

Module 4. Safeguards, Countervailing Measures, Dumping and Anti-dumping, and Competition Policy under a Multilateral Framework

ECN330

Analyzing Economic Integration and
Multilateral Trade Liberalization

2023

Glossary of abbreviations

- ✦ **AD** – anti-dumping duties
- ✦ **AMS** – aggregate measure of support
- ✦ **Δ CS** – change in consumer surplus
- ✦ **CSE** – consumer subsidy equivalent
- ✦ **CVD** – countervailing duty
- ✦ **CVM** – countervailing measures
- ✦ **DS** – domestic support
- ✦ **DSM** – dispute settlement mechanism
- ✦ **Δ D** – change in demand
- ✦ **DWL** – dead-weight loss
- ✦ **ED** – excess demand, import demand
- ✦ **Δ ED** – change in excess demand
- ✦ **Eqibm** – equilibrium
- ✦ **MA** – market access
- ✦ **MFN** – most favored nation
- ✦ **P** - price
- ✦ **P_D** – domestic price
- ✦ **P_W** – world price
- ✦ **PS** – producer surplus
- ✦ **Δ PS** – change in producer surplus
- ✦ **PSE** – producer subsidy equivalent
- ✦ **Q** - quantity
- ✦ **Q_D** – quantity demanded
- ✦ **Q_M** – quantity imported
- ✦ **Q_S** – quantity supplied
- ✦ **Q_T** – quantity traded
- ✦ **Q_X** – quantity exported
- ✦ **R+D** – research and development
- ✦ **SGs** – safeguards
- ✦ **SSGs** – special safeguards
- ✦ **VER** – voluntary export restraint

1. Safeguards and Special Safeguard Measures

	Goods	Services	Intellectual property	Trade disputes
Basic principles	GATT	GATS	TRIPS	DSM
Additional details	Agreements and Annexes			
Specific sectors or issues	Subsidies and countervailing measures; Safeguards	Telecom Financial Transportation		
Market access commitments	Schedule of Commitments			
Country-specific requirements	Limitations on market access, national treatment	Limitations on market access, national treatment		

Safeguards and Special Safeguards . . . continued

1.1 Safeguards (SGs): industrial/ag goods without SSG

✦ Definition, objective, conditions for its use

✦ Safeguards initiated and applied by member, 1995-2007

	DCs			EMEs			LDCs		
	Country	No. of SGs		Country	No. of SGs		Country	No. of SGs	
		Init	App		Init	App		Init	App
Selected member	US	10	6	EU-12	31	19	India	15	8
	EU-15	4	3	Chile	11	7	Jordan	12	6
	Canada	3	0	Turkey	11	7	Phillip	7	5
	Australia	1	0	Argentin	6	3	Ecuador	7	3
	Japan	1	0	S. Korea	4	2	Venezue	6	0
Sub-total	5 members	19	9	16 members	67	41	18 members	72	29
Total	39 members <i>initiated</i> SG measures on 158 product lines and <i>applied</i> 79								

Safeguards and Special Safeguards. . . continued

✦ Safeguards applied by sector, 1995-2007

Safeguards applied	Number applied
Live animals and animal products	8
Vegetable products	7
Prepared food stuffs and beverages	11
Chemicals and products	17
Articles of stone, plaster, cement, ceramics	8
Base metals and articles	10
Machinery and mechanical appliances	5
Sub-total of these listed	66
Total of all SG measures applied	79

Safeguards and Special Safeguards. . . continued

1.2 Special safeguards (SSGs): agriculture

✦ Definition, objective, and conditions for its application

✦ Rights to apply SSGs, by member type, 1995-2004

	Developed		Emerging Mkts		Developing	
	Country	No.	Country	No.	Country	No.
Selected members	SW-Liech	961	Mexico	293	Morocco	374
	Norway	581	Czech Rep	236	S. Africa	166
	EU-15	539	Romania	175	Namibia	166
	Iceland	462	Poland	144	Swaziland	166
	US	189	Slovakia	114	Botswana	161
Sub-totals	9 members	3,017	12 member	1,389	18 member	1,750
Total	39 members reserved right to use SSGs on 6,156 lines (1,724 product groups at the HS 4-digit level)					

Safeguards and Special Safeguards. . . continued

✦ Potential and Actual Application of SSGs, 1995-04

Member Product category	Number of SSGs negotiated					Sum of P-based SSG actions				
	Pol	EU-15	US	Jpn	Total	Pol	EU-15	US	Jpn	Total
Cereals	15	76	15	41	1,089	12	-	25	19	39
Meat + prods	19	192	12	32	1,356	200	28	6	-	121
Dairy	6	110	73	29	728	-	10	215	11	146
Fruit + vegeta	38	45	3	6	831	40	-	16	8	21
Total, all prods	144	539	189	121	6,156	383	95	388	43	948
						Sum of Q-based SSG actions				
Dairy						1	-	2	46	29
Meat + prods						1	-	6	41	52
Fruit + vegeta						1	174	-	-	148
Total, all prods						8	174	8	108	516

