Triggers, Remedies and Tariff Cuts: Assessing the Impact of a New Special Safeguard Mechanism

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OUTLINE

- Doha Negotiations and New SSM
- Analytics of Market Stabilization
- Model/Data
- Liberalization Results
- SSM Frequency & Additional Duties
- Concluding remarks on the SSM
Import Surges/Price Declines

- WTO Members have legal means to circumvent import surges or price declines:
  - For “fairly” traded products they can rely on:
    - GATT Article XIX (General WTO Safeguards)
    - UR Special Agricultural Safeguard (SSG)
  - For “unfairly” traded products they can rely on:
    - Countervailing duties
    - Anti-dumping actions
WHY A NEW SSM?

1. With the exception of the UR SSG, each measure requires proof of injury

2. WTO safeguard requires injury test and provision of compensation if used
   - Often beyond capabilities of low income countries

3. Imbalance in the rules for the UR Agricultural SSG
   - Tarrification was a prerequisite
   - Developing countries set bound tariffs outside tarrification
     - Ceiling bindings
     - Many did not apply non-tariff barriers prior to UR
   - SSG use dominated by developed countries (i.e. Japan)
SSM is an Attractive Policy Tool

- Designed to (temporarily) counter:
  - Sharp price declines
  - Rapid import surges
- Requires no proof of injury
- Nor the provision of compensation
- Transparent (always notified)
- Easy to use because it is an automatic mechanism if triggered
Continued Disagreement Over Exact form of a New SSM

- **Harbinson (WTO 2003a; 2003b)**
  - New SSM will form integral part of agr. package for low income countries
  - UR SSG will cease to apply for developed countries
  - Technical work needed for development of new SSM

- **Derbez (WTO 2003, Sep.)**
  - SSM established for developing countries S.T. conditions and products TBD

- **Framework Agreement (WTO 2004)**
  - SSM will be established for developing economies with **PRICE and VOLUME triggers**

- **G33 Proposal (Mar. 2006)**
  - Most concrete proposal to date
  - Contains parameters and additional duties for simulation

- **Falconer Modalities (WTO Rev1&2. Feb/May. 2008)**
  - Parameters included but Rev1. implies multitude of scenarios
  - Rev2. more concrete - generally follows G33 proposal
  - But contains option for more conservative scenario
Economic Questions

- Can the SSM provide stability for domestic markets in low income countries?
- Can the SSM improve economic welfare in low-income countries?
- How costly is a new SSM on developed country exporters?
- How often will low income countries make use of SSM and what is the magnitude of additional duties?
Consider a two-region, stochastic, large country demand and supply model (Zwart and Meilke 1979; Grant and Meilke 2006)

\[ D^E = a - bP^W + \varepsilon_1 \]  
When \( \gamma = 1 \) (a free trade scenario)

\[ S^E = c + dP^W + \varepsilon_2 \]  

\[ D^I = e - fP^D + \varepsilon_3 \]  

\[ S^I = g + hP^D + \varepsilon_4 \]  

\[ S^E - D^E = D^I - S^I \]  

\[ P^D = \gamma P^W \text{ where } \gamma = 1 + t \]

\[ E[P^W] = \frac{e - g + a - c}{d + b + f + h} \]

\[ Var[P^W] = \frac{\sum_{i=1}^{4} \sigma_i^2}{(d + b + f + h)^2} \]
Theoretical Model

- Policy intervention is an additional safeguard duty that enters asymmetrically depending on whether the price or volume trigger is breached.

- Importing country levies the SSM so we can redefine $D^I$ and $S^I$ for the importing country as:

| $D^I = \begin{cases} 
    e - f\gamma P^W + \varepsilon_3 & \text{if } V = P = 0 \\
    e - f\left[\text{MAX}\left(\gamma + \theta P^w, (\gamma + \delta)P^w\right)\right] + \varepsilon_3 & \text{if } V = 1 \text{ and/or } P = 1 
\end{cases} |

| $S^I = \begin{cases} 
    g - h\gamma P^w + \varepsilon_4 & \text{if } V = P = 0 \\
    g - h\left[\text{MAX}\left(\gamma + \theta P^w, (\gamma + \delta)P^w\right)\right] + \varepsilon_4 & \text{if } V = 1 \text{ and/or } P = 1 
\end{cases} |
Theoretical Model

