



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

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## 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

SSG

Price Trigger (PT)

$$PT = \bar{P}_{1986-88}^M$$

Price SSM Remedy

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

Volume Trigger (VT)

$$VT = 1.25 * \bar{M} + D_{t,t-1} \quad \text{IF} \quad \bar{M} / \bar{D} \leq 10\%$$

$$VT = 1.10 * \bar{M} + D_{t,t-1} \quad \text{IF} \quad 10\% < \bar{M} / \bar{D} \leq 30\%$$

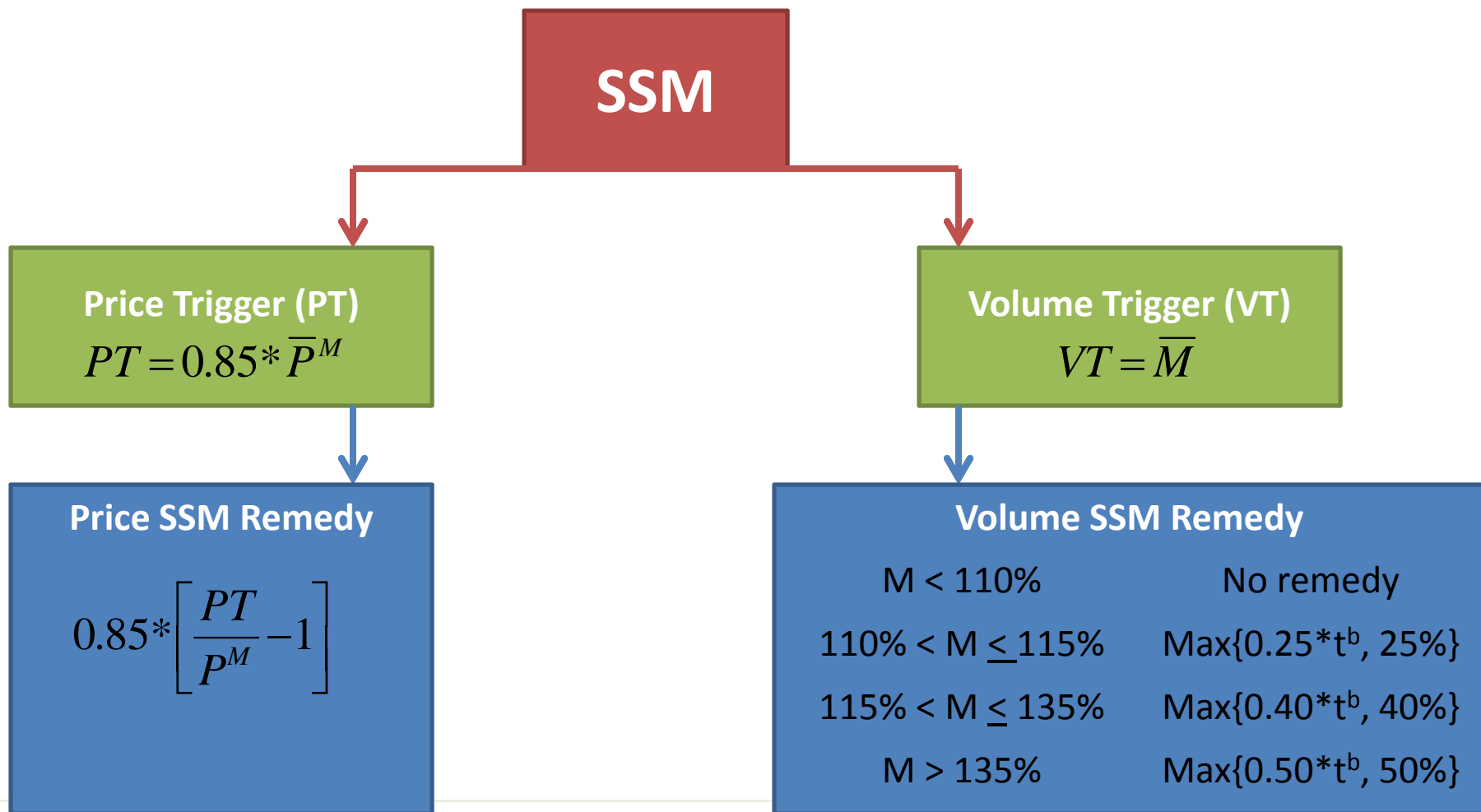
$$VT = 1.05 * \bar{M} + D_{t,t-1} \quad \text{IF} \quad \bar{M} / \bar{D} > 30\%$$