Safeguards and Special Safeguards. . . continued

✦ Interpretation of the application of SSGs

- ◆ US: SSGs triggered from P not quantity imported, accounting for 41% of all P-based SSG actions. Why?
- ◆ EU-15: SSGs triggered more from quantity imported, accounting for 34% of all Q-based SSG actions. Why?
 - Potential thesis topics?
 - ◆ Have the trends continued in US, EU (which products)?
 - ◆ US 2022: 100% P-based SSG
 - ◆ Did SSG use in the EU change when CEE joined EU?
 - ◆ Poland big user of SSG (P-based trigger) before EU membership – what about after?
 - ◆ Which members have since used SSGs? Why, which goods?

2. Countervailing Measures

2.1 Countervailing measures (CVMs)

✦ Definition and objective

✦ Conditions for application of a CVM: adverse effects

- ◆ Injury

- ◆ Serious prejudice

- ◆ Nullification of benefits

✦ Not many cases, but are high profile

- ◆ 1995-2022 updates: total applied 403

- Total applied by US, 212 (against China, 88; India 29)

- Total applied against (top 6, 67% of all cases)

- ◆ China, 150 India, 64 S. Korea, 16

- ◆ Turkey, 15 Indonesia, 15 US, 12

- Application by product category (top 4, 74%)

- ◆ Base metal, 204 Chemicals, 37 Plastics, 31 Machinery, 25

Countervailing Measures, continued . . .

2.2 CVMs Initiated and Applied, by Country, 1995-2007

On Exporter	CVMs <i>initiated</i> by:					CVMs <i>applied</i> by:				
	Can	EC	SA	US	All	Can	EC	SA	US	All
Canada	-	0	0	8	8	-	0	0	3	3
EU-27 or state	1	-	0	0	30	1	-	0	18	47
India	5	14	9	11	41	4	11	3	7	25
South Africa	0	1	-	2	6	0	0	-	2	4
US	2	0	0	-	3	0	0	0	-	1
Exporter type:	<i>Initiated by above against</i>					<i>Applied by above against:</i>				
Developing	10	23	11	26	78	8	11	4	15	53
Emerging mkts	2	17	0	18	43	2	10	0	10	25
Developed	4	2	0	26	55	1	2	0	22	39
Total	16	42	11	70	176	11	23	4	47	117

Source: www.wto.org Note: EMEs include EC-10 and middle-income Asia

US+EU apply: 60%

Countervailing Measures, continued . . .

CVMs initiated and applied, by product, 1995-2007						
Product category	Total CVMs initiated, by category	CVM applied by:				
		Can	EU	SA	US	All
Base metals + articles	71	9	9	2	32	58
Food/beverages/tobacco	23	1	0	0	2	13
Vegetable products	8	0	0	0	1	8
Plastics/rubber + articles	17	0	5	1	1	7
Totals, initiated/applied	176	11	23	4	47	117

Base metals: 50%

Source: WTO, www.wto.org

2.3 Subsidy-CVD response – exercise 3

- ✦ Good economic meaning
- ✦ Can correct a subsidy's negative effect

3. Dumping and Anti-dumping

Motivate: what is an “unfair trade practice”?

3.1 Dumping on the int’al mkt

- ✦ Two possible ways

- ✦ What are our concerns with respect to firm behavior?

- ✦ Related concerns:

- ◆ Is an export subsidy the same as dumping?

