

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?

Theoretical Model

- ◆ 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:

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

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

Theoretical Model

No SSM Triggered

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

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

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

SSM Triggered

$$E[P^W] = \frac{e - g + a - c}{(d + b + (\gamma + \max(\theta, \delta))(f + h))}$$

$$Var[P^W] = \frac{\sum_{i=1}^4 \sigma_i^2}{(d + b + (\gamma + \max(\theta, \delta))(f + h))^2}$$

$$Var[P^D] = [\gamma + \max(\theta, \delta)]^2 Var[P^W]$$

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

Development	Tariff Bands	Tariff Cut
Developed Countries	$0\% < T \leq 20\%$	50%
	$20\% < T \leq 50\%$	57%
	$50\% < T \leq 75\%$	64%
	$T > 75\%$	[66 or 73]%
Developing Countries	$0\% < T \leq 30\%$	$2/3 * 50\%$
	$30\% < T \leq 80\%$	$2/3 * 57\%$
	$80\% < T \leq 130\%$	$2/3 * 64\%$
	$T > 130\%$	$2/3 * [66 \text{ or } 73\%]$

Notes: SVE, RAM make smaller cuts by 10 percentage points; and LDC's are exempt

G33 & Falconer SSM

-----Volume SSM-----

Import Surge	G33 Remedy	Falconer Remedy Ambitious
$X \leq 105\%$ of VT	No Remedy	"..."
$105\% < X \leq 110\%$ of VT	$\text{MAX}\{0.5 * T^B, 40\%\}$	"..."
$110\% < X \leq 130\%$ of VT	$\text{MAX}\{0.75 * T^B, 50\%\}$	"..."
$X > 130\%$ of VT	$\text{MAX}\{T^B, 60\%\}$	"..."

-----Price SSM-----

Price Decline	G33 Remedy	Falconer Remedy
$P^m < P^T$	$(1 - P^m / P^T) * 100$	1. $(1 - P^m / P^T) * 100$ 2. $0.5 * (1 - P^m / P^T) * 100$

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

-----Falconer Tariff Cuts-----

Mean

Stability

Up

Down

More

Less

Domestic Price

31

0

30

1

Producer Surplus

28

0

13

15

Imports

3

28

27

4

World Price Increase = 3.91%

Scenario 1 -- Results

Falconer Tariff Cuts – No SSM			
	<i>Gain</i>	<i>Loss</i>	<i>Welfare Δ (%)</i>
Exporters	6	0	1.52
Developed Importers	2	1	21.75
Developing Importers	0	24	-2.27
LDC's	0	5	-2.78
World	8	30	1.22
Welfare Difference From Baseline (\$US)			
= \$1.28 Billion			

Scenario 2 – Results – Tariff Cuts with Falconer/G33 SSM

	Falconer Tariff Cuts – No SSM				Falconer Tariff Cuts with SSM				
	<i>Mean</i>		<i>Stability</i>		<i>Mean</i>		<i>Stability</i>		
	<i>Up</i>	<i>Down</i>	<i>More</i>	<i>Less</i>	<i>Up</i>	<i>Down</i>	<i>More</i>	<i>Less</i>	
Domestic Price	31	0	30	1	20	11	1	30	
Producer Surplus	28	0	13	15	17	11	8	20	
Imports	3	28	27	4	8	23	20	11	
World Price Increase = 3.91%					World Price Decrease = -1.96%				

