The Special Safeguard Mechanism: The Good, The Bad, The Ugly

Jason Grant\textsuperscript{a} \\
(Based on joint work with Karl Meilke\textsuperscript{b})

CATPRN Workshop \\
May 28, 2011

\textsuperscript{a} Dept. of Ag. & Applied Economics, Virginia Tech, Blacksburg, VA  
\textsuperscript{b} Dept. of Food, Agricultural & Resource Economics, University of Guelph, Guelph, ON
The SSM Fiasco

“Until we got to the Green Room, I never knew the SSM was a big issue. We were all terribly [un] prepared”
(Wolfe 2009, p. 520)

“…the Doha Round has broken down … differences on the SSM are irreconcilable”
(Pascal Lamy, Tuesday, ninth day of 2008 Ministerial Meeting)
Outline

• Do we need another safeguard (i.e., what’s wrong with the UR SSG)?

• When does the SSG/SSM prescribe action?

• Some basic economics developing countries should consider...

• What does the quantitative literature say?

• The good, the bad, and the ugly aspects of the SSM
Why Another Safeguard?

- Fairly traded products
  - GATT Article XIX, Agreement on Safeguards (SG)
  - Article 5 (URAA), Special Agricultural Safeguard (SSG)

- Unfairly traded products
  - Article VI, Anti-dumping agreement
  - Agreement on Subsidies and Countervailing Measures
Top 5 Reasons Why Developing Countries want a Safeguard?

1. Developing countries can’t use AD/CV measures

2. Developing countries can’t use WTO safeguards
   • Requires injury test and compensation when used

3. Developing countries can’t use the UR SSG
   • Tariffication prerequisite

4. Developing countries don’t have domestic support programs

5. Honey the Doha Round shrunk the gap between applied & bound tariffs!
SSM Design: A Technical Instrument

• Failure to resolve SSM issue result of negotiators unable to agree on its purpose early on (Blustein 2008; Wolfe 2009)

• Should the SSM be designed to deal with:
  – Import/price disruptions from Doha trade lib?
  – Any import/price disruptions?
  – What defines a disruption (or: how will the SSM be triggered?)
  – How will the remedies be determined? (Limits? Cross-checks? Duration?)
The UR SSG

Price Trigger (PT)
\[ PT = \bar{P}_M^{1986-88} \]

Volume Trigger (VT)
- If \( \frac{\bar{M}}{\bar{D}} \leq 10\% \):
  \[ VT = 1.25 \times \bar{M} + D_{t,t-1} \]
- If \( 10\% < \frac{\bar{M}}{\bar{D}} \leq 30\% \):
  \[ VT = 1.10 \times \bar{M} + D_{t,t-1} \]
- If \( \frac{\bar{M}}{\bar{D}} > 30\% \):
  \[ VT = 1.05 \times \bar{M} + D_{t,t-1} \]

Price SSM Remedy
Complicated rules but remedy is increasing in the severity of the fall in the import price below the trigger price

Volume SSM Remedy
\[ \frac{1}{3} \times t^a \]
Rev. 4 SSM Proposal (WTO 2008)

SSM

Price Trigger (PT)

\[ PT = 0.85 \times \bar{P}^M \]

Volume Trigger (VT)

\[ VT = \bar{M} \]

Price SSM Remedy

\[ 0.85 \times \left[ \frac{PT}{P^M} - 1 \right] \]

Volume SSM Remedy

- \( M < 110\% \): No remedy
- \( 110\% < M \leq 115\% \): \( \text{Max}\{0.25 \times t^b, 25\%\} \)
- \( 115\% < M \leq 135\% \): \( \text{Max}\{0.40 \times t^b, 40\%\} \)
- \( M > 135\% \): \( \text{Max}\{0.50 \times t^b, 50\%\} \)
Further Sticky Points: “above the bound rate”

<table>
<thead>
<tr>
<th>Import Surge</th>
<th>% Above $t^b$</th>
<th>Price Fall</th>
<th>% Above $t^b$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$M &lt; 120%$</td>
<td>Cap at $t^b$</td>
<td>No guidelines</td>
<td></td>
</tr>
<tr>
<td>$120% &lt; M \leq 140%$</td>
<td>$\max{1/3 \times t^b, 8% \text{ pts}}$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$M &gt; 140%$</td>
<td>$\max{1/2 \times t^b, 12% \text{ pts}}$</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Additional constraints proposed:**

1) Domestic price should be falling (Cross-checking)

2) Above bound remedy may only be applied for max. of 4 or 8 months and shall not be re-applicable after that until an equivalent period has lapsed (“Holiday Period”)