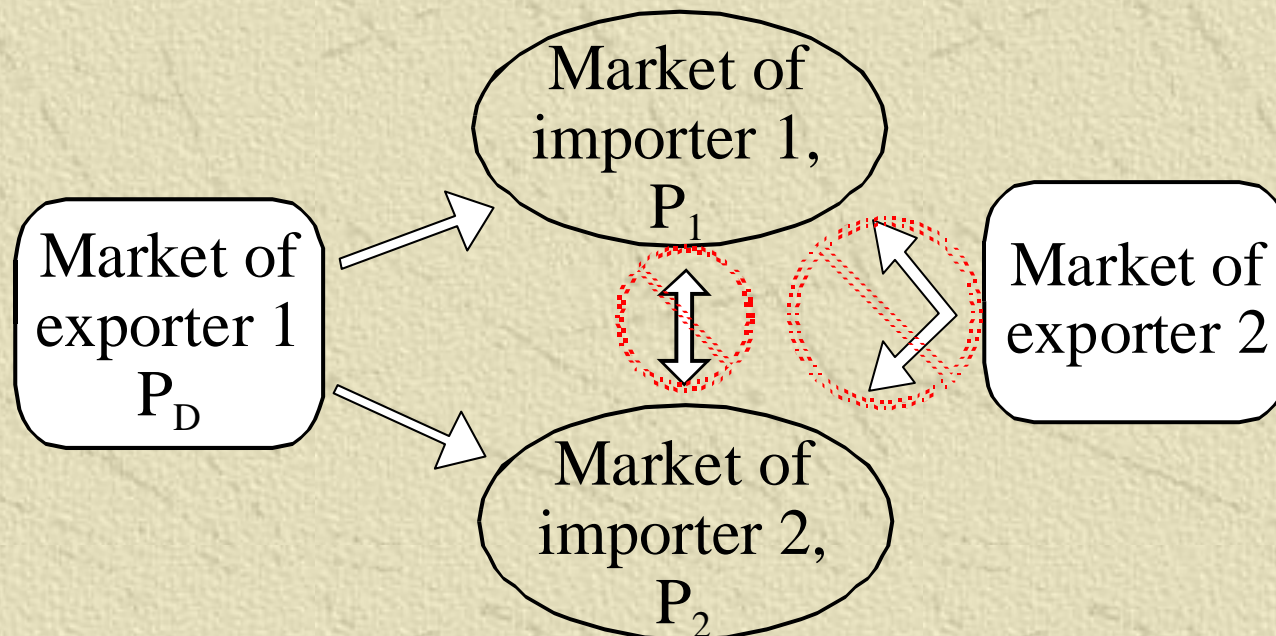
- ◆ Is dumping evidence of unfair trade or is it normal business practice?

Dumping and Anti-Dumping, continued . . .

3.2 Economics of dumping and "unfair" trade practices

✦ Price discrimination

- ◆ Does P-discrimination occur on the domestic mkt?
- ◆ Can it occur on the int'l market?



Demand is separable; the market values time, space, and volume

Dumping and Anti-Dumping, continued . . .

✦ Predatory pricing: $P < \text{cost}$

- ◆ What does $P < MC$ mean?
- ◆ What does $P < AC$ mean?
- ◆ Is such behavior "normal" business practice or "unfair" trade?

3.3 Motivations for dumping

Type of dumping	Objectives of the exporting firm
Sporadic or random	No deliberate intention to dump
Price discrimination	Maximize profits given import demand differences
Cyclical	Cover at least variable costs and maintain capacity during periods of low demand
Defensive	Minimize losses due to excess capacity or to deter entry by competitors
Scale economies	Price below cost initially with expectation of recouping investment outlays (fixed costs) over time as sales expand
Market-creating	To establish a new product as the market leader – revenue, not profit maximization
Offensive	To attack a dominant supplier in an export market
Predatory	To establish a monopoly on an export market

Dumping and Anti-Dumping, continued . . .

3.4 AD under GATT/WTO

✦ Background on AD law

✦ Problems: procedural/methodological/theoretical

- ◆ Injury determination based on import volume
- ◆ Weaker criteria for injury relative to safeguards
- ◆ Dumping margins too high
- ◆ Theoretical imprecision

✦ Many AD cases affects DSM

- ◆ 1995-2020 updates (total applied cases 4,463)
 - Cases applied by top 7 (63% of total)
 - ◆ Applied by: India 775 US 620 EU-wide 359
 - ◆ Applied against: China 1,170 S Korea 326 US 202
 - Application by product category (top 4, 74%)
 - ◆ Base metal, 1, 489 Chemical, 940 Plastic, 544, Machinery 322

Dumping and Anti-Dumping, continued . . .

3.5 Application of AD measures

AD measure initiated by member, 1995-2008						
Exporter AD Initiated by	Number of AD actions <i>initiated</i> against:					Initiated against members
	Brazil	China	EU-27 as one	India	US	
Argentina	41	56	1	6	11	232
Australia	2	27	0	4	7	195
Brazil	-	31	5	5	26	154
China	0	-	8	4	20	141
EU-27 as one	3	82	-	28	12	382
India	7	108	38	-	26	520
S. Africa	8	30	0	20	9	206
US	10	84	0	21	-	414
Total against	96	434	57	115	158	3,305

Dumping and Anti-Dumping, continued . . .

