INDOTEXTILES

The Indonesian Textiles, Apparel & Fashion Community Reference

National textile stakeholders consider industrial growth in the past 3 years as a false recovery because it is not driven by investment. The statistical data that we display shows that the investment share of growth is very small. A glimmer of hope when the Minister of Industry targets 35% import substitution through import control which is believed to encourage investment. With other recent news, I hope this edition will be useful. And please feel free to share it to your colleagues.

Best Regards,
Editorial Team

42th EDITION CONTENT

LATEST NEWS

National Economic Recovery,
The Ministry of Trade Holds Export Release

The President of the Republic of Indonesia, Joko Widodo, released exports of Indonesian products which were carried out simultaneously in Lamongan, East Java; Boyolali, Central Java; Sunter, DKI Jakarta, and a number of other cities spread across 16 provinces in Indonesia on December 4, 2020. President Joko Widodo virtually released these exports from the Bogor Palace. The activity entitled "Export Release to Global Market" is centered in Lamongan, East Java, and is coordinated directly by the Minister of Trade Agus Suparmanto.

The Indonesian Minister of Trade, Agus Suparmanto, stated that the export release activity by the President of the Republic of Indonesia, Joko Widodo, was attended by 133 business actors, both large and small and medium scale (UKM) spread across 16 provinces. "The total export value of this activity and the export value of 133 companies in December 2020 was USD 1.64 billion or equivalent to Rp23.75 trillion," Agus said.

"The simultaneous release of exports is an effort to increase non-oil and gas exports as well as to motivate business actors to keep increasing exports. This activity is also a step to accelerate non-oil and gas exports during

the pandemic, including national economic recovery in 2021, "he explained.

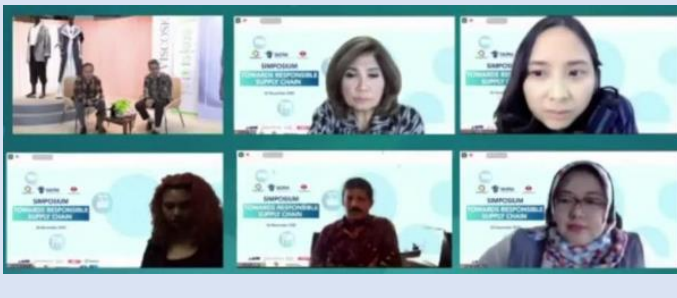
This event also marks the momentum of exports of Indonesian products in December. The Minister of Trade emphasized that the release of exports this time was a special concern because there were a number of business actors who registered their first exports as well as a number of other business actors who managed to diversify their export products.

Specifically, for Riau Province, the export release was carried out at PT Riau Andalan Pulp and Paper, Pelalawan Regency, Riau. Two companies participated in the export release in Pekanbaru, namely PT Riau Andalan Pulp and Paper and PT. Asia Pacific Rayon. At this event, the two companies exported paper and rayon products with a total value of USD 24.48 million or IDR 347.16 billion for the destinations of China, Turkey, Pakistan and Bangladesh.

The simultaneous release of exports is expected to continue to motivate business actors, including SMEs, to innovate in order to penetrate the global market. **

Stakeholder Cooperate

To Improve Sustainable Supply Chain



The Indonesia Textile Association (API) on Nov. 26 2020 organized an online symposium called Towards Responsible Supply Chain. Living up to its promise to highlight stakeholder cooperation, the event featured

panellists from different backgrounds related to the textile industry, representing policymakers, think tanks, producers, suppliers and end-users.

According to data from the Ministry of Industry (MOI), the Indonesia textile & textile product sector contracted 8.37 percent in the second quarter of 2020 as a result of a decline in domestic consumption and exports. Yet in the third quarter, the sector bounced back to 2.97 percent growth.

The speakers included the Director of textile, lether and footwear MOI Elis Masitoh, PT Asia Pacific Rayon (APR) director Basrie Kamba, API chairman Jemmy Kartiwa Sastraatmaja, Institute for Development of Economics and Finance (INDEF) senior researcher Aviliani, Indonesian Convection and Textile Factory chief executive officer Michelle Tjokrosaputro, Asia Pacific Fibres president director Ravi Shankar and H&M Indonesia regional sustainability manager Anya Sapphira. The discussion was moderated by Royston Advisory Indonesia managing partner Affan Alamudi.

The first challenge is to bolster local rayon fiber production so that Indonesia can attain raw material sovereignty, all the while exporting the fiber abroad, instead of just importing less sustainable raw materials. According to Basrie, this is quite essential because the global textile and fashion industry is now demanding sustainable raw material alternatives, under the new circular economy model.

