

PubPol/Econ 541

Class 21

Safeguards

by

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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
- Does not 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, 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, if any, 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
- A tariff is then shown that keeps imports constant

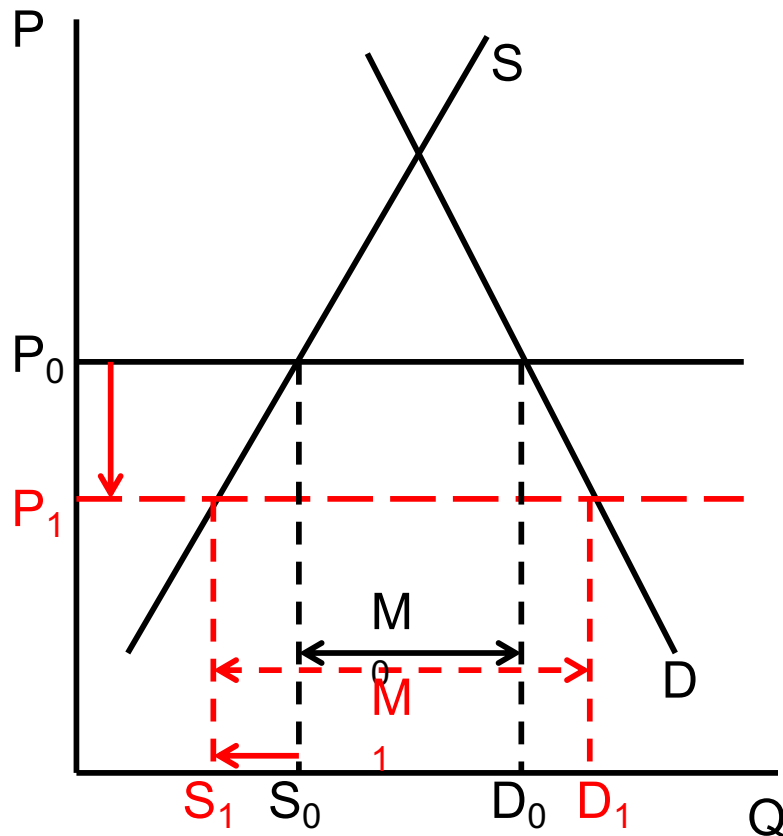
Cases

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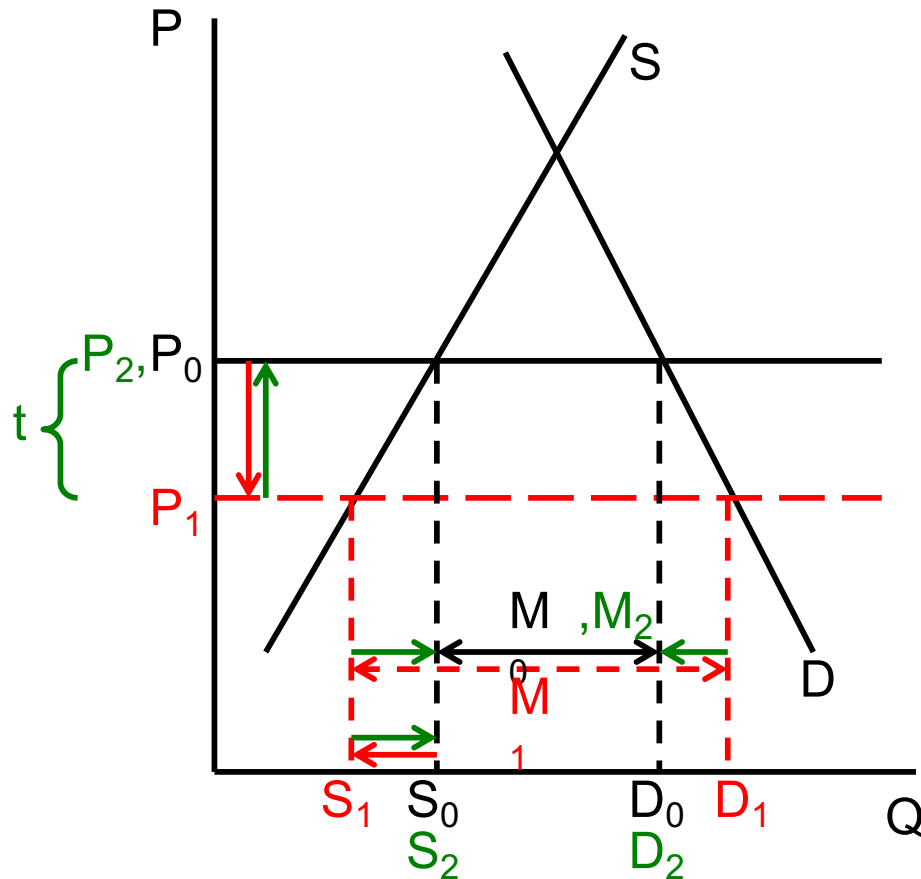
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World price drop