AD measures applied by member, 1995-2008

Exporter AD applied by	Number of AD measures <i>applied</i> against:							Total by
	China	EU-27 as one	EU	India	Korea	Russia	US	
Argentina	38	0	21	5	10	2	5	157
Brazil	13	2	17	3	1	2	8	67
Canada	12	0	24	3	5	3	11	87
China	-	6	9	4	18	6	16	97
EU-27 as one	50	-	-	16	12	15	5	237
India	75	29	34	-	24	13	17	347
S. Africa	14	0	36	12	16	0	5	121
US	54	0	40	11	11	8	-	242
All members	317	39	292	62	123	77	88	1,997

Source: www.wto.org Note: EC-27 is measure against all 27; EU is measure against one EU-27 member

50% of total applied against →

AD Measures Applied by Member, by product, 1995-2005

Product category	No. of measures applied by importers, by product									
	Argent	China	EC-15	EC, 15	EC, 10	India	Africa	South	US	Total
Chemical products	5	31	38	-	-	142	18	29		345
Plastics/rubber and articles	9	16	15	-	-	48	20	10		205
Textiles and articles	8	1	21	-	-	39	10	5		126
Base metals and articles	51	5	70	-	-	29	30	139		572
Machinery and appliances	28	3	27	-	-	22	5	7		131
Sub-totals	61% →	139	62	200	-	-	309	113	229	1,729
	No. measures applied against exporters, by product									
Chemical products	1	83	22	33	10	12	4	33		345
Plastics/rubber and articles	0	18	9	18	4	13	0	16		205
Textiles and articles	0	19	0	11	3	8	0	2		126
Base metals and articles	5	75	2	53	29	22	27	6		572
Sub-totals	46% →	10	317	39	192	59	59	34	88	1,729

Note: EC-15 is measure by/against all; EC, 15 and EC, 10 is measure against individual member

Dumping and Anti-Dumping, continued . . .

✦ Application of CVMs

- ◆ CVMs used to a much lesser extent
- ◆ High profile cases, but rarely involve application of measure
- ◆ Requires country to reform domestic regs or policies

✦ Application of AD

- ◆ AD used much more (1,997 applied of 3,305 AD initiated)
- ◆ Most measures applied against China (16% through 2008)
- ◆ Many deals struck as P-undertakings or worse, VERs
- ◆ Better response is:
 - SGs or
 - Challenge “unfair” behavior in national courts

Dumping and Anti-Dumping, continued . . .

- ✦ Consider disputes of unfairness by EU/US against Japan
 - ◆ Japanese firms dump through cross-subsidization
 - High prices in Japan; closed internal markets
 - Lax competition policy (vertical integration, collusion)
 - Consumers in home market finance dumping on US/EU markets
 - ◆ AD cannot correct for mkt segmentation or MA restriction from non-enforcement of competition in Japan