The ministry also recognizes the same trend. “The global demand for an ecologically friendly textile production process has become an inevitability. Thus, we must push for the development of biodegradable and renewable rayon fiber use,” wrote Industry Minister Agus Gumiwang Kartasasmita in a keynote address for the event. The address

was read by a ministry officer representing Agus.

Jemmy, meanwhile, urged stakeholders to address Indonesia's high levels of textile imports. "To strengthen the domestic sustainable textile market, we also need to control our import of textile products. Our high textile imports have already impacted our textiles and textile products, as well as the overall trade balance quite negatively," he said.

Agus continued in his note that the ministry had set its sights on substituting 35 percent of imported textile materials with locally produced ones by 2022, focusing on ecofriendly raw materials. "We are offering tax holidays for investors who inject the local textile sector with capital amounting to more than Rp 500 billion (US$35.5 million). We also offer other types of incentives for investors," Elis said.

The ministry is also conducting a sustainable fashion campaign targeting both producers and consumers to demonstrate its support for the circular economy. The second challenge is to strengthen local textile and textile production bases, not only by using state-of-the-art machinery but also by training workers to be able to operate these machineries in keeping with the Industry 4.0 era.

Meanwhile, Aviliani reminded policymakers of some homework that they needed to do to push Indonesia's sustainable textile industry even further. "I applaud the ministry's incentive policies. Yet most of the incentive policies that the ministry has rolled out were formulated in consideration of the supply side only, without really targeting consumers on the demand side," she said.

All the panelists in the symposium have agreed to intensify their interdisciplinary

collaboration to push for a more sustainable textile industry going forward, recognizing the Regional Comprehensive Economic Partnership as a great opportunity to link up with various business entities and stakeholders abroad who can support local players in their efforts.**

PLB Threatens to Eliminate US $ 8.3 Million Yarn Exports

In mid-November, the United State International Trade Commission (USITC) initiated the dumping accusation on a polyester textured filament yarn (PTY) from Indonesia. Secretary General of the Indonesian Association of Fiber and Filament Yarn Producers (APSyFI), Redma Gita Wirawasta, suspects that this accusation was due to exports made by the Bonded Logistics Center (PLB) company to the United States in 2019.

"USITC, informed that there were 11 Indonesian companies that they accused of dumping, after we checked our members were only 7 companies, 2 other producing companies were not members of APSyFI and the rest were trading companies (traders)

and logistics companies in PLB, not producers," Redma said.

Based on trade data to the US, there has been a surge in imports of Indonesian filament yarn products in 2019 by 69.9% to 6.8 thousand tons or USD 13.3 million.

"After we checked, the exports made by our members in 2019 were only around 5 thousand tons or USD 8.3 million, none of our members sold their products to companies in PLB, they exported directly, so it can be ascertained that around 1.8 thousand tons of PTY which are exported to the US are not genuine Indonesian products, " Redma explained.

Redma alleges that these transhipment products from China or India that enter via PLB are then labelled Indonesian products and exported to the US, because in 2018 Chinese and Indian polyester were first exposed to anti-dumping in the US.

Then APSyFI analyses the unit price where the export selling price of its members is on average above USD 2 per kg, while the export products from PLB are estimated to be only USD 1.7 per kg. "The price of USD 1.7 per kg is what causes a local US producer to file an anti-dumping petition for PTY Indonesia," Redma said.

Redma said that transhipment products exported to the US must receive a Certificate of Origin (SKA) from Indonesia because it has become a requirement for exports to the US.

"So, because of the export of transhipment products from China or India through PLB, our products are also subject to dumping accusations, and we will lose the PTY export market of USD 8.3 million," he said. In this case, APSyFI is considering taking legal action for material losses that will be suffered by its members.

Previously, the national textile community also questioned PLB's activities because it proved to be an entry point for imported fabrics and threads that flooded the domestic market and suppressed the performance of the national textile industry throughout 2018-2019. Due to this incident, in a meeting with President Jokowi in early 2020, the Minister of Finance, Sri Mulyani, who also found evidence of violations of his commitment to closing PLB for textile products.

For this reason, all textile circles both APSyFI representing the upstream textile industry, the Indonesian Textile Association (API) representing the intermediate and downstream sectors to the Indonesian Textile Expert Association (IKATSI) together asked the government to immediately revise the Regulation of the Minister of Trade (Permendag) 77 / 2019 which is the legal hook for PLB.