- 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

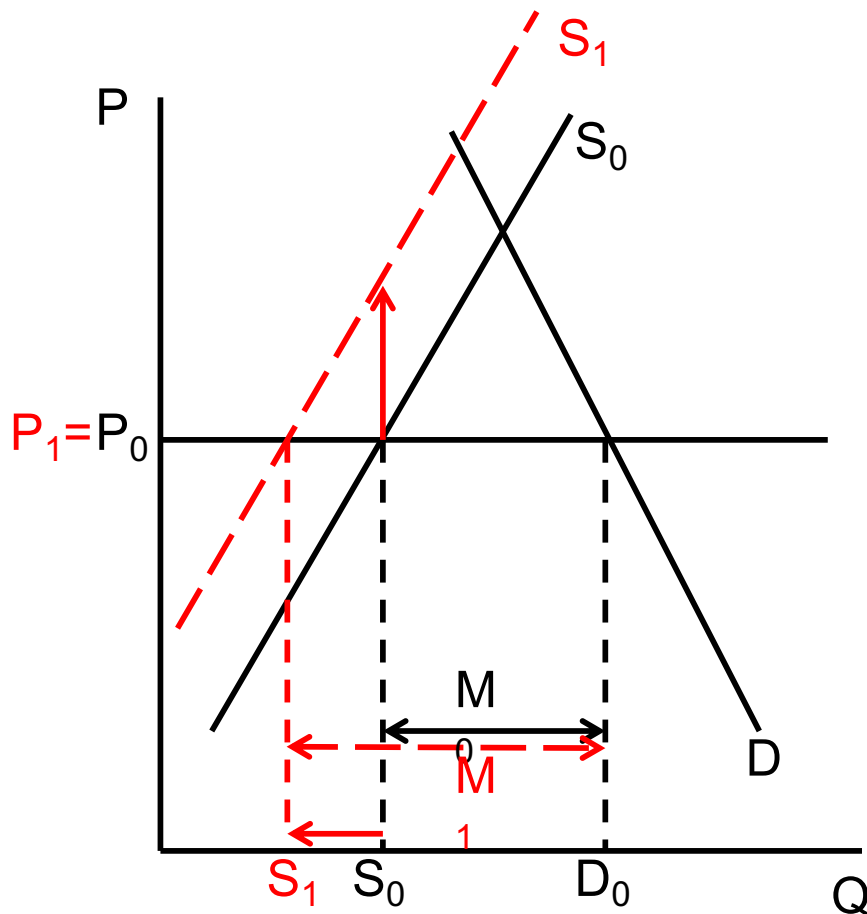
“Injury due to imports”?