4. Imperfect Competition: WTO disciplines

4.1 Agreement on state-trading enterprises (STEs)

✦ WTO definition of STE

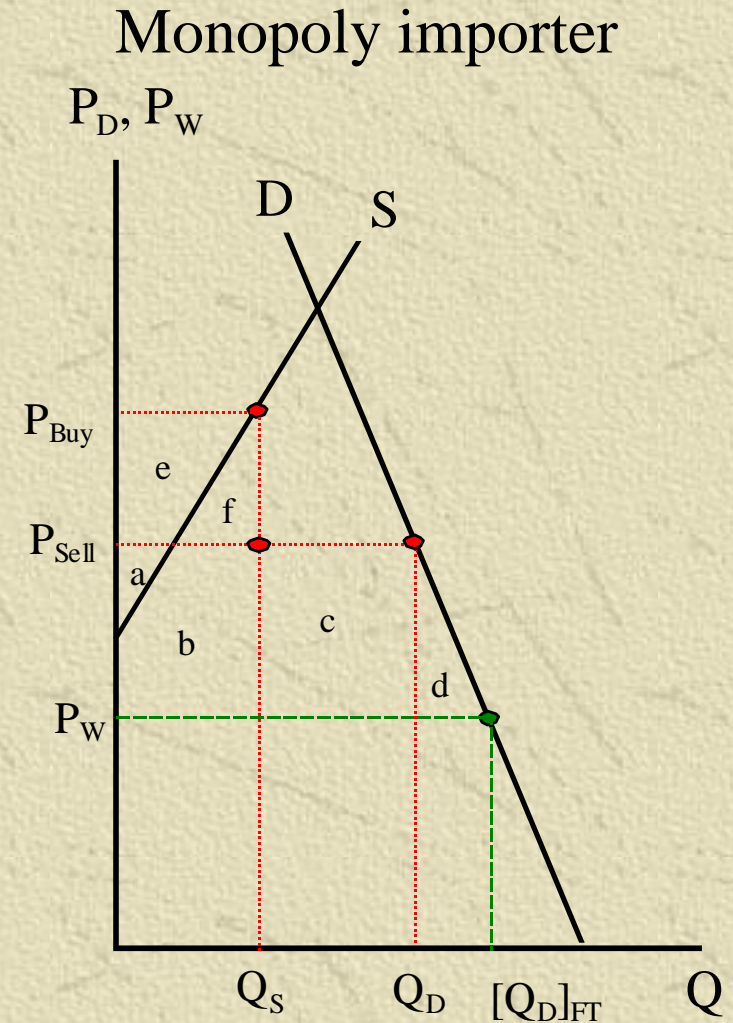
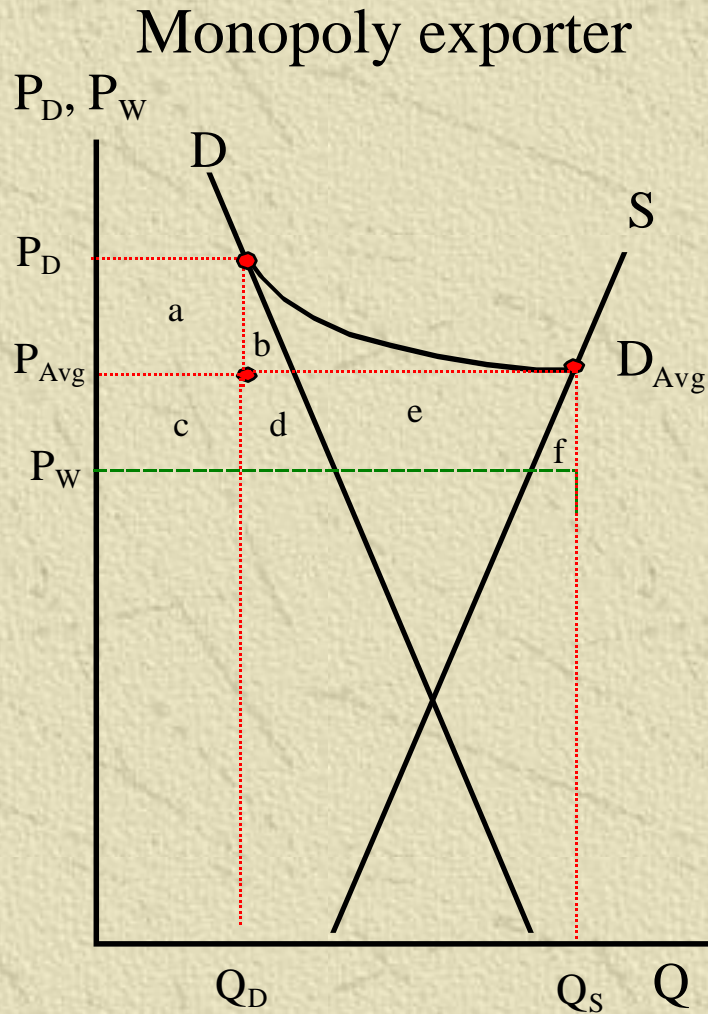
- ◆ Gov't and non-gov't firms (marketing boards)
- ◆ Exclusive or special rights or privileges
- ◆ Can exercise influence/control over purchase/sale or trade

✦ Disciplines

- ◆ WTO-consistency (principles, rules)
- ◆ Purchases/sales based on commercial considerations
- ◆ Opportunity to compete in purchases/sales

Agreements Related to Competition, continued . . .

✦ STEs: 2-price systems (dumping, P-discrimination)



Agreements Related to Competition, continued . . .

✦ State capitalism: industrial policy in France

- ◆ Gov't strategic stakes in privatized firms
- ◆ Influence over troubled manufacturing firms thru guaranteed loans in exchange for seats on the board
- ◆ 2020s:, singling out France is unfair as industrial policy is *de jour*