"We all agree that the import of TPT products is no longer allowed through PLB or Bonded Warehouse (GB) and only API-P is allowed to import for its raw material needs after verification," Redma explained.

However, he received information that Customs and Excise and the Ministry of Trade still wanted PLB for textiles to continue operating on the grounds of the need for raw materials so that the revision of MOT 77/2019 was still tough.

"Hopefully the information we received is wrong, because it is also strange that Customs and Ministry of Trade take care of raw material needs, it's not their job, it's the Ministry of Industry's job and to encourage exports, there is already a Bonded Zone (KB) and Ease of Import for Export Destination (KITE), no longer need PLB or GB, "he said.

According to Redma, the position of the Ministry of Industry is very clear that it does not want PLB, because the target of the Minister of Industry is to reduce imports by up to 35%. Quoting the Ministry of Industry's Textile Director, Redma said that the Ministry of Industry wants industrial and export growth driven by investment and upstream-downstream integration, not pseudo-growth driven by imports.

"This is the time for us to encourage the use of domestic products, these imports have damaged the textile industry in recent years and caused a negative impetus for investment," he concluded.**

Creating Sustainable Value From Plantation to Fashion

"APR Releases Inaugural Sustainability Progress Report"

Asia Pacific Rayon (APR) has released its inaugural Sustain-ability Progress Report covering the first 18 months of its operations from January 2019 to June 2020. Formally inaugurated by Indonesia President Joko Widodo in February 2020, APR is a vertically integrated operation from renewable fibre plantations to highvalue textile manufacturing facilities, located in in Riau, Sumatra.

APR's effort to report on its sustainability performance underscores the company's commitment to responsible viscose production. The report, themed 'Creating Sustainable Value, From Plantation to Fashion', details APR's sustainability efforts which are focussed on clean manufacturing, sustainable sourcing, and initiatives in support of employees and communities.

Basrie Kamba, APR Director, said: "In our first 18 months of business, we focussed on laying a strong foundation by embedding sustainability in the way we operate – whether as a manufacturer, an employer, a member of the local community or a global corporate citizen. Our operations are guided by our sustainability policy. We sought to actively monitor our performance so as to develop a baseline from which to improve on, and to benchmark ourselves against industry peers, with the aim to be a top quartile viscose producer."

As Indonesia's leading integrated viscose producer, APR contributes to the transformation of the country's textile industry, supporting the realisation of Indonesia's 'Industry 4.0' vision. APR actively partners local fashion stakeholders to promote viscose as an enabler for sustainable fashion and launched "Everything Indonesia" as a catalyst to revitalise Indonesia as a global centre for textile manufacturing. The company's blockchain-based 'Follow Our Fibre' platform provides transparency and traceability of its viscose from seed to bale.

"It has been our great pleasure to work with APR on its first sustainability report. As a new player in the man-made cellulosic fibre industry, APR has an opportunity to bring innovation and solutions that can help shape a more sustainable textile and apparel industry. The transparency and accountability that sustainability reporting

brings is incredibly important for APR to build trust and engage stakeholders in its sustainability efforts, as well as to continuously improve on its sustainability performance," said Thomas Milburn, Corporate Citizenship Director.**

Impact of RCEP

for the Indonesian Textile Industry

Indonesia could lose the textile market to Japan and South Korea due to the impact of intense competition in the world's largest trade agreement, Regional Comprehensive Economic Cooperation (RCEP), according to the Indonesian Textile Association (API).

Meanwhile, the Ministry of Trade said that Indonesia's entry into a competitive trading environment would generate broad benefits, including boosting product quality and domestic industrial productivity.

However, economist INDEF said that the impact of RCEP will not be seen before Indonesia consolidates products at the production level and trade, because Indonesia is still focused on commodities, while lagging behind the manufacturing sector which is a global priority.

RCEP is expected to eliminate various import tariffs within the next 20 years.

Chairman of the Indonesian Textile Association (API), Jemmy Kartika, said that Indonesia is likely to lose the Japanese and South Korean markets, by removing trade barriers with China through the RCEP agreement.
With the RCEP, China's trade access to Japan and South Korea will be wide open, considering that previously there were tariff barriers, Jemmy said.

"We know that all of the textile industries, now the majority of raw materials, such as polyester and rayon, are centred in China. "So China is the major producer of polyester and rayon. With the signing of the RCEP, Chinese products to Japan and to Korea, which were previously subject to tariffs, can be 0, with this RCEP," Jemmy told.

