PubPol/Econ 541

Class 21

Safeguards

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2020

Announcements

- Classes
  - This week: Today and Thursday
  - Next week: None
  - Resume Tuesday December 1
- Quizzes 6-10 Scores:

	Q6	Q7	Q8	Q9	Q10
Mean	7.44	8.50	8.23	7.94	8.08
Median	7.75	9	8	8.5	8.5
Max	10	10	10	10	10
Min	4	5	5	1	4
S.D.	1.87	1.35	1.25	2.11	1.52

Safeguards

- Safeguard protection is permitted by the WTO/GATT if an industry is
  - Adversely affected, and
  - The harm is caused by imports
- 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 Claus
  - 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, may only be “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
    - 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)
    - 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

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

Questions

- 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?

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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
- A tariff is then shown that keeps imports constant

Cases

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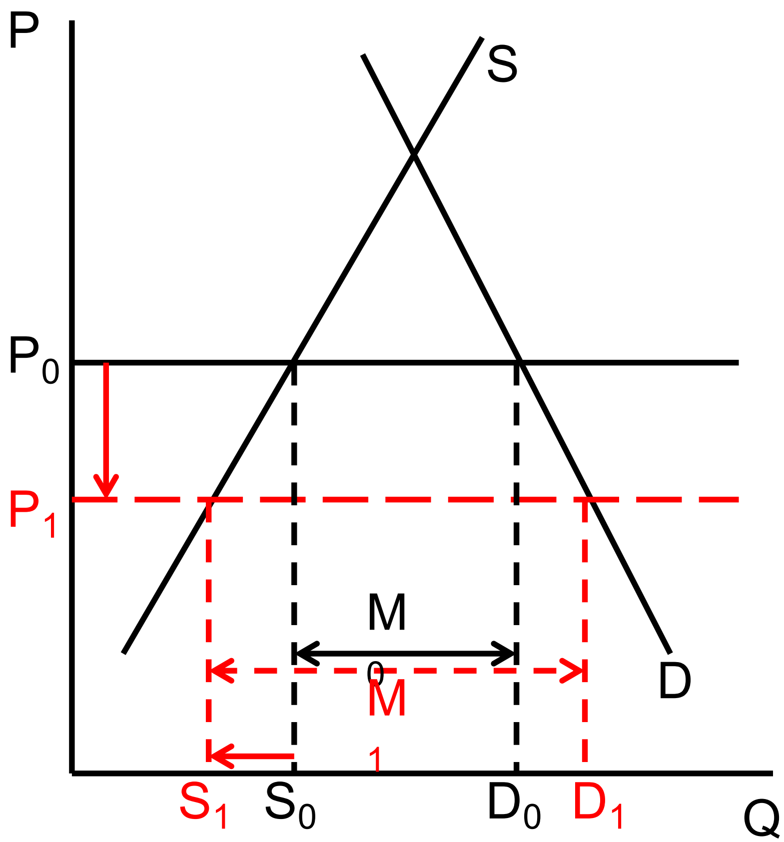
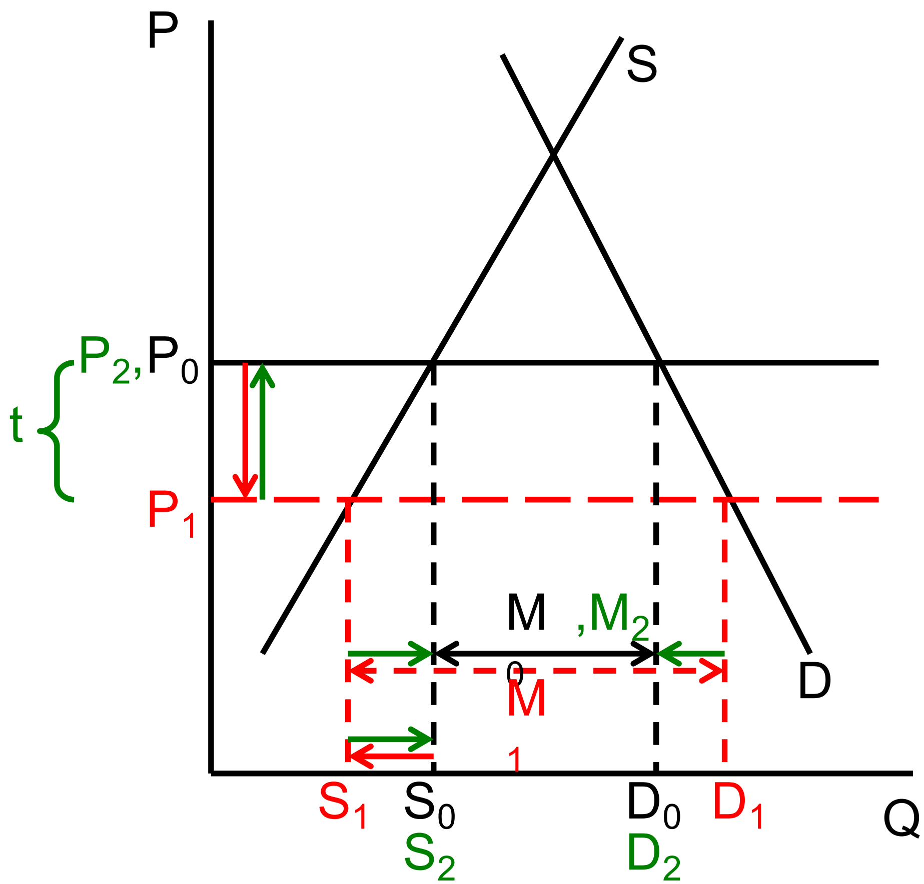
World price drop