French government stakes in listed companies

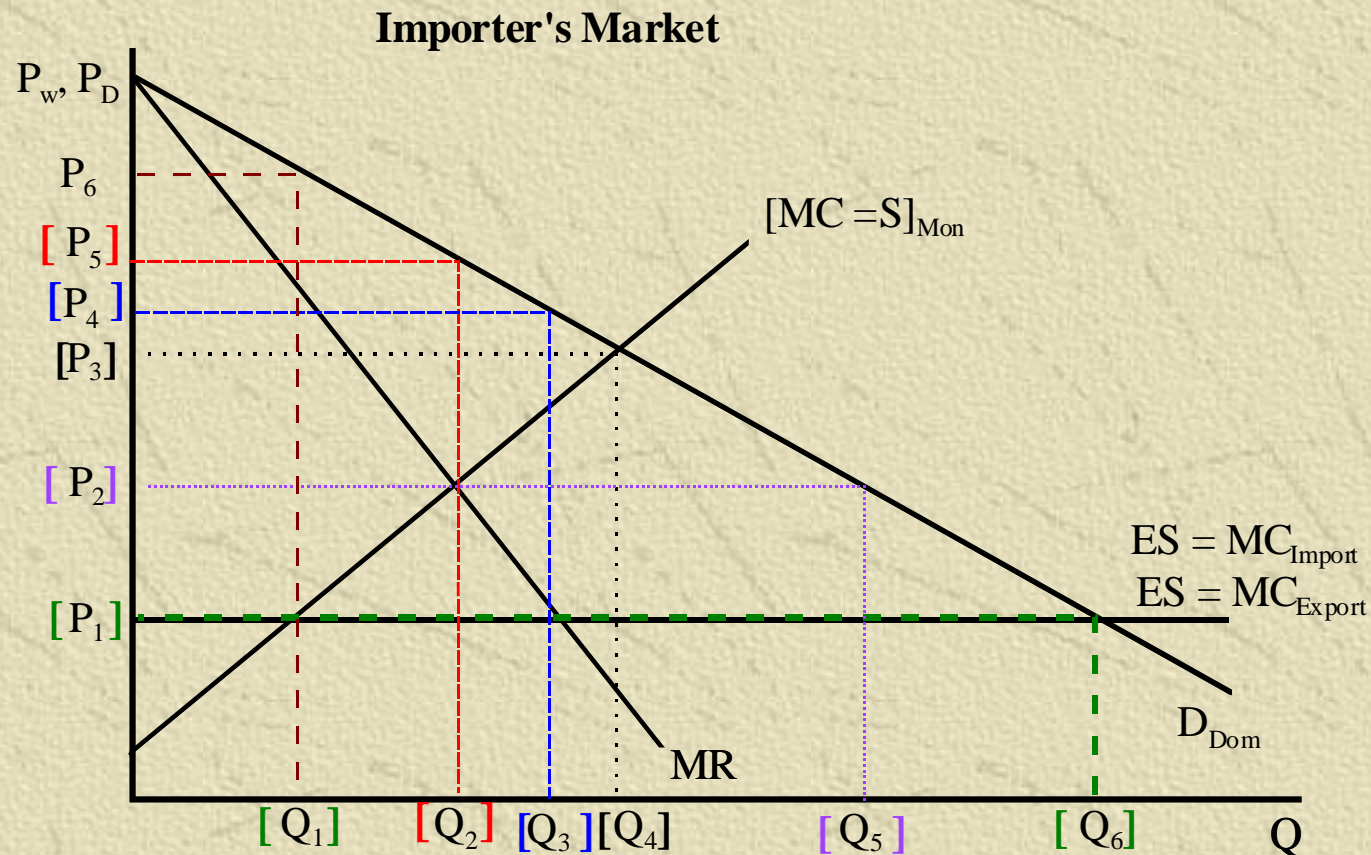
	Stake, %	Valuation, €bn (October 15th)
Aéroports de Paris	54.54	3.27
Air France KLM	15.88	0.27
Areva	10.17	0.53
CNP Assurances	1.10	0.07
Dexia	5.73	0.02
EADS	14.96	3.27
EDF	84.44	26.00
France Télécom	13.45	3.32
GDF SUEZ	36.36	14.70
Renault	15.01	1.59
Safran	30.20	3.74
Thalès	27.08	1.55

Source: Agence des participations de l'Etat

Agreements Related to Competition, continued . . .

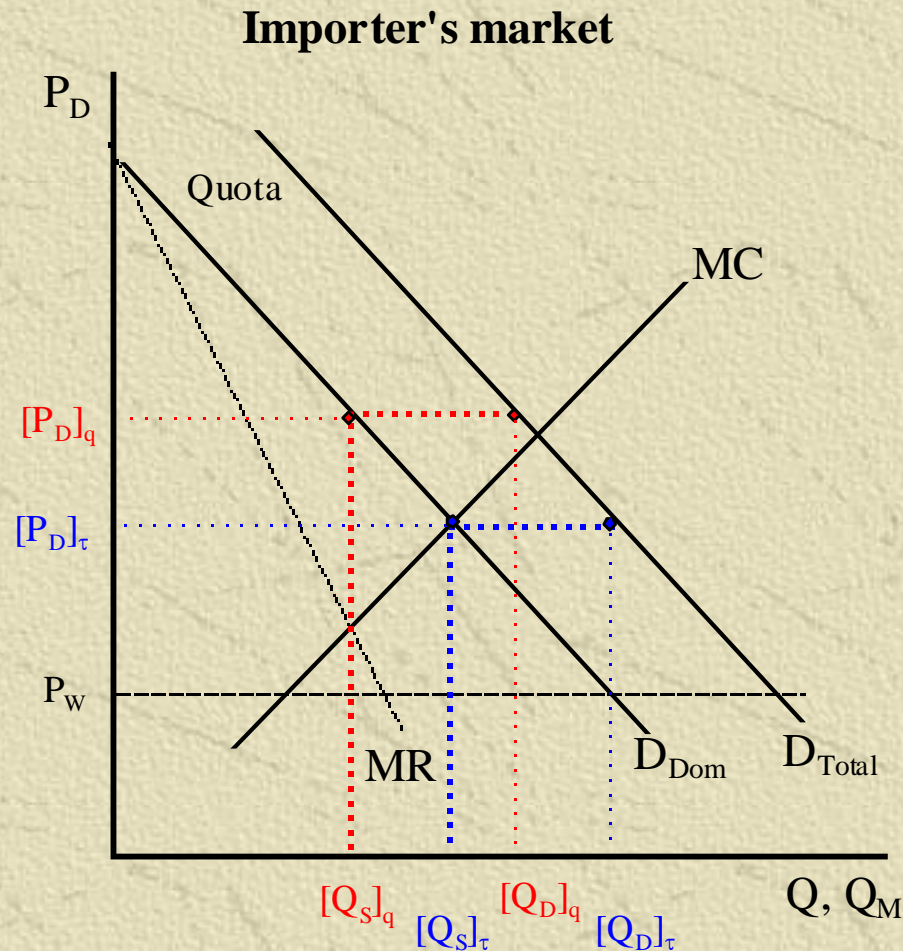
4.2 Interplay of trade policy and mkt power