"Previously, there were members of our association whose raw materials came from China, processed in Indonesia, sewn in Indonesia, exported to Korea and exported to Japan. "Because Indonesia and Japan, Indonesia and Korea already have a trade agreement, the tariff for goods from Indonesia to Korea and Japan is 0. "Maybe after this RCEP, China to Japan, China to South Korea will become 0. Maybe the Indonesian market to Japan and Korea will be a little disturbed," he added.

It is feared that Indonesia's exports to the two countries will be unable to compete with China, given that products from China are much cheaper.

Thus, there is also concern that Indonesia's exports to Japan and South Korea will drastically decrease and increase the trade balance gap in textiles and textile products (TPT).

According to API data, among RCEP member countries, Japan ranks first as a destination for Indonesian textile exports, which is worth

IDR 18.6 trillion in 2019. This was followed by China in second place with an export value of Rp. 10.6 trillion in 2019 and South Korea in third with Rp. 8.5 trillion in the same year.**

Textile Industry Needs Fundamental Changes

The Indonesian textile industry is deemed necessary to make fundamental changes in order to remain competitive in the global market.

Rayon Asia Pacific Director Basrie Kamba said the textile sector is a very vital industry in Indonesia. He considered, if the textile sector is to regain its glory, there needs to be a fundamental change in government policy.

"The change is primarily a trade regime that encourages imports. Industry also needs urgent support in the form of energy subsidies to remain competitive and tax relief, "he said on the Indonesia Economic Forum entitled " Emerging Trends in Global Trade"

He considered that there is still hope in the future for the fast-growing middle class domestic market in Indonesia as a great opportunity for textile producers.

"Currently, Indonesian textile players are also investing in new materials such as polyester which provide added value to the industry to add to the industry and the economy as a whole," Basrie said.

Meanwhile, General Chairman of the Indonesian Textile Association (API) Jemmy Kartiwa said to reform domestic industrial policies, it is necessary to concern production

costs and increase competitiveness in the market.

He assessed that the Indonesian textile industry has an urgent need to cut production costs in order to compete in the market, especially during the decline in people's lower purchasing power due to Covid-19.

“In recent years we can see a lack of policies that regulate and control key commodities and the fact that the internet dominates Indonesia's domestic market, allowing great importance with regard to the other side related to standard prices or key commodities which are not only imported in large quantities, major commodities are also. sold locally at very low and even lower prices, "he said.

President Director of Asia Pacific Fibers and Chairman of APSyFi Ravi Shankar said that currently, the growth of the textile industry contributes 3 percent to Indonesia's GDP.

"However, with export figures of US $ 12 billion and imports of US $ 9.4 billion. We can see that most of our competitors, such as India and China, have a better trade balance than Indonesia, "he said

According to him, this shows that Indonesia's textile sector has experienced a decline. Especially now that imports have increased and exports have a stagnant growth rate.

"We have seen opportunities for revitalization. There are three main drivers, namely import substitution, encouraging exports, and optimization of the domestic market. That is the potential we have so that we can push policies to be more competitive, "he continued.

STATISTIC

Indonesia Textiles Industry Growth

(US$ Million)

		2016	2017	2018	2019	2020*e
Growht (constan price)		-0,09%	3,83%	8,73%	15,35%	-1,12%
Textiles GDP		**10.787,2**	**11.247,4**	**11.831,1**	**14.139,6**	**12.780,0**
Invesment	Foreign	238,9	580,4	248,4	94,4	70,0
	Domestic	321,3	372,2	305,4	238,9	200,0
	Total	**560,2**	**952,6**	**553,8**	**333,3**	**270,0**
Trade	Export	11.832,2	13.098,8	13.216,8	12.842,5	10.600,0
	Import	8.159,9	8.803,3	10.016,9	9.372,7	7.090,0
	Balance	**3.672,4**	**4.295,5**	**3.200,0**	**3.469,8**	**3.510,0**
Consumption		**6.554,6**	**5.999,3**	**8.077,3**	**10.336,5**	**9.000,0**

Source : BPS processed by Indotextiles

Share	2016	2017	2018	2019	2020*e
Investmen	5,2%	8,5%	4,7%	2,4%	2,1%
Trade Balance	34,0%	38,2%	27,0%	24,5%	27,5%
Consumption	60,8%	53,3%	68,3%	73,1%	70,4%

Indonesia Textiles Trade Performance

(US$ Billion)

Source : BPS processed by Indotextiles

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The History of Artificial Cellulose Fibres

The first man-made fibres which were developed and produced used polymers of natural origin, more precisely of cellulose which is a raw material available in large quantities in the vegetable world.