- 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
    - $S_2=S_0$
    - $M_2=M_0$

"Injury due to imports"?

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

Note welfare effects of
- Price drop
- Tariff

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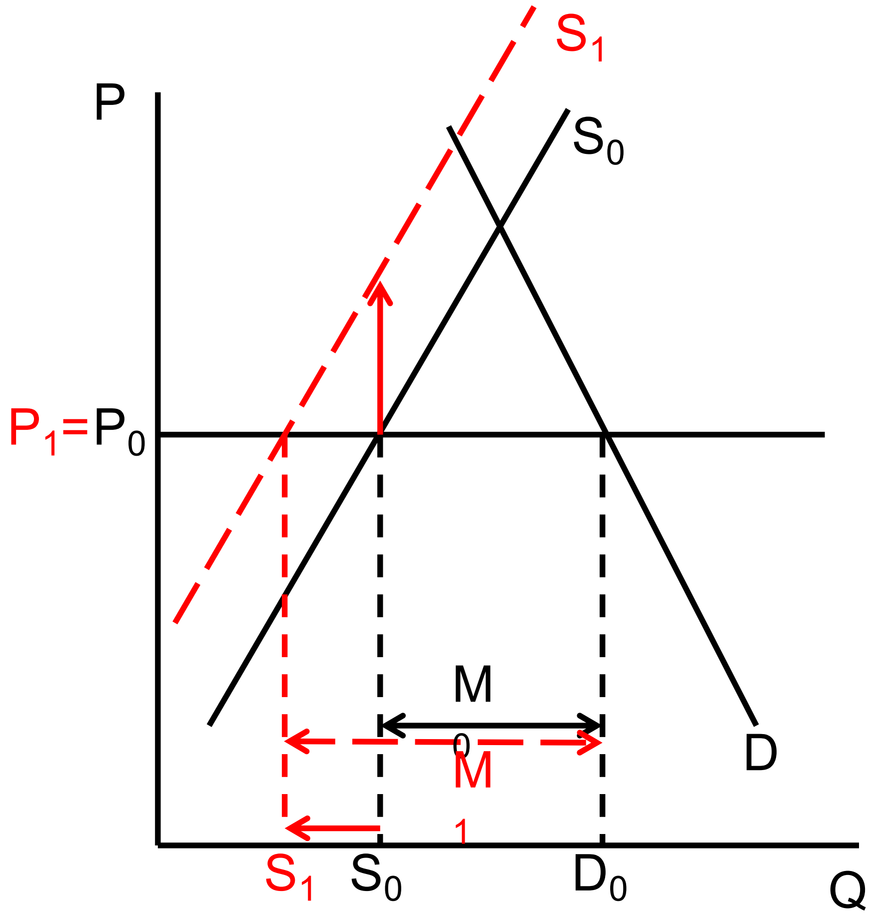
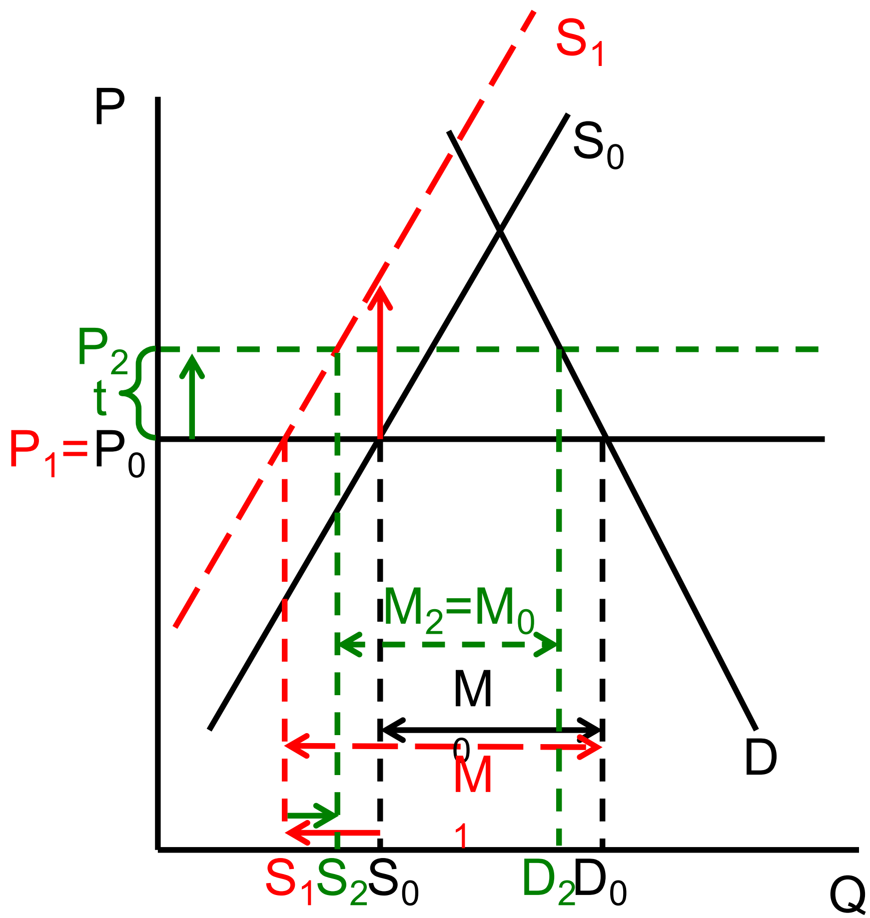
Increase in domestic cost



