,651 million in 1998, and fell to W 35,046 million in 1999, a 42.2 per cent decrease compared with the previous year.

2. Information on whether there is an absolute increase in imports or an increase in imports relative to domestic production

The import of the products under investigation has increased from 9,497 tons in 1996 to 18,389 tons in 1997, 35,996 tons in 1998, and 28,330 tons during January to September in 1999.

² A. Based on the marketing year (August through the next July)

B. Profit is computed before extracting marketing cost associated with post-harvest activities such as cutting, grading and packaging costs.

C. In Korea, production costs do not include labour costs associated with farm management activities for machinery purchase, farm planning, and participation in meetings and education programs, though those administrative labour costs are included in production costs in Japan.

Annual increase rates were 93.6 per cent in 1997, 95.7 per cent in 1998, and 28.2 per cent during January to September in 1999. From this evidence, the Commission evaluated that the imports show a sharp increase from 1996 to September 1999.

It is also noted that the statistical data show that the annual increase rates of garlic imports were much higher than the annual increase rates of domestic garlic production during the investigation period. In 1997, garlic production decreased by 13.6 per cent while garlic import increased by 93.6 per cent. In 1998, production changed very little, but import increased 95.7 per cent. For the period from January to September in 1999, production increased by 22.8 per cent, while import increased by 28.2 per cent.

Considering the importance of the garlic industry, the Korean Government opened its garlic market at the Uruguay Round Negotiations with a ceiling binding tariff rate of 396 per cent or W 1,980 per kilogram equivalent to the price difference between domestic market and international market to minimize the influences to the domestic industry. The market for frozen garlic and prepared or preserved by vinegar or acetic acid garlic was opened at low tariff rates in 1977 and 1993, respectively, expecting that there would be little influence by the liberalization because there was almost no international trade in the form of these garlic. However, after the Uruguay Round Negotiations, exporters began to process and export in the form of frozen garlic and prepared or preserved by vinegar or acetic acid garlic in order to escape the high level of tariffs on fresh and chilled garlic. It was impossible to forecast this change in trade patterns in advance at Uruguay Round Negotiations.

3. Precise description of the product involved

Products under investigation are garlic products provided for in tariff heading number of 0703.20.1000 (fresh or chilled garlic, peeled), 0703.20.9000 (fresh or chilled garlic, other), 0710.80.2000 (frozen garlic), 0711.90.1000 (provisionally preserved garlic), 0712.90.1000 (dried garlic), and 2001.90.9060 (prepared or preserved by vinegar or acetic acid) of the Harmonized Tariff Schedule of Korea.

4-8. Information on safeguard measures to be taken

The Commission has not yet made any recommendation for safeguard measures to the government authorities concerned. The Commission will recommend that the government authorities concerned take the appropriate remedial measures within 45 days after the injury determination made by the Commission on 2 February 2000. The government authorities concerned will decide whether or not to take any safeguard measures within 45 days after any recommendation is received from the Commission.

9. Information relating to the extension of a safeguard measure

Not applicable.