The beginning of industrial production of man-made fibres goes back to the year 1890, when the French Count Hilaire de Chardonnet started up his plant for the production of “Chardonnet silk” (initial output: 50 kg per day), using the cellulose nitrate process.

As it happens in general in the case of technical-scientific developments, this achievement was the result of previous studies and researches (since approximately the year 1840) focused mainly on the chemical properties of cellulose.

In particular the researchers found the way to treat cellulose (a material insoluble in usual solvents and inflammable) with nitric acid (nitrification), to dissolve the derivative with solutions of alcohol-ether, to prepare suitable extrusion devices (spinnerets) and finally to regenerate cellulose through saponification in alkaline baths (denitrification) in order to eliminate the danger inherent in the nitro compound (inflammable and explosive).

Actually, the birth date of the “artificial silk” (such was the name given to this fibre at its introduction) is said to date back some years before (1884) when an Englishman, Mr Swan, produced small quantities of nitrocellulose which the researcher had in mind to user the development of incandescent bulbs.

More or less in the same period another way had been searched for to make cellulose capable of being spun, after being discovered that cellulose could be dissolved in a mixture of copper oxide and ammonia (Schweitzer’s reagent, 1857).

In fact, this principle had been the basis in Germany for the production initially of incandescent bulbs (1891), then of

cuprammonium fibres (1897) via the so-called “cupro” process, which was improved with the draw-spinning process (1891) and resulted in the production of Bemberg cupro yarn in 1909.

Meanwhile a patent had been registered in England by the researchers Cross, Bevan and Beadle (1892) for the production of sodium cellulose xanthate and for its dissolution in dilute caustic soda. In this way the basis were laid for the production of a man-made cellulose fibre, now called viscose, which remained for decades the main process in use for the production of manmade fibres.

The first industrial plants were built some years later in England and in Germany (early 1900), and contributed to the rapid decline and giving up of the Chardonnet process (which was left off in Germany in 1911).

One of the various chemical properties of cellulose which found particular interest was the possibility of esterificating with acetic acid the three hydroxylic groups contained in the glycosidic group of cellulose; the first product to be obtained was triacetate (1894) which, as it was later on discovered, could be partially hydrolized (1905) into a product which was easily soluble in acetone.

However only later on the most was made of the capacity of cellulose acetates to be transformed into fibres; the fibre which attained more relevance was cellulose diacetate (1919-1921), commonly named acetate, whereas triacetate (produced since 1914) found limited commercial interest owing to its difficult dissolution, restricted only to chloroform.

Cellulose fibres were produced with said processes in form of continuous filament yarns, as the primary objective of the researchers was the reproduction of the morphology and, at least partially, of the properties of raw silk (from which the term “artificial silk” originated).

In 1920 the fibre was made available also in form of staple fibre (“Vistra”, Germany) and as such attained in time relevant market importance.

Recent years saw the development of a process for the production of cellulose fibres using a solvent specifically studied for cellulose (N-methylmorpholine-N-oxide), which on one hand safeguarded to a greater extent the inherent properties of the original cellulose structure and on the other permitted the use of processes less polluting than traditional ones.

In this connection we cannot but emphasize the role played by the Italian industry within the sector of cellulose fibres.

The first factories sprang up at the beginning of last century thanks to the initiative of French chemical groups and in 1914 could supply 150 tons of rayon (this was the name given to the continuous filament fibre).

The first post-war period saw the successful coming on stage of the company SNIA which, through the concentration of various production units, became at the end of the 20’s one of the major world producers of viscose rayon and later on of viscose staple fibre.
In 1927 the production of cuprammonium yarn was started on behalf of the company

"Seta Bemberg S.A.". In short, the Italian production rose from 320 tons in 1919 to 32,500 tons in 1929, so that Italy became the leading producer in Europe with a 16% share of world production. At the outbreak of the 2nd World War the Italian production had reached 120,000 tons.

The post-war period recorded a recovery of this industry, which reached its peak with 226,000 tons in 1964; from that date on, at first slowly and later at a quick pace, artificial fibres made room for synthetic fibres. As regards artificial fibres, it needs to be reminded that this group of fibres include also fibres which have as raw materials natural polymers other than cellulose, like fibres derived from proteins.

A considerable historical significance was attained in Italy by protein fibres derived from casein, which were produced initially by SNIA in 1936 (researcher: Ferretti) under the name Lanital, later on renamed into Merinova.

Protein fibres of animal origin (casein from milk) stopped to have commercial significance, whereas still to-day a certain interest is enjoyed, especially in the USA, by protein fibres of vegetable origin (maize, peanuts). (Source : ACIMIT)