- 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 <u>part way</u> 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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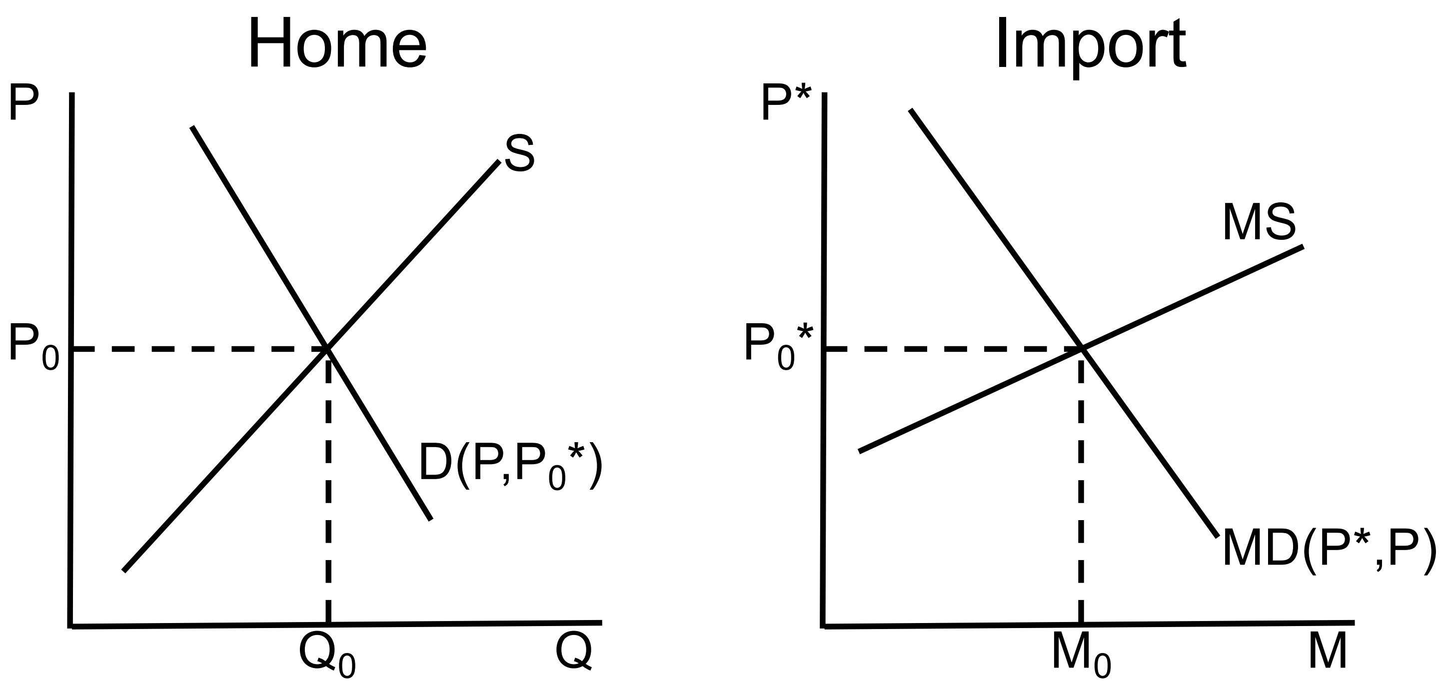
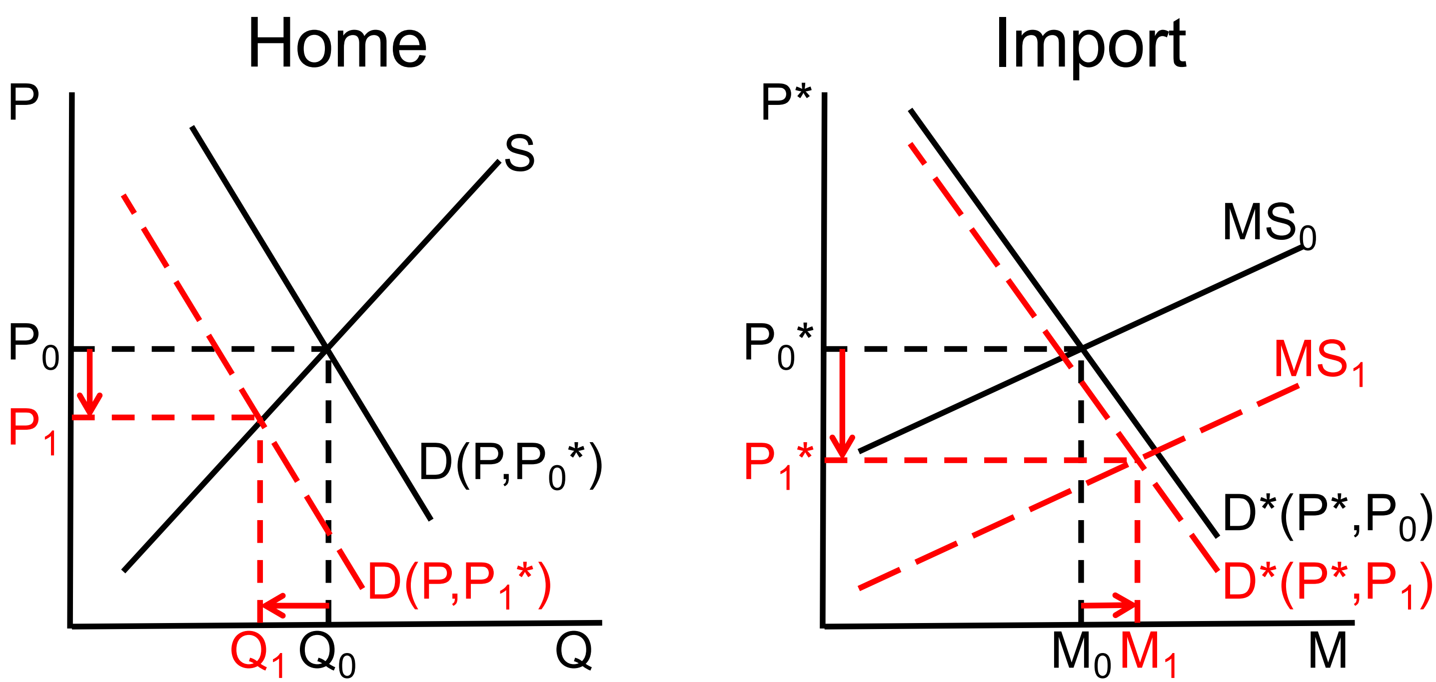
Differentiated Products