Volume SSM Remedy

$$1/3 * t^a$$



## Rev. 4 SSM Proposal (WTO 2008)





## Further Sticky Points: “above the bound rate”

### Working Paper 7 (WTO 2008): “Above the Bound Rate Issues”

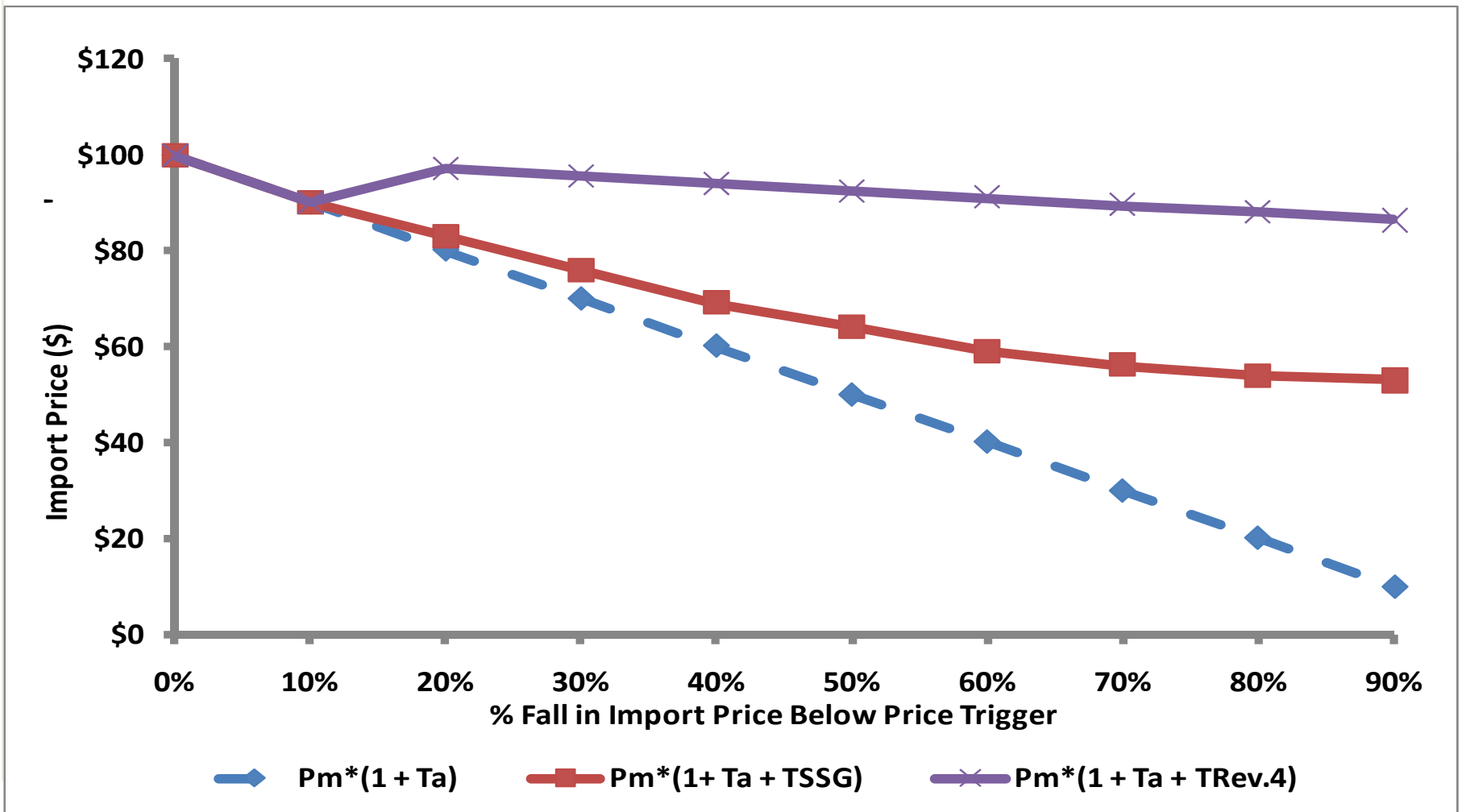
Import Surge	% Above $t^b$	Price Fall	% Above $t^b$
$M < 120\%$	Cap at $t^b$	No guidelines tabled for Price SSM “above the bound rate”	
$120\% < M \leq 140\%$	$\text{Max}\{1/3 * t^b, 8\% \text{ pts}\}$		
$M > 140\%$	$\text{Max}\{1/2 * t^b, 12\% \text{ pts}\}$		

