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

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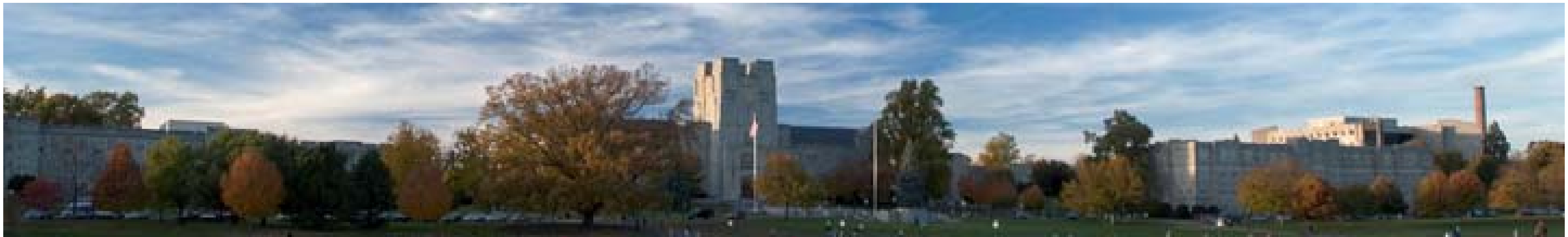
Why Another Safeguard?

- Fairly traded products
    - GATT Article XIX, Agreement on Safegaurds (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!

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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)

$$PT = \overline{P}^{M}_{1986\text{–}88}$$

Volume Trigger (VT)

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

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

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

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

$$1/3 * t^{a}$$

Rev. 4 SSM Proposal (WTO 2008)

SSM

Price Trigger (PT)

$$PT = 0.85 * \overline{P}^{M}$$

Volume Trigger (VT)

$$VT = \overline{M}$$

Price SSM Remedy

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

Volume SSM Remedy

M < 110%	No remedy
110% < M $\leq$ 115%	Max{0.25*t^b, 25%}
115% < M $\leq$ 135%	Max{0.40*t^b, 40%}
M > 135%	Max{0.50*t^b, 50%}

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”	
$120\% < M \leq 140\%$	$\text{Max}\{1/3 * t^b, 8\% \text{ pts}\}$		
$M > 140\%$	$\text{Max}\{1/2 * t^b, 12\% \text{ pts}\}$		

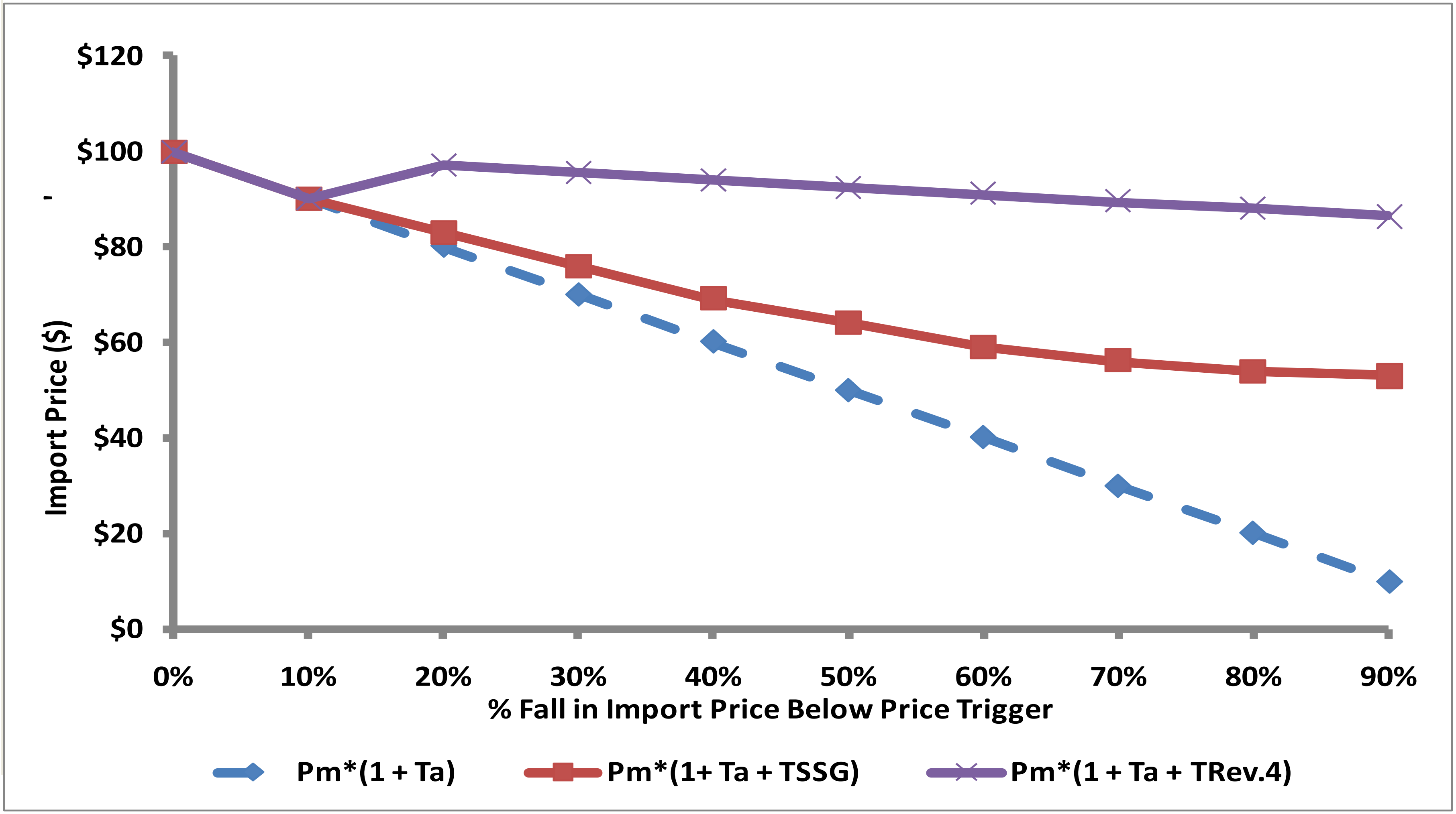
Additional constraints proposed:

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

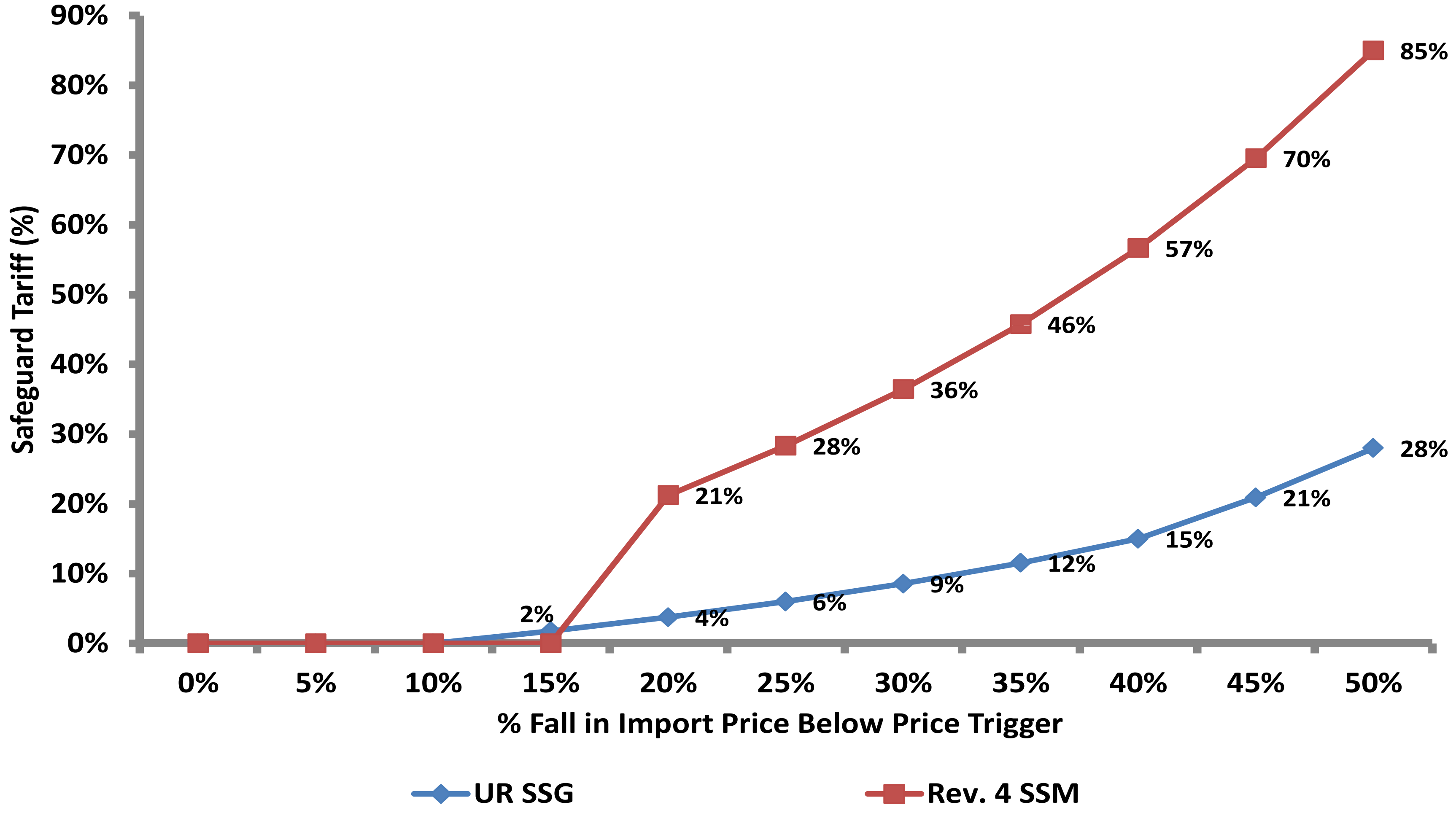
2) Above bound remedy may only be applied for max. of 4 or 8 months and shall not be re-applicable after that until an equivalent period has lapsed (“Holiday Period”)

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?

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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
Domestic Price	31	0	30	1	31	0	30	1
Prod. Surplus	28	0	13	15	28	0	13	15
Imports	3	28	27	4	3	28	27	4
	World Price Increase 3.42%				***World Price Increase 3.91%***			
	World Welfare Increase 0.65% or $716 mil.				***World Welfare Increase 1.15% or $1.28 bil.***			

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
Domestic Price	19	12	16	15	23	8	7	24	23	8	10	21
Prod. Surplus	17	11	21	7	21	7	16	12	21	7	18	10
Imports	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.)**			

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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

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