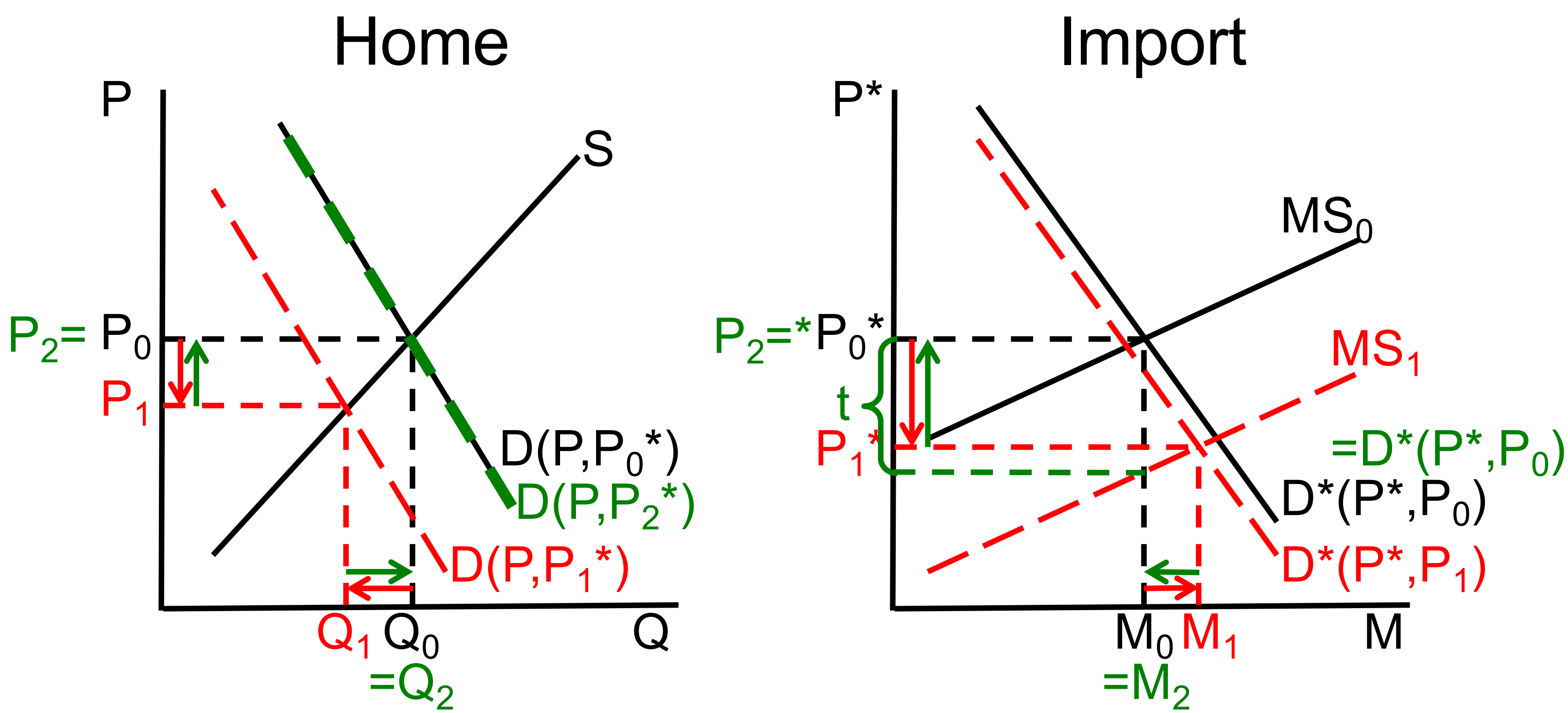


Drop in Foreign Cost



- 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

"Injury due to imports"?

