PubPol/Econ 541

Class 21

Safeguards

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Safeguards

- Safeguard protection is permitted by the WTO/GATT if an industry is
  - Adversely affected, and
  - The harm is caused by imports
- Use of safeguards does <u>not</u> claim that imports are “unfair”
- Countries are then permitted to use a non-discriminatory tariff or other non-discriminatory barrier for a limited time.
- Purpose: To facilitate “adjustment”

Outline

- Rules
- Theory
  - Small country, homogeneous product
    - World price drop
    - Increase in domestic cost
  - Small country, differentiated product,
    - Fall in foreign cost
    - Change in preferences
- Cases

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Alternative Names for Safeguards

- GATT/WTO
  - Safeguards Clause
  - Article XIX
- US Law
  - Escape Clause
  - Section 201

Rules for Using Safeguards

- Rules
  - Prerequisites:
    - Increasing imports (absolute or relative)
      - “Unforeseen”
      - Due to GATT obligations
        - » Too easy, since GATT has constrained tariffs
    - Injury
      - Serious
      - Caused by the imports

Rules for Using Safeguards

- Rules
  - Remedy: tariffs or quotas, must be
    - Temporary
    - Non-discriminatory (hard for quotas)
  - Compensation (not really used)

Rules for Using Safeguards

- Issues
  - Absolute vs. relative increase
    - Relative seems problematic
  - Observed for appropriately defined “like product”
    - May be broad or narrow

Rules for Using Safeguards

- Issues
  - "Serious" injury
    - Not well defined
    - Greater than "material injury" used for AD & CVD
    - In US law, injury may be only "threatened"
  - Causation
    - Pre-1974: "the major cause" = more than all other causes combined
    - Since 1974: "substantial cause" = not less than any other cause
      - This can be manipulated by disaggregating other causes

Rules for Using Safeguards

- Issues
  - Compensation
    - Country should compensate harmed foreign exporters.
    - Hard to do. Tariff cuts on other products?
    - Uruguay Round backed off from requiring compensation

Rules for Using Safeguards

- US Procedures
  - Case is initiated by any of …
    - Petition to USITC from
      - Trade association (= industry association)
      - Firm
      - Union
      - Group of workers representative of industry
    - Request from President or USTR
    - Resolution from House Ways and Means or Senate Finance

Rules for Using Safeguards

- US Procedures
  - After petition, request, or resolution
    - USITC must make injury determination within 120 days (150 days if complicated)
    - USITC transmits report to President, with recommendation, within 180 days of petition, etc.
    - President decides what, <u>if any</u>, relief to provide
  - Relief may be
    - Tariff increase
    - Quota
    - Orderly marketing arrangement (~VER)

Pause for Discussion

Questions on Jackson

- Why should injury from imports justify more protection than injury from other causes, such as technological change, changes in government spending programs, etc.?
- Of the various “prerequisites” for safeguards protection, which seem to be most likely to constrain the use of safeguards?

More Questions on Jackson

- What are the arguments for and against safeguards protection being done on an MFN (nondiscriminatory) basis?
- Is it possible for safeguards protection to take the form of quotas and still be nondiscriminatory?
- If the aim of safeguards is to facilitate "adjustment" by the industry, what does that mean, and to what extent is safeguard protection a good way to accomplish that?

Questions on USITC

- Is “serious injury” defined here?
- Is “substantial cause” defined here?
- Are injured firms the only ones who can request a safeguards investigation?
- What forms of relief can be recommended?
- Does the President have the option of doing nothing?

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Safeguards Theory

- In each case below, I will show a shock that will cause both
  - Output to fall, and
  - Imports to rise
- Did imports "cause" output to fall?
  - No: The shock did
  - Yes: "But for" the increase in imports, output would not have fallen, or would have fallen by less
- I then show a tariff that keeps imports constant