3) Above bound rate remedies only applicable to 2.5% of tariff lines
Import Price Behavior: A Hypothetical Example

% Fall in Import Price Below Price Trigger

- Pm*(1 + Ta)
- Pm*(1 + Ta + TSSG)
- Pm*(1 + Ta + TRev.4)
Sizable Additional Safeguard Duties

% Fall in Import Price Below Price Trigger

Safeguard Tariff (%)

- UR SSG
- Rev. 4 SSM
Some Basic Economics

- Trade defense mechanisms based entirely on mechanical triggers will prescribe action when it may not be needed (Grant/Meilke 2011, Finger 2009)

<table>
<thead>
<tr>
<th>Source of Import Surge</th>
<th>Domestic Price</th>
<th>World Price</th>
<th>Suggested Application of Volume SSM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Local crop shortfall</td>
<td>↑</td>
<td>↑ ↓</td>
<td>No Action</td>
</tr>
<tr>
<td>2. Local demand spike</td>
<td>↑</td>
<td>↑ ↓</td>
<td>None. Unless $P_w$ are cause of the local demand spike</td>
</tr>
<tr>
<td>3. Global bumper crop</td>
<td>↓</td>
<td>↓</td>
<td>Price provides a better indicator of need for the SSM</td>
</tr>
<tr>
<td>4. Int’l Subsidies</td>
<td>↓</td>
<td>↓</td>
<td>Price provides a better indicator of need for the SSM</td>
</tr>
<tr>
<td>5. Tariff Reductions</td>
<td>↓</td>
<td>↑ ↓</td>
<td>Higher imports coupled with lower domestic prices justifies SSM action</td>
</tr>
</tbody>
</table>
Some Key Questions for Developing Countries

1. SSM is a voluntary mechanism (Grant and Meilke 2006; 2009)

2. Policy-makers will have to ask themselves:
   
   a. What is the source of the shock that triggered the SSM?
   
   b. What objectives do developing countries wish to accomplish?
   
   c. How will the SSM affect the domestic/int’l markets?
Quantitative Results (Grant & Meilke 2006; 2009)

- Stochastic, partial equilibrium model (wheat, 1999-2001 base)
- 38 countries; 32 net-importers (29 developing/LDCs)

\[
P_i^d = P^w (ER_i + \varepsilon_1) (1 + t^a + \delta (\max ( t^{Pssm} , t^{Vssm} )))
\]

\[
Q_i = (a + \varepsilon_2) + bP_i^d
\]

\[
D_i^{FD} = (c + \varepsilon_3) - dP_i^d
\]

\[
D_i^{FE} = e - fP_i^d
\]

\[
NT_i = Q_i - D_i^{FD} - D_i^{FE} - (ES_i - BS_i)
\]

\[
\sum_i NT_i = 0
\]
Scenarios


## Results: Simple Tariff Cuts, No Safeguards

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Stability</td>
</tr>
<tr>
<td></td>
<td>Up</td>
<td>Down</td>
</tr>
<tr>
<td><strong>Domestic Price</strong></td>
<td>31</td>
<td>0</td>
</tr>
<tr>
<td><strong>Prod. Surplus</strong></td>
<td>28</td>
<td>0</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td><strong>World Price Increase</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.42%</td>
<td></td>
</tr>
<tr>
<td><strong>World Welfare Increase</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.65% or $716 mil.</td>
<td></td>
</tr>
</tbody>
</table>
# Results: Tariff Cuts, with SSG or SSM

<table>
<thead>
<tr>
<th></th>
<th>SSG</th>
<th>SSM</th>
<th>SSM w/ tariffs capped at UR bound rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Stability</td>
<td>Mean</td>
</tr>
<tr>
<td><strong>Domestic Price</strong></td>
<td>Up</td>
<td>Down</td>
<td>More</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td><strong>Proc. Surplus</strong></td>
<td>17</td>
<td>11</td>
<td>21</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>9</td>
<td>22</td>
<td>26</td>
</tr>
<tr>
<td>World Price Decrease</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.20% (3.16% more volatile)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Welfare Decrease</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.16% ($145 mil.)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Conclusions

• THE GOOD:
  – The SSM doesn’t cost much even if UR bound levels are breached
  – Might have been a small price to pay to conclude the round

• THE BAD:
  – Very little refereed analytical research on the issue
  – Only 3 published studies using quantitative models but all of them focus on wheat!
  – Where have all the trade economists been?

• THE UGLY:
  – The volume-based SSM.
  – Import protection when food shortages may exist seems distinctly unwise