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

Note welfare effects of
- Foreign cost drop
- Tariff

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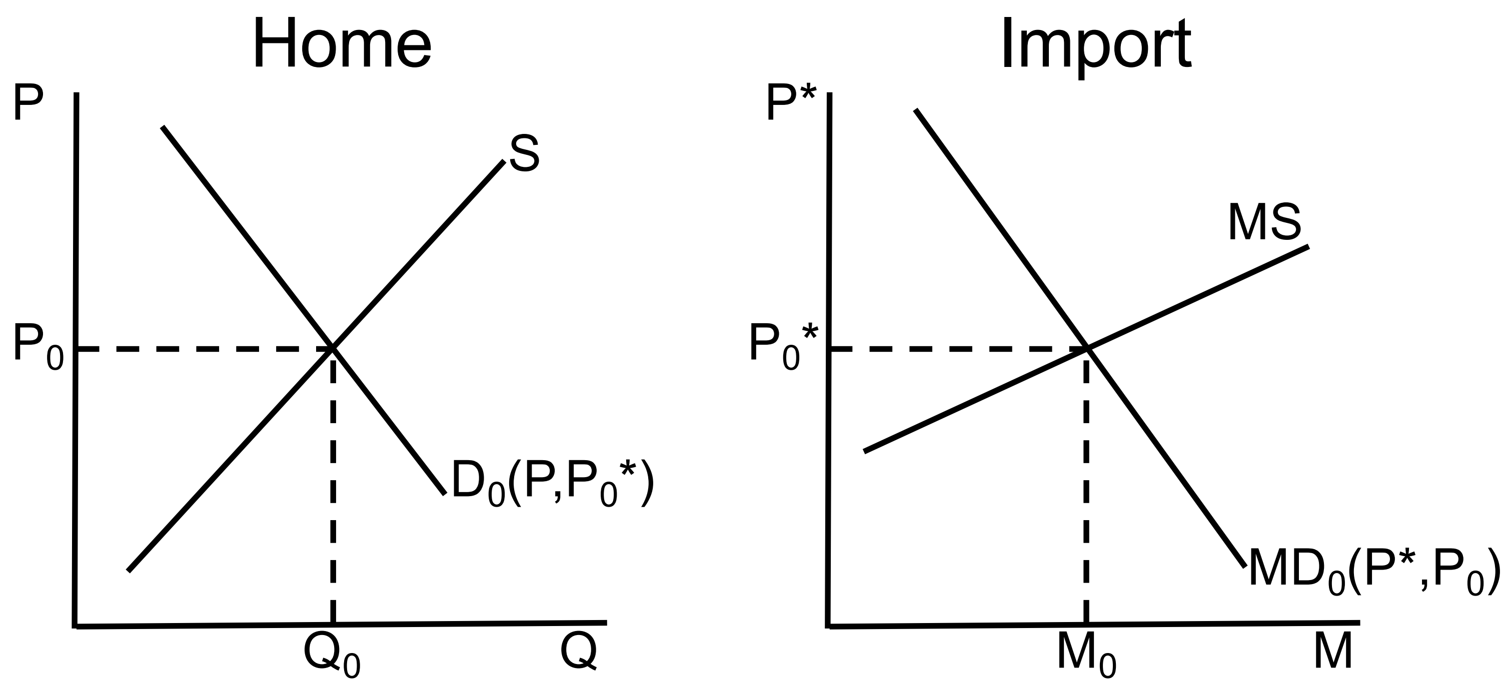
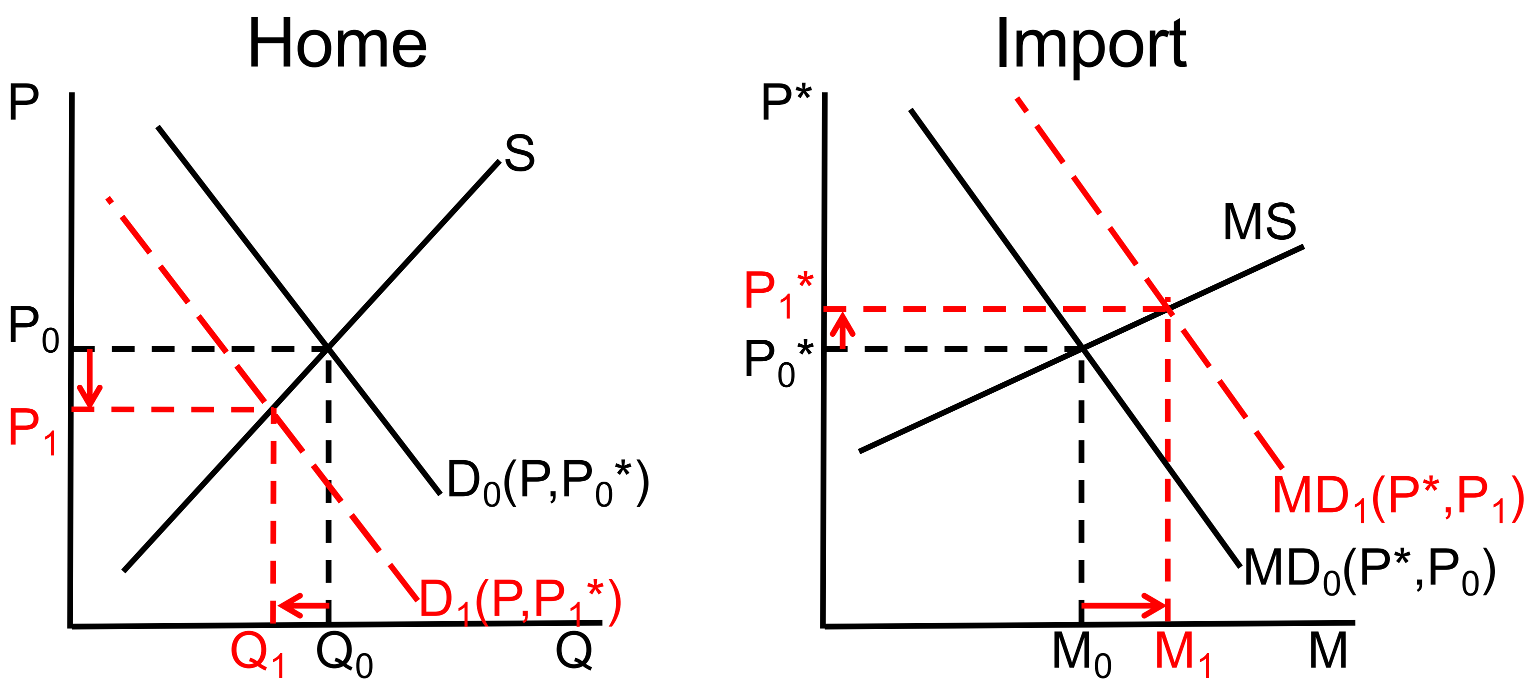
Differentiated Products