FALC – No MURDUSY Scenario

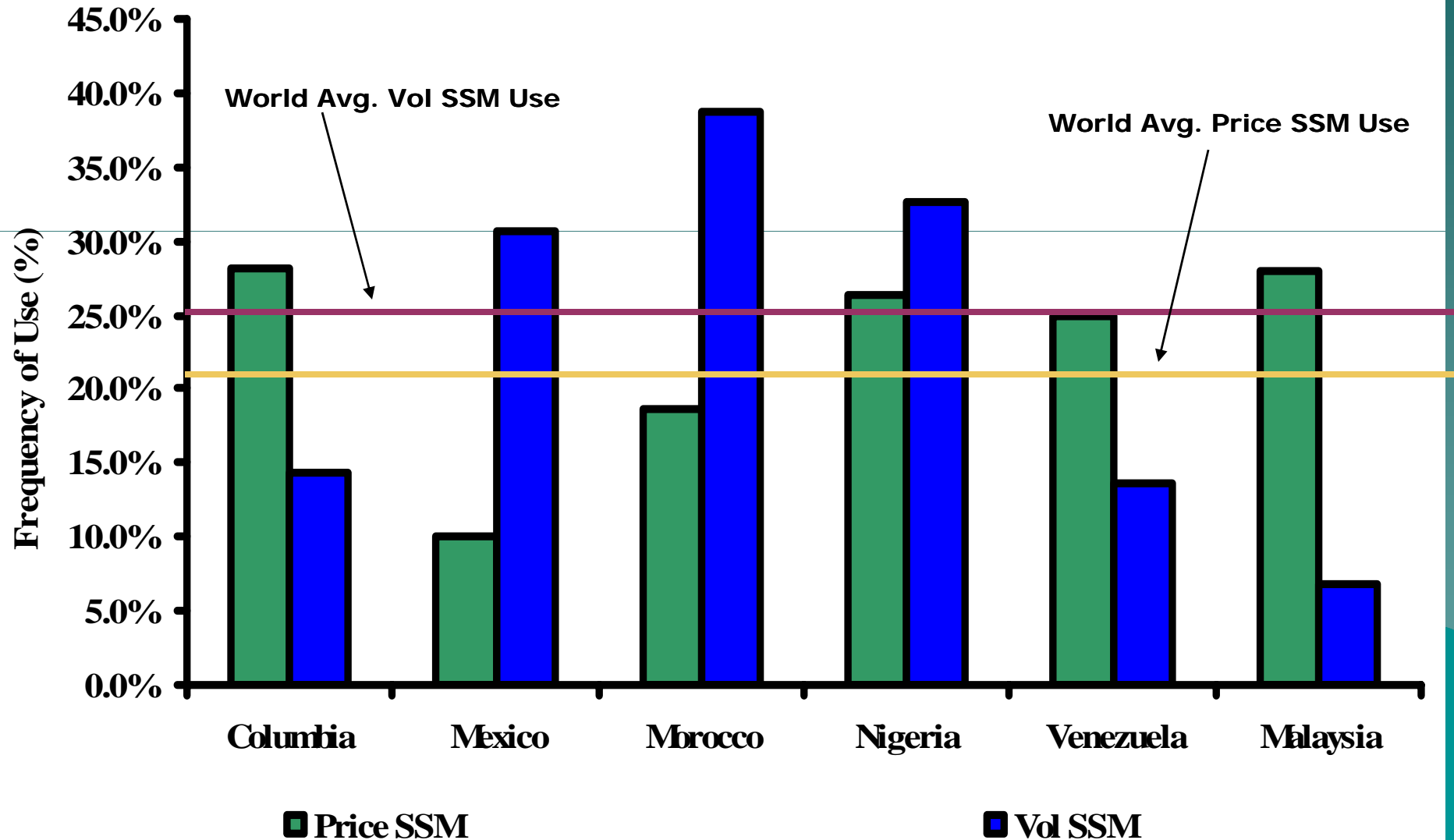
136
152
264
57

Scenario 2 – Results – Tariff Cuts with Falconer/G33 SSM

	<i>Falconer Tariff Cuts – No SSM</i>			<i>Falconer Tariff Cuts – With SSM</i>		
	<i>Gain</i>	<i>Loss</i>	<i>Welfare Δ (%)</i>	<i>Gain</i>	<i>Loss</i>	<i>Welfare Δ (%)</i>
Exporters	6	0	1.52	1	5	-0.73
Developed Importers	2	1	21.75	3	0	0.81
Developing Importers	0	24	-2.27	13	11	-0.56
LDC's	0	5	-2.78	5	0	0.58
World	8	30	1.15	22	16	-0.19
	Welfare Difference From Baseline (\$US)			Welfare Difference From Baseline (\$US)		
	= \$1.28 Billion			= \$-346 Million		