Cases

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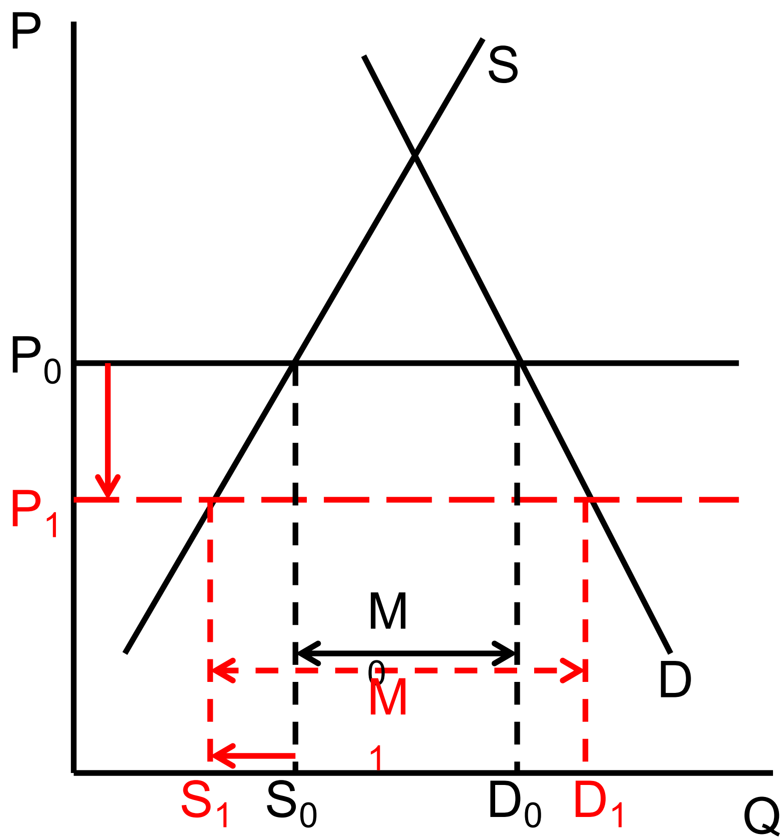
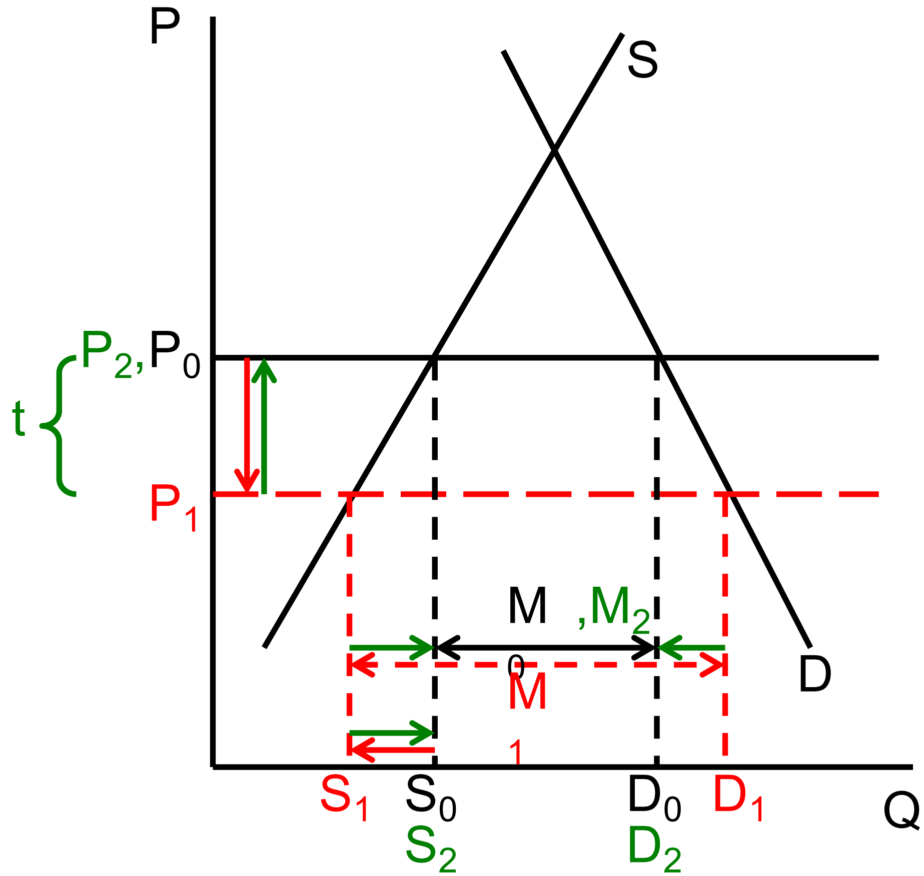
World price drop



- Shock: Drop in the world price
  - Output falls
  - Imports rise

World price drop, & tariff response



- Shock: Drop in the world price
  - Output falls
  - Imports rise
- Tariff $t = P_0 - P_1$
  - Raises price back to P_0
  - Restores
    - $S_2=S_0$
    - $M_2=M_0$

Note welfare effects of
- Price drop
- Tariff

"Injury due to imports"?

Output would have stayed constant, "but for" the increase in imports.