<table>
<thead>
<tr>
<th>No SSM Triggered</th>
<th>SSM Triggered</th>
</tr>
</thead>
<tbody>
<tr>
<td>$E[P^w] = \frac{e - g + a - c}{d + b + \gamma(f + h)}$</td>
<td>$E[P^w] = \frac{e - g + a - c}{(d + b + (\gamma + \max(\theta, \delta))(f + h))}$</td>
</tr>
<tr>
<td>$Var[P^w] = \frac{\sum_{i=1}^{4} \sigma_i^2}{(d + b + \gamma(f + h))^2}$</td>
<td>$Var[P^w] = \frac{\sum_{i=1}^{4} \sigma_i^2}{(d + b + (\gamma + \max(\theta, \delta))(f + h))^2}$</td>
</tr>
<tr>
<td>$Var[P^d] = \frac{\gamma^2 \sum_{i=1}^{4} \sigma_i^2}{(d + b + \gamma(f + h))^2} = \gamma^2 Var[P^w]$</td>
<td>$Var[P^d] = [\gamma + \max(\theta, \delta)]^2 Var[P^w]$</td>
</tr>
</tbody>
</table>

What does analytical mode tell us?
1. $E[P^w]$ & $Var[P^w]$ decreases with tariff policies
2. $E[P^d]$ & $Var[P^d]$ increases with tariff policies
Model and Data

- Static, synthetic, stochastic, global, partial equilibrium model of wheat (1999-2001)
- 38 countries/regions, 32 of which are net importers
- Global market-clearing determines $P^w$ by forcing to zero the sum of net trade across all countries.
- The parameters in the model are derived from elasticities in the OECD’s AGLINK
- Supply/Demand/ER pseudo-random errors generated from residuals of trend-regression equations
- Domestic Policy Set
  - EU’s intervention policy (2001)
  - US Deficiency Payment (Loan rate program)
Scenarios

Show 2 scenarios today:

1. Falconer Tariff Cuts from bound rates and no SSM

2. Falconer Tariff cuts with the proposed SSM (based on G33)
   - LDC’s not granted SSM – but may need to change this

Baseline & Counterfactuals:

- Scenario 1 judged w.r.t. baseline (1999-2001)
- Scenario 2 judged w.r.t. scenario 1
  - Highlight the marginal efficiency cost of the SSM
# Falconer Tariff Cuts

<table>
<thead>
<tr>
<th>Development</th>
<th>Tariff Bands</th>
<th>Tariff Cut</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developed Countries</strong></td>
<td>0% &lt; T ≤ 20%</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>20% &lt; T ≤ 50%</td>
<td>57%</td>
</tr>
<tr>
<td></td>
<td>50% &lt; T ≤ 75%</td>
<td>64%</td>
</tr>
<tr>
<td></td>
<td>T &gt; 75%</td>
<td>[66 or 73]%</td>
</tr>
<tr>
<td><strong>Developing Countries</strong></td>
<td>0% &lt; T ≤ 30%</td>
<td>2/3*50%</td>
</tr>
<tr>
<td></td>
<td>30% &lt; T ≤ 80%</td>
<td>2/3*57%</td>
</tr>
<tr>
<td></td>
<td>80% &lt; T ≤ 130%</td>
<td>2/3*64%</td>
</tr>
<tr>
<td></td>
<td>T &gt; 130%</td>
<td>2/3*[66 or 73%]</td>
</tr>
</tbody>
</table>

Notes: SVE, RAM make smaller cuts by 10 percentage points; and LDC’s are exempt
### G33 & Falconer SSM

#### Volume SSM

<table>
<thead>
<tr>
<th>Import Surge</th>
<th>G33 Remedy</th>
<th>Falconer Remedy</th>
</tr>
</thead>
<tbody>
<tr>
<td>$X \leq 105%$ of VT</td>
<td>No Remedy</td>
<td>“…”</td>
</tr>
<tr>
<td>$105% &lt; X \leq 110%$ of VT</td>
<td>$\text{MAX}{0.5\times T^B,40%}$</td>
<td>“…”</td>
</tr>
<tr>
<td>$110% &lt; X \leq 130%$ of VT</td>
<td>$\text{MAX}{0.75\times T^B,50%}$</td>
<td>“…”</td>
</tr>
<tr>
<td>$X &gt; 130%$ of VT</td>
<td>$\text{MAX}{T^B,60%}$</td>
<td>“…”</td>
</tr>
</tbody>
</table>

#### Price SSM

<table>
<thead>
<tr>
<th>Price Decline</th>
<th>G33 Remedy</th>
<th>Falconer Remedy</th>
</tr>
</thead>
<tbody>
<tr>
<td>$P^m &lt; PT$</td>
<td>$(1-P^m/PT)\times 100$</td>
<td>1. $(1-P^m/PT)\times 100$</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. $0.5 \times (1-P^m/PT)\times 100$</td>
</tr>
</tbody>
</table>