#### 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

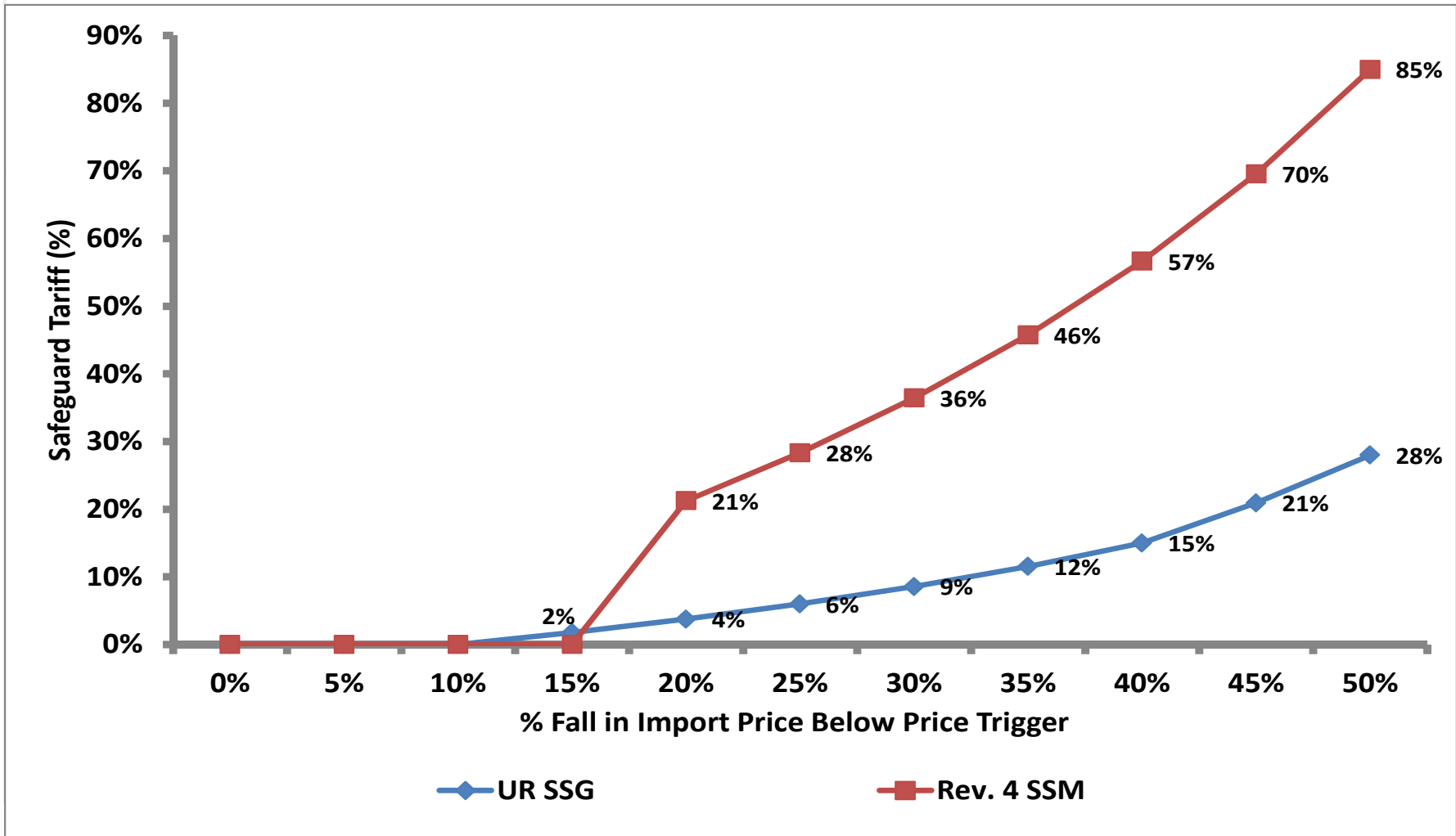


## Import Price Behavior: A Hypothetical Example





# Sizable Additional Safeguard Duties





# 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)

Source of Import Surge	Domestic Price	World Price	Suggested Application of Volume SSM
1. Local crop shortfall	↑	↑ ↓	No Action
2. Local demand spike	↑	↑ ↓	None. Unless $P^w$ are cause of the local demand spike
3. Global bumper crop	↓	↓	Price provides a better indicator of need for the SSM
4. Int'l Subsidies	↓	↓	Price provides a better indicator of need for the SSM
5. Tariff Reductions	↓	↑ ↓	Higher imports coupled with lower domestic prices justifies SSM action



## 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

- 1. Harbinson (2003) and Rev.4 (2008) tariff cuts (no SSG/SSM)**
- 2. Harbinson (2003) with developing country SSG & Rev.4 (2008) tariff cuts with developing country SSM**



## Results: Simple Tariff Cuts, No Safeguards

	Harbinson (2003)				Rev. 4 (2008)			
	Mean		Stability		Mean		Stability	