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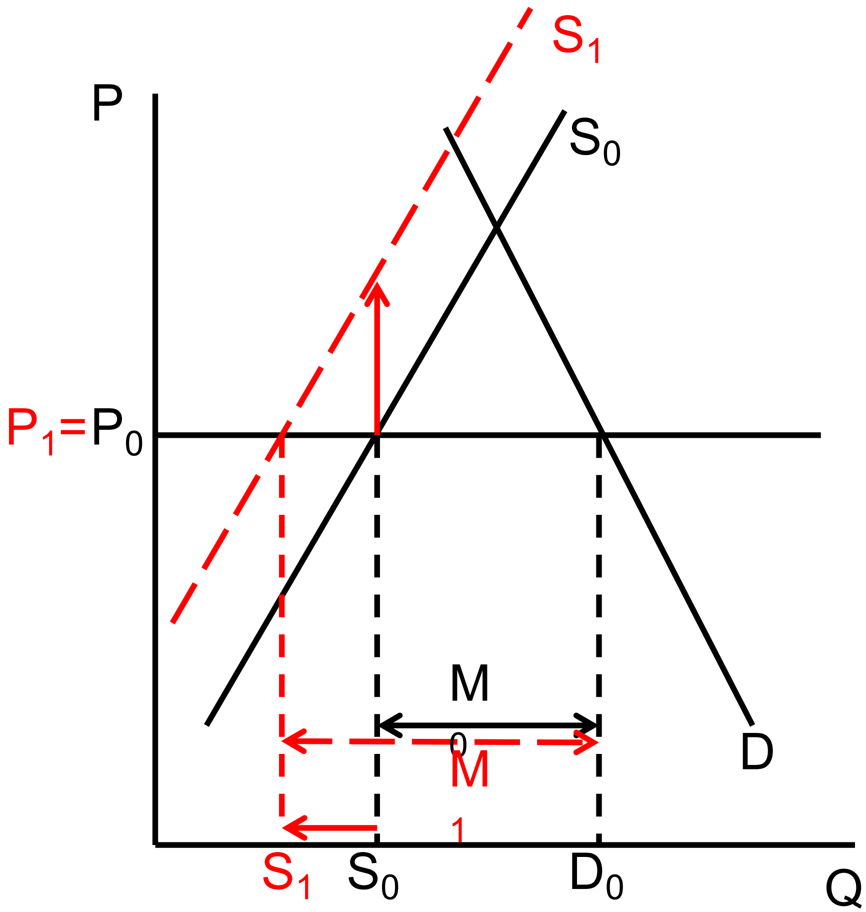
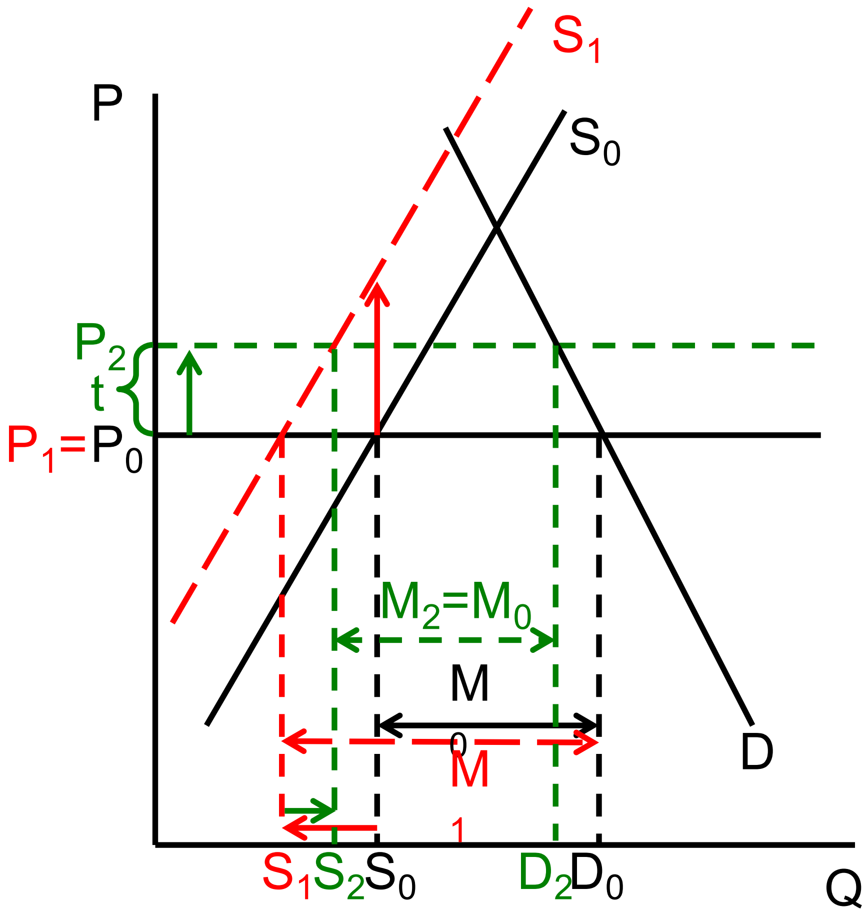
Increase in domestic cost



- Shock: Rise in domestic cost
  - Output falls
  - Imports rise

Increase in domestic cost



- Shock: Rise in domestic cost
  - Output falls
  - Imports rise
- Tariff to restore $M_2=M_0$
  - Raises output part way back toward S_0
  - Reduces demand while restoring $M_2=M_0$

"Injury due to imports"?

Output would have fallen less, "but for" the increase in imports.