VT = volume trigger = avg. of three years of imports  
PT = price trigger = avg. of three months of c.i.f. import prices  
$T^B$ = Current Bound Tariff
### Scenario 1 -- Results

<table>
<thead>
<tr>
<th></th>
<th>Falconer Tariff Cuts</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Mean</strong></td>
<td><strong>Stability</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Up</strong></td>
<td><strong>Down</strong></td>
</tr>
<tr>
<td>Domestic Price</td>
<td>31</td>
<td>0</td>
</tr>
<tr>
<td>Producer Surplus</td>
<td>28</td>
<td>0</td>
</tr>
<tr>
<td>Imports</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>World Price Increase</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Scenario 1 -- Results

<table>
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<tr>
<th></th>
<th>Gain</th>
<th>Loss</th>
<th>Welfare Δ (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exporters</strong></td>
<td>6</td>
<td>0</td>
<td>1.52</td>
</tr>
<tr>
<td><strong>Developed Importers</strong></td>
<td>2</td>
<td>1</td>
<td>21.75</td>
</tr>
<tr>
<td><strong>Developing Importers</strong></td>
<td>0</td>
<td>24</td>
<td>-2.27</td>
</tr>
<tr>
<td><strong>LDC’s</strong></td>
<td>0</td>
<td>5</td>
<td>-2.78</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td>8</td>
<td>30</td>
<td>1.22</td>
</tr>
</tbody>
</table>

Welfare Difference From Baseline ($US) = $1.28 Billion
## Scenario 2 – Results – Tariff Cuts with Falconer/G33 SSM

<table>
<thead>
<tr>
<th></th>
<th>Falconer Tariff Cuts – No SSM</th>
<th>Falconer Tariff Cuts with SSM</th>
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</tr>
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<td>Imports</td>
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<td>28</td>
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**World Price Increase** = 3.91%  
**World Price Decrease** = -1.96%
## Scenario 2 – Results – Tariff Cuts with Falconer/G33 SSM

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<td>Loss</td>
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<td>5</td>
</tr>
<tr>
<td>World</td>
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<td>30</td>
</tr>
<tr>
<td>Welfare Difference From Baseline ($US)</td>
<td>= $1.28 Billion</td>
<td>Welfare Difference From Baseline ($US)</td>
</tr>
</tbody>
</table>

This compares to $-155 Million under the former UR SSG.
SSM Price & Volume Frequency

- World Avg. Vol SSM Use
- World Avg. Price SSM Use

Frequency of Use (%)

- Columbia
- Mexico
- Morocco
- Nigeria
- Venezuela
- Malaysia

- Price SSM
- Vol SSM
Mean SSM Additional Duties

Mean UR Price-Based SSG Duty = 4%
Mean UR volume based SSG Duty = 22%

Max Additional Duty Applied

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Columbia</td>
<td>21%</td>
<td>53%</td>
</tr>
<tr>
<td>Mexico</td>
<td>10%</td>
<td>60%</td>
</tr>
<tr>
<td>Morocco</td>
<td>20%</td>
<td>102%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>16%</td>
<td>90%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>16%</td>
<td>50%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>19%</td>
<td>50%</td>
</tr>
</tbody>
</table>
Conclusions

- Difficult to generalize because each country has a different stake in the negotiations

- However, many low-income countries lose economic welfare under liberalization. **BUT** liberalization is an avenue for stabilization.

- If SSM is to be minimally trade distorting then it should be tied to tariff cuts.
  - As tariff cuts get more ambitious, additional SSM duties decrease and the welfare cost of SSM for low-income countries falls.
  - Falconer allows countries to choose the greater of a % of bound tariffs or 30, 40 & 50 percent tariffs.
Conclusions

- **SSM has the capacity to stabilize imports & prices when duties are smaller and used less frequently**

- **However, FALC SSM can & does destabilize domestic prices:**
  - Relatively large additional duties
  - Applied frequently
  - Falconer scenario

- **SSM improves economic welfare in many low income countries**
  - Especially when low-income countries participate in liberalization

- **The marginal cost of an SSM is low**
  - Almost 73 percent of the welfare gain from Falconer tariff cutting scenario is still realized by granting low-income countries an SSM
  - SSM may be a small price to pay if it results in larger tariff cuts than in its absence

- **SSM is an important compromise that Developed Countries should accept, at least as far as world wheat markets are concerned....**