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

Outline

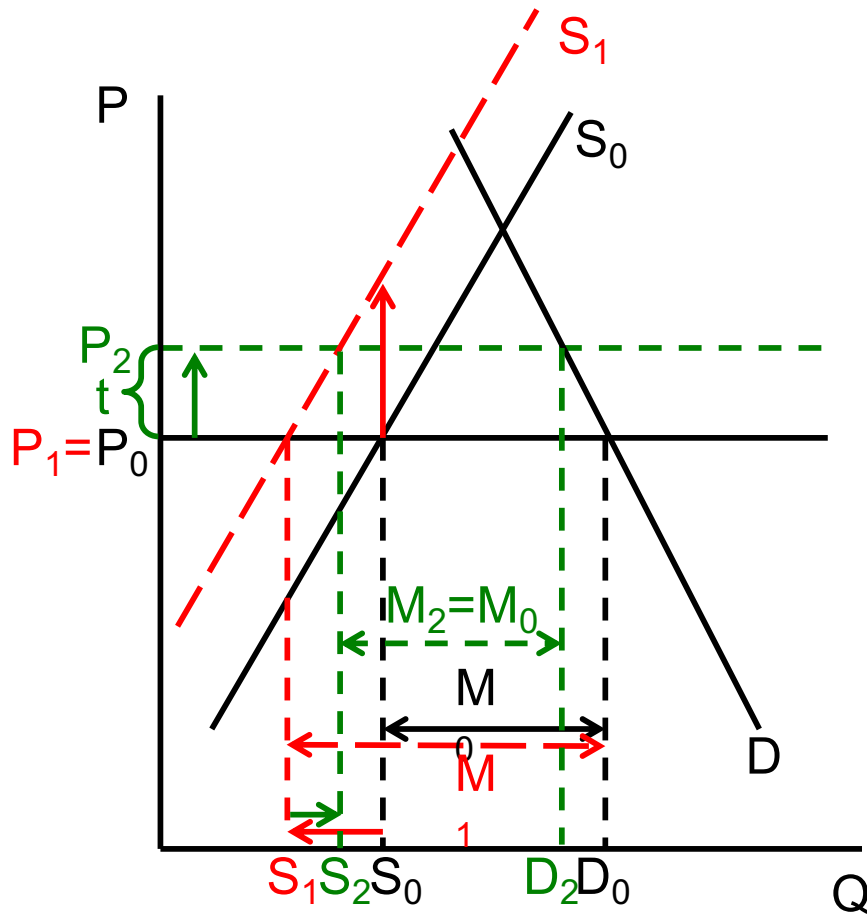
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Increase in domestic cost



- 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 $M_2 = M_0$

Note welfare effects of

- Cost increase
- Tariff

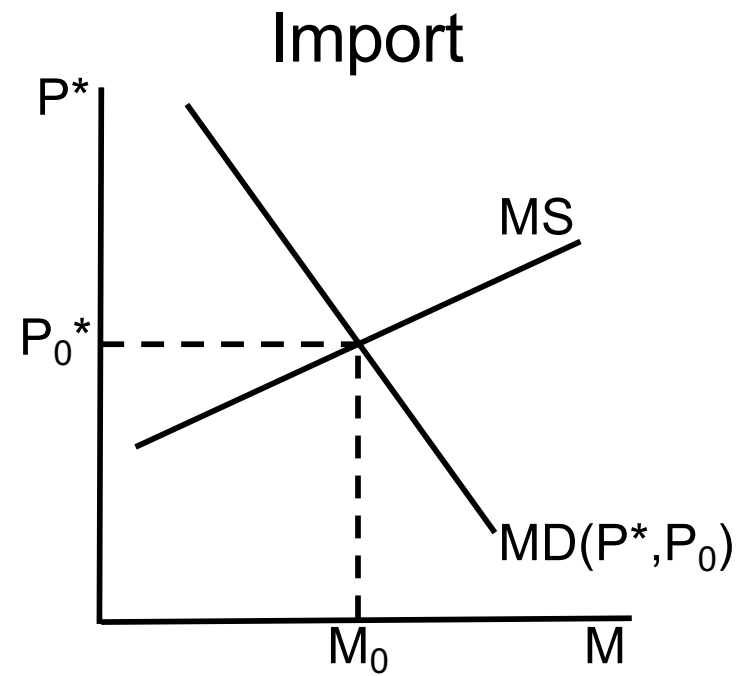