Note welfare effects of
- Cost increase
- Tariff

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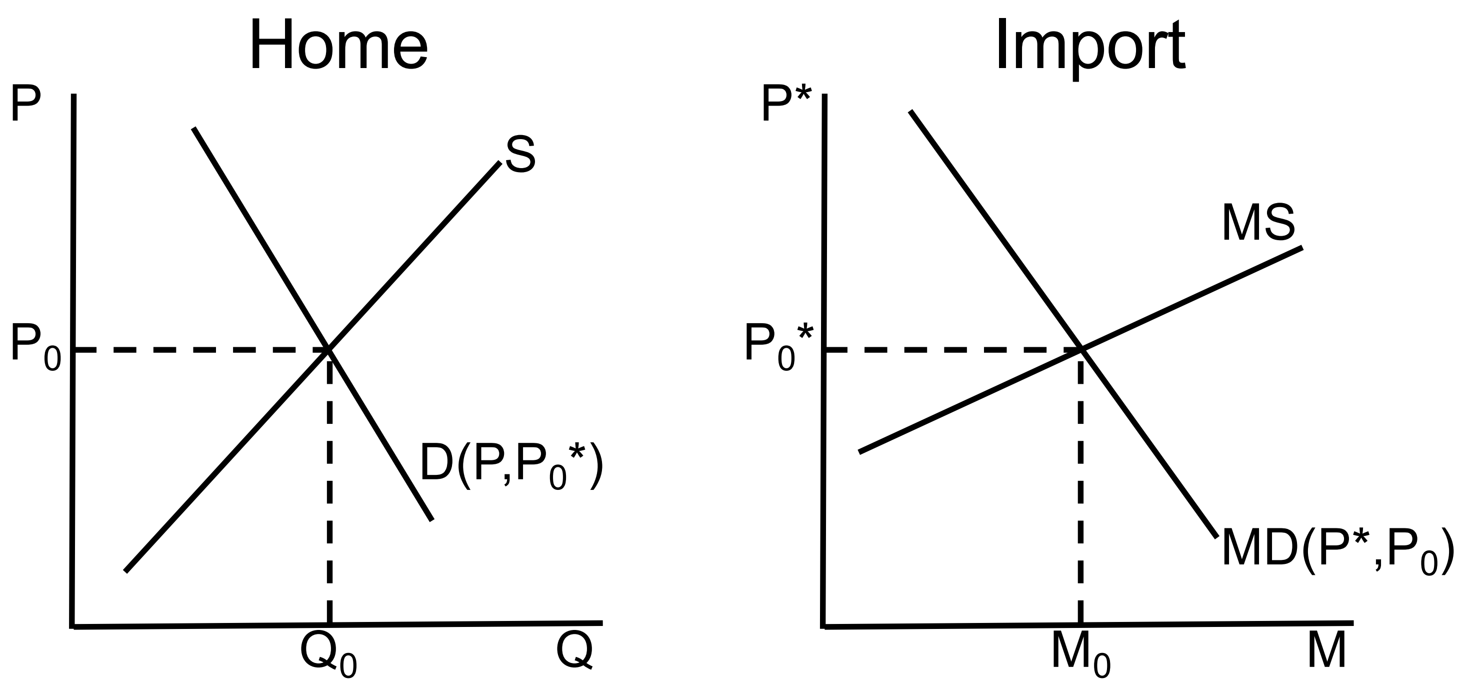
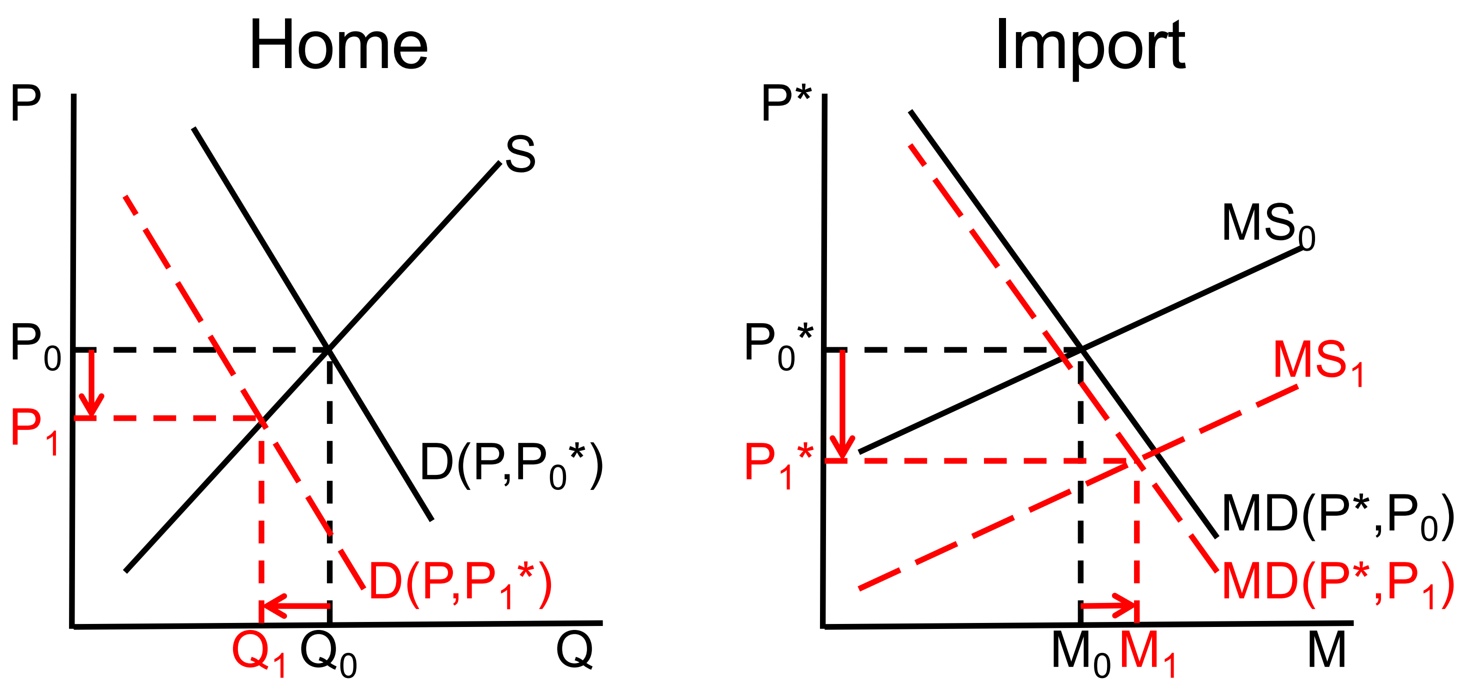
Differentiated Products