This compares to \$-155 Million under the former UR SSG

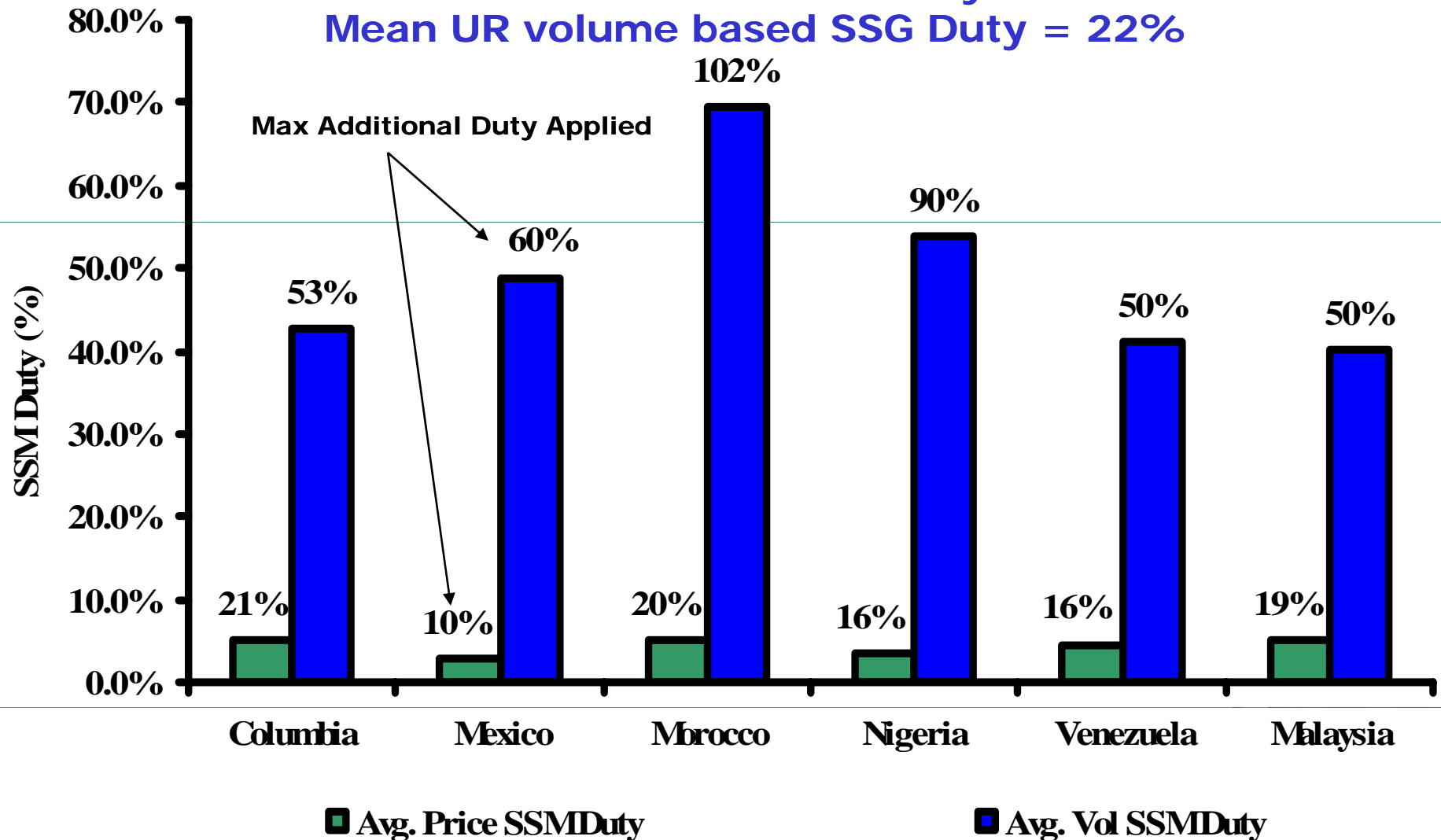
SSM Price & Volume Frequency



Mean SSM Additional Duties

Mean UR Price-Based SSG Duty = 4%

Mean UR volume based SSG Duty = 22%



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 lib. 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 chose 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....