	Up	Down	More	Less	Up	Down	More	Less
<i>Domestic Price</i>	31	0	30	1	31	0	30	1
<i>Prod. Surplus</i>	28	0	13	15	28	0	13	15
<i>Imports</i>	3	28	27	4	3	28	27	4
	<i>World Price Increase 3.42%</i>				<i>World Price Increase 3.91%</i>			
	<i>World Welfare Increase 0.65% or \$716 mil.</i>				<i>World Welfare Increase 1.15% or \$1.28 bil.</i>			



# Results: Tariff Cuts, with SSG or SSM

	SSG				SSM				SSM w/ tariffs capped at UR bound rates			
	Mean		Stability		Mean		Stability		Mean		Stability	
	Up	Down	More	Less	Up	Down	More	Less	Up	Down	More	Less
<b>Domestic Price</b>	19	12	16	15	23	8	7	24	23	8	10	21
<b>Prod. Surplus</b>	17	11	21	7	21	7	16	12	21	7	18	10
<b>Imports</b>	9	22	26	5	5	26	25	6	5	26	27	4
	World Price Decrease 0.20% (3.16% more volatile)				World Price Decrease 1.16% (22.5% more volatile)				World Price Decrease 0.90% (16.5% more volatile)			
	World Welfare Decrease (\$) 0.16% (\$145 mil.)				World Welfare Decrease (\$) -0.20% (\$223 mil.)				World Welfare Decrease (\$) 0.18% (\$204 mil.)			



# 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