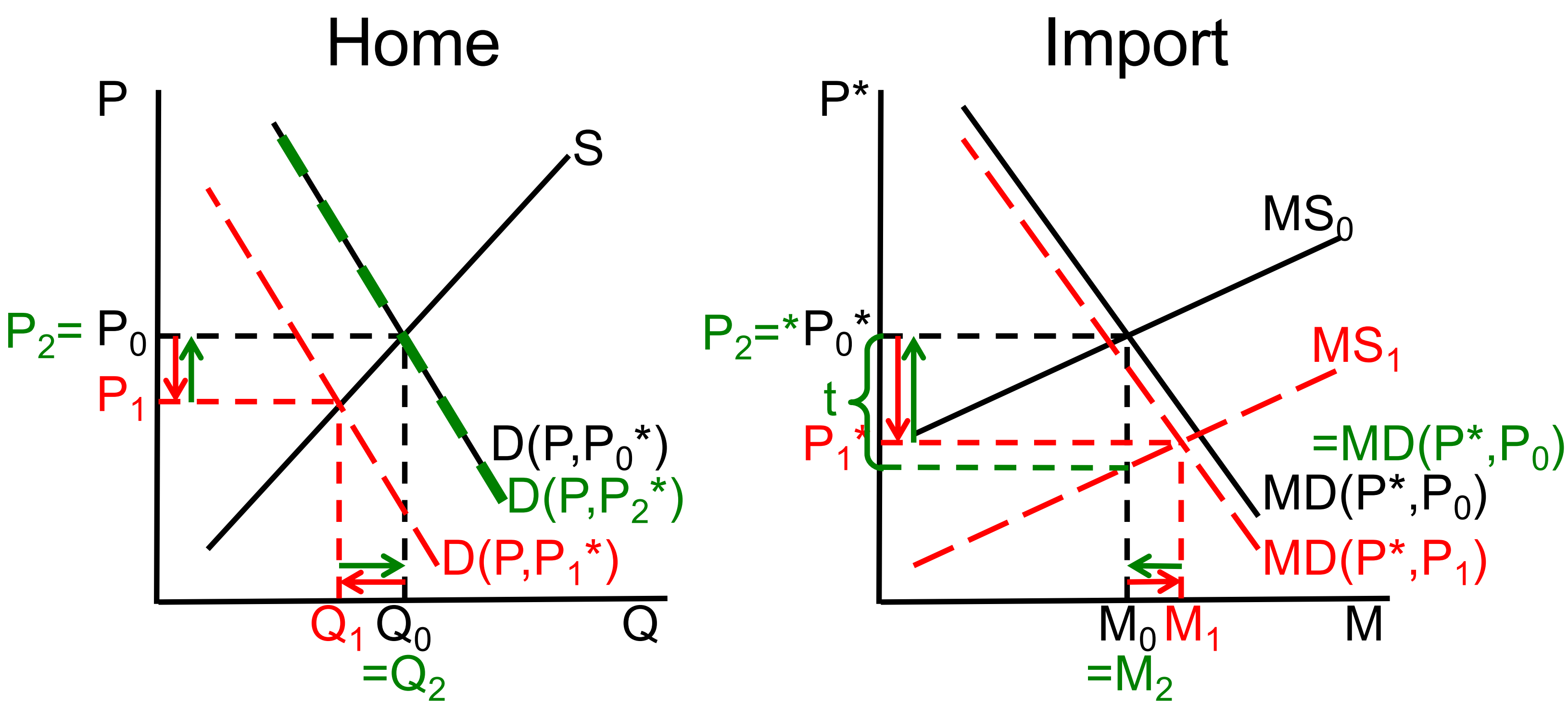


Drop in Foreign Cost



- Shock: Drop in foreign cost
  - Output falls
  - Imports rise

Drop in Foreign Cost



- Tariff to restore $M_2=M_0$
  - Restores output to Q_0

Note welfare effects of
- Foreign cost drop
- Tariff

"Injury due to imports"?