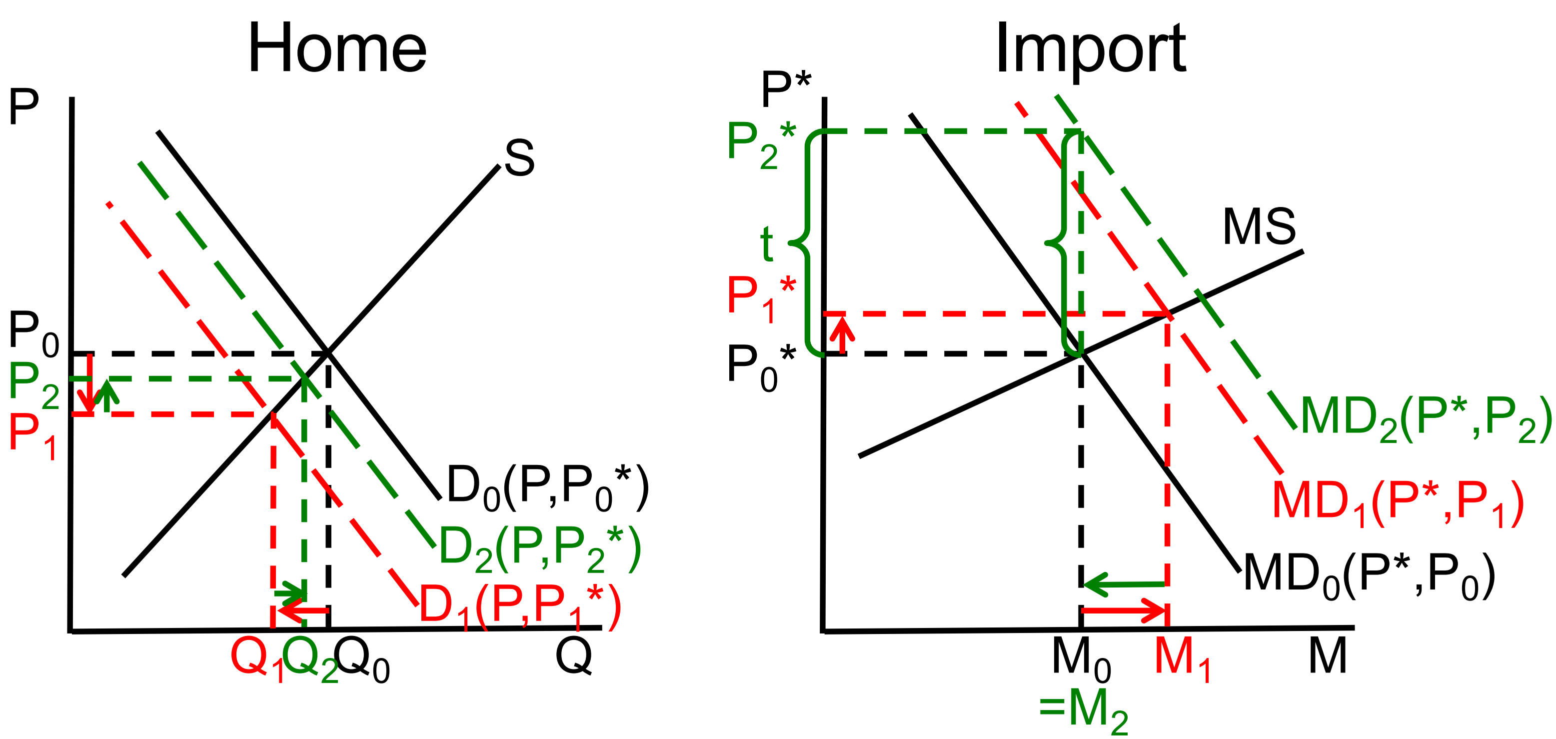


Differentiated Products



- 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

- 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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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-Davison (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 avoided hitting European makers (e.g., BMW) whose exports had not risen
  - H-D recovered so well that it requested 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 rose earlier, had declined by the time of the tariffs.
  - 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
    - Provision has now expired
  - Petition for safeguards protection came from US Steel Workers
    - Not the tire companies who made tires in 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 (though dryers <u>not</u> subject to tariffs).

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%

Pause for Discussion

Questions on Trump safeguards

- Who objected to the washing machine and solar panel tariffs, and why?
- The investigation started in 2017. How did the market respond to that?
- Why did the industries use the safeguards law instead of anti-dumping or countervailing duty laws?

Questions, on Solar Panels

- What else besides the Section 201 tariffs are hurting this industry?
- By how much does this suggest that the tariffs increase US solar costs?
- Is it increasing production in the US?

Questions, on Washing Machines 2020

- What is the change announced here?
- Why?