- ✦ Case of small importing country with monopoly producer
 - ◆ Interpret meanings of different eqblm at the different prices



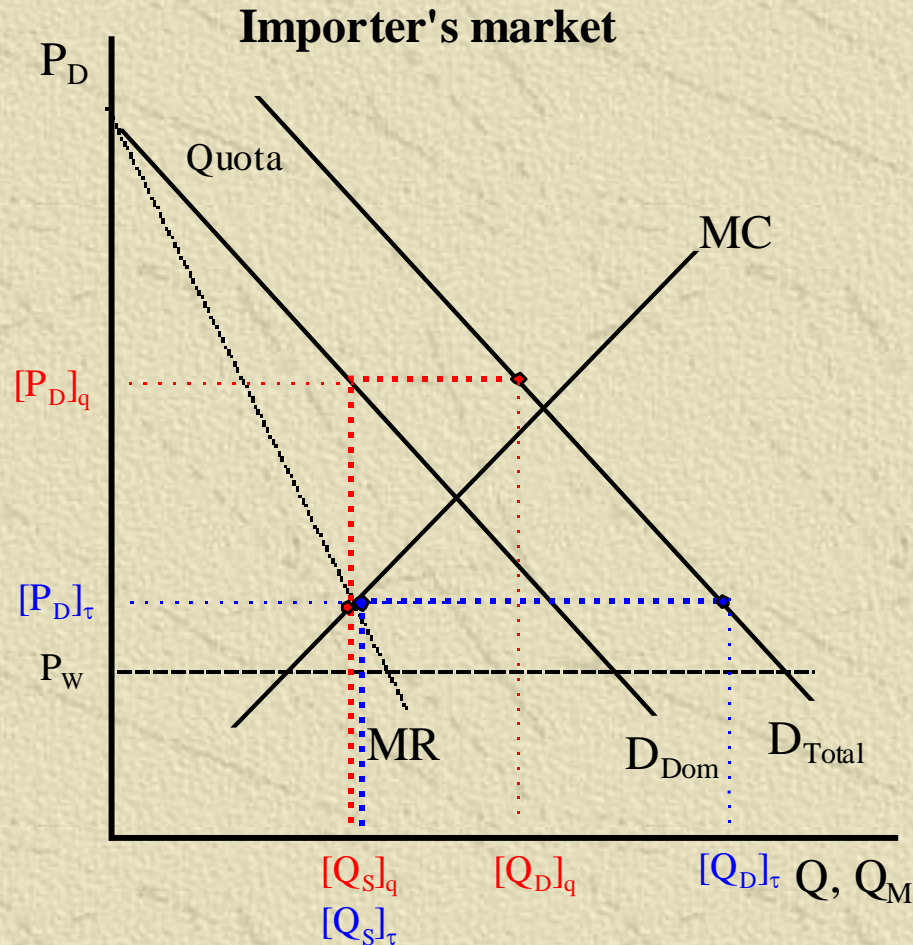
Agreements Related to Competition, continued . . .