Output would have stayed constant, "but for" the increase in imports.

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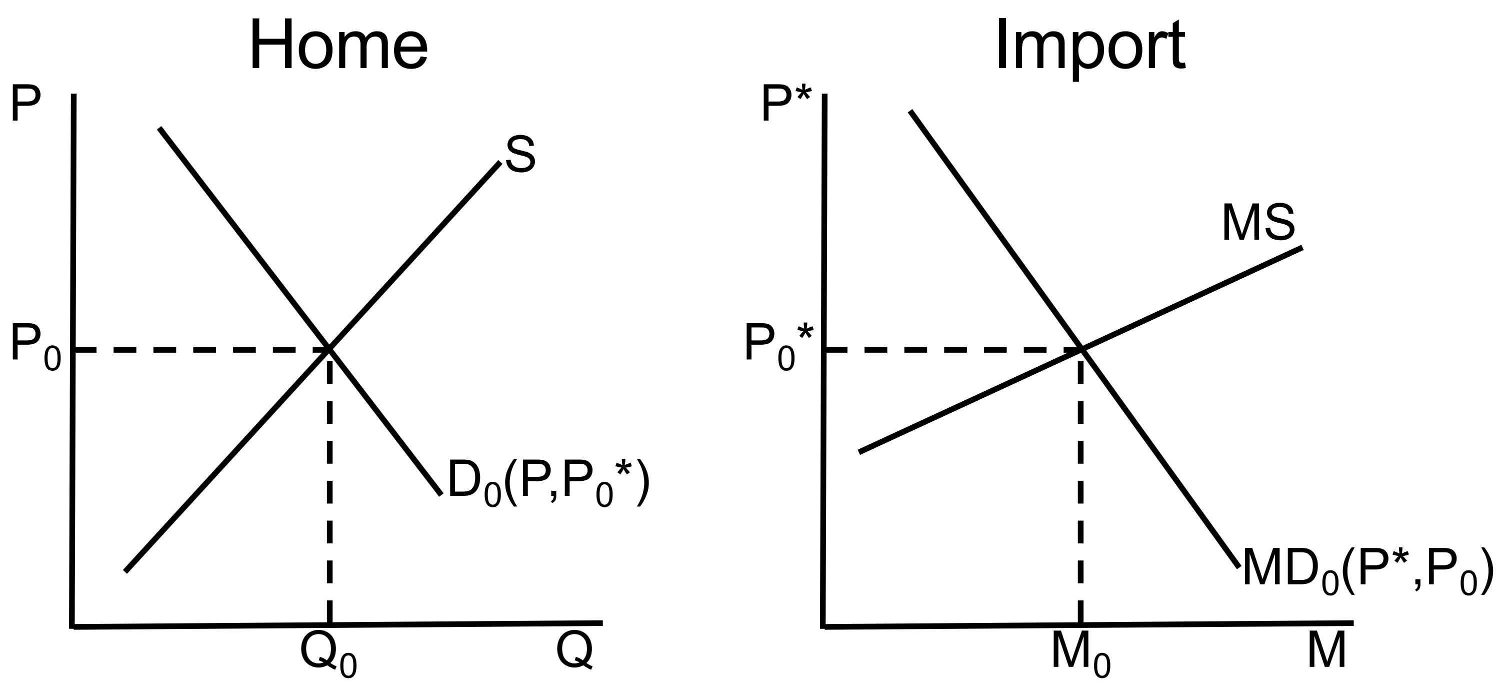
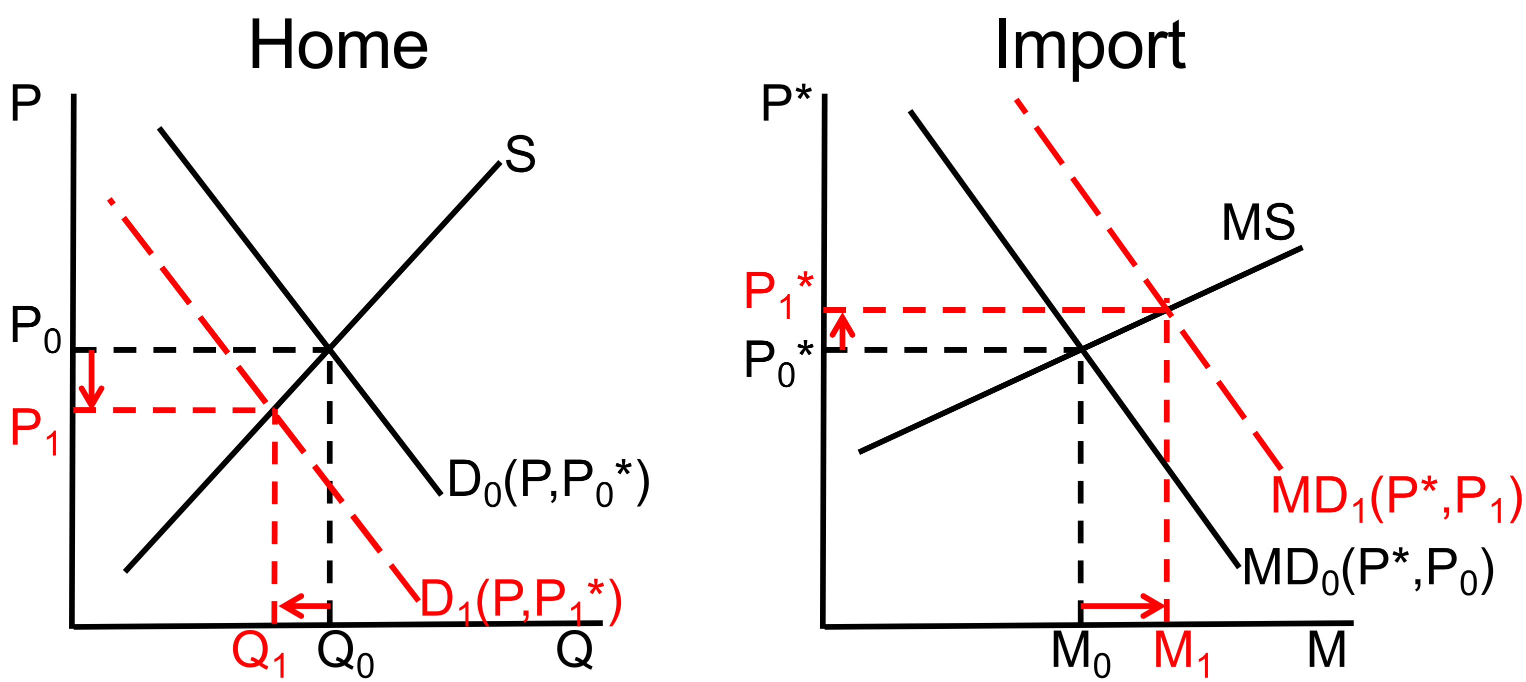
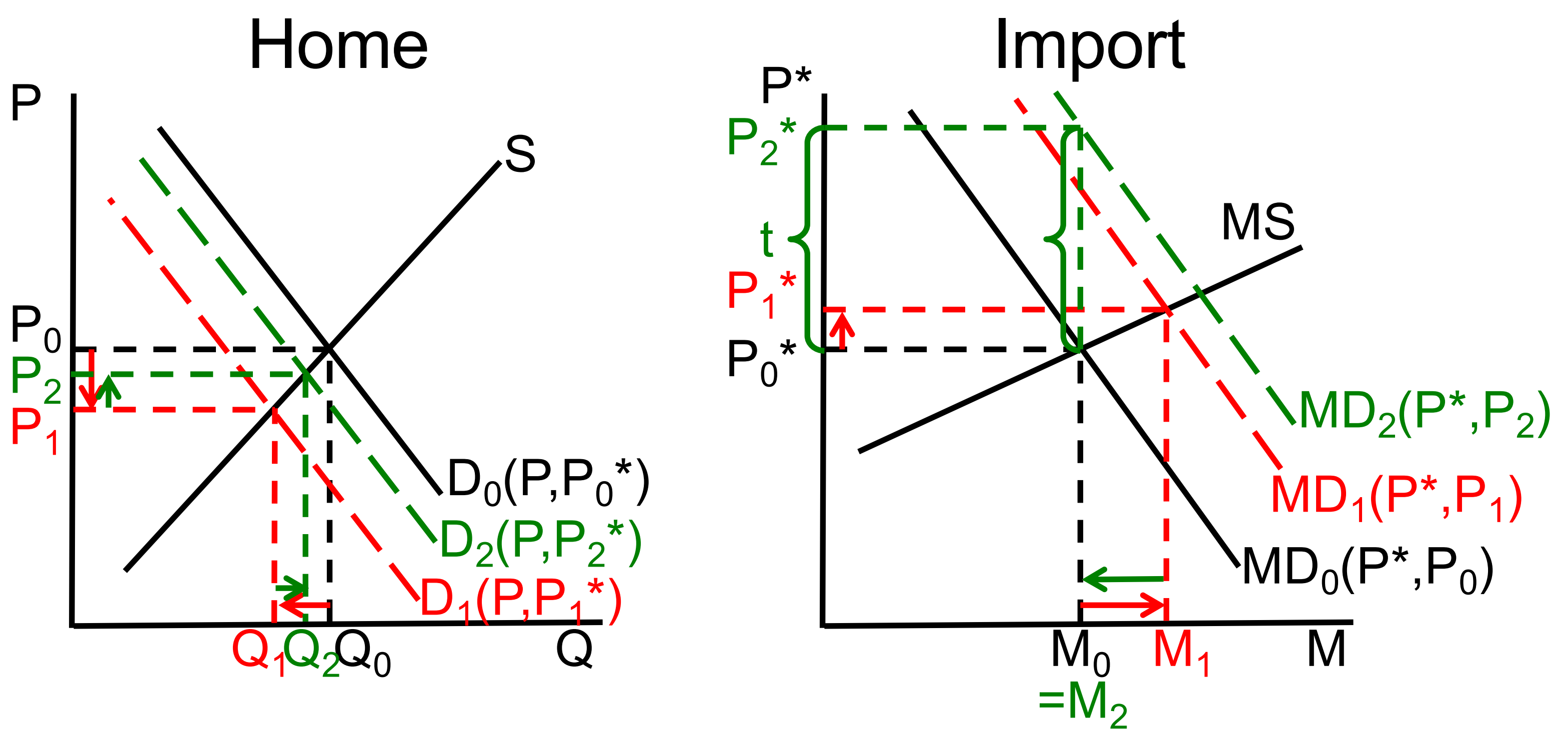


Differentiated Products



- Shock: Preference shift toward imports
  - Output falls
  - Imports rise

Differentiated Products



- Tariff to restore $M_2 = M_0$
  - Raises output part way back toward Q_0

"Injury due to imports"?

Output would have fallen less, "but for" the increase in imports.

Welfare harder here due to change in preferences

Pause for Discussion

Questions on Theory (Not asked before)

- Of the four cases that we considered, which do you think <u>should</u> qualify for help from the government?
  - Drop in foreign price?
  - Rise in domestic cost?
  - Drop in foreign cost?
  - Shift of preferences toward imports?
- For which of these cases will a tariff that holds domestic suppliers harmless leave demanders where they were *ex ante*?

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US Safeguards Cases

- Autos 1981 (Reagan)
- Harley-Davidson 1983-7 (Reagan)
- Steel 2002-3 (GW Bush)
- Tires 2009-11 (Obama)
- Washing Machines 2018- (Trump)
- Solar Panels 2018- (Trump)

Autos 1981

- US auto industry in 1981 was suffering
  - Ford and UAW petitioned USITC for Section 201 relief
  - USITC ruled against the petition, on the grounds that the US recession was the greater cause of injury to the US auto industry
  - Congress responded by giving the President authority to negotiate VERs, which he did

Harley-Davidson 1983-87

- Harley-Davidson (H-D)
  - Was the last remaining US motorcycle manufacturer
  - Had been hurt by competition from two Japanese producers, Honda & Yamaha, who were competing aggressively with each other for market share in the US
  - USITC recommended, and Reagan signed, 5 years of new tariffs
    - Starting at 49.4%, declining to 14.4% in year 5
    - It was a tariff-rate quota, based on historic imports
    - This to avoid hitting European makers (e.g., BMW) whose exports had not risen
  - H-D recovered so well that it requested the 5th year of protection be cancelled
  - Often viewed as a successful use of safeguards, though research says otherwise. H-D recovered on its own.

Steel 2002-3

- Steel
  - George W. Bush put tariffs on a variety of steel products, ranging from 8% to 30%.
  - Exempted countries: Canada, Israel, Jordan, and Mexico due to FTAs
  - Others complained at WTO and won. Reason: steel imports, though they had risen earlier, had declined by the time of the tariffs.
  - In response, Bush removed the tariffs after 18 months, instead of the planned 3 years

Tires 2009

- Tires
  - Obama placed tariffs on imports of tires, from China only, in 2009.
  - He could do this because of a special provision of the China's accession agreement to the WTO
    - That provision has now expired
  - Petition for safeguards protection came from US Steel Workers
    - Not the tire companies, as they made tires in <u>both</u> US & China
  - Tariffs were 35% 1st year, 30% 2nd, and 25% 3rd

Washing Machines 2018

- Washing Machines
  - Trump placed tariffs on imports of washing machines, from all countries
    - Target was two firms based in South Korea, LG and Samsung
  - Request was from Michigan-based Whirlpool
  - Action was preceded by anti-dumping duties in 2012 and 2016, which were avoided by shifting production to other countries.
  - Policy:
    - 1st year: Tariff-rate quota: 20% on 1st 1.2 million, 50% above that
    - Rates phased down in years 2 and 3
  - LG and Samsung both opened plants in the US in 2018
  - Effects: Prices in US rose by 12% on <u>both</u> washers and dryers (even though dryers were <u>not</u> subject to tariffs).
  - Renewed by Trump in Jan 2021, they expired Feb 7, 2023.

Solar Panels 2018

- Solar Panels
  - Trump placed tariffs on imports of Solar Panels
  - Requested by 2 companies: Suniva and SolarWorld
    - Suniva was majority owned in China; SolarWorld by Germany
    - Both are now out of business
  - Policy:
    - Year 1: 30% tariff on imports above 1st 2.5 gigawatts
    - Yeas 2-4: tariff declines gradually to 15%
  - Biden extended the policy on Feb 4, 2022, for 4 more years, but doubled the quota to 5 gigawatts

EU Steel 2018

- Steel
  - Prompted by Trump's US tariffs on steel, which would cause exporters to US to switch toward EU
  - Policy included UK as member of EU, but UK continued the policy after Brexit
  - Reading by Pikard & Pfeifer concerns UK extension of the policy

Pause for Discussion

Questions on Pikard & Pfeifer, "UK to extend steel …"

- Where does most of the steel come from?
- Is this a simple tariff?
- Does anyone in the UK oppose this?
- Why might this be illegal under WTO rules?