- ✦ Tariff-quota non-equivalence under monopoly
 - ◆ For some given level of imports, quota volume



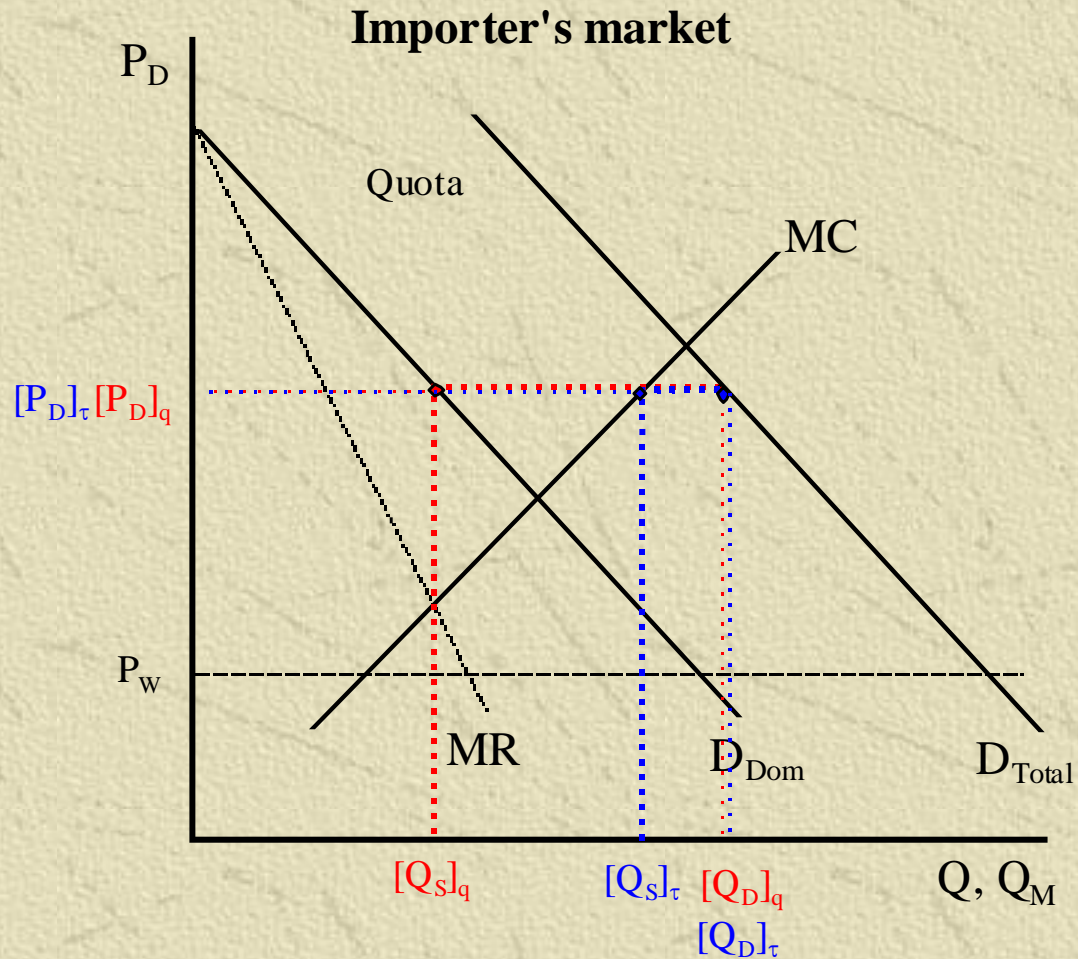
Agreements Related to Competition, continued . . .

- ◆ For some given level of production



Agreements Related to Competition, continued . . .

- ◆ For some given price



5. Competition Policy under a Multilateral System

5.1 Common competition policy: basic issues

Motivate:

✦ Competition policy at WTO

- ◆ Where should “fairness” be decided?
- ◆ What additional disciplines are needed by competition policy?
- ◆ Would it help or hurt DSM?
- ◆ Common competition rules for all member states?

✦ Theoretical problems measuring unfairness

- ◆ What do competition authorities care about?
- ◆ How is unfair behavior measured? Shortcomings?

Agreements Related to Competition, continued . . .

✦ Examples of shortcoming:

- ◆ Case 1. Problem with measuring unfair behavior
- ◆ Case 2. Problem with defining the product mkt
- ◆ Case 3. Problem with defining the geographical mkt
- ◆ Case 4. National regs in conflict with international competition
 - Foreign ownership issues
 - Tolerance of vertical or horizontal integration
- ◆ Case 5. Bundling: normal business practice or dumping/cross-subsidization

Agreements Related to Competition, continued . . .

✦ Differing regulatory approaches

- ◆ US: focus on consumer protection – consumer welfare std
 - Mergers of dominant firms can make industry more efficient
 - Price competition can be greater even with fewer players
 - Bundling is considered a standard business practice

- ◆ EU: focus on long-term dominance than short term P effect
 - Long-term competition (concern with firm size)
 - Strict on mergers firm and suppliers (vertical integration)
 - Cautious about long-term effects of bundling on P and market power

- ◆ US anti-trust: addressing rising mkt concentration
 - Most productive firms: winner take most system
 - Network effects where scale → more scale
 - L-share of GDP declining
 - Alphabet, Amazon and Meta are quasi-monopolist in search, e-commerce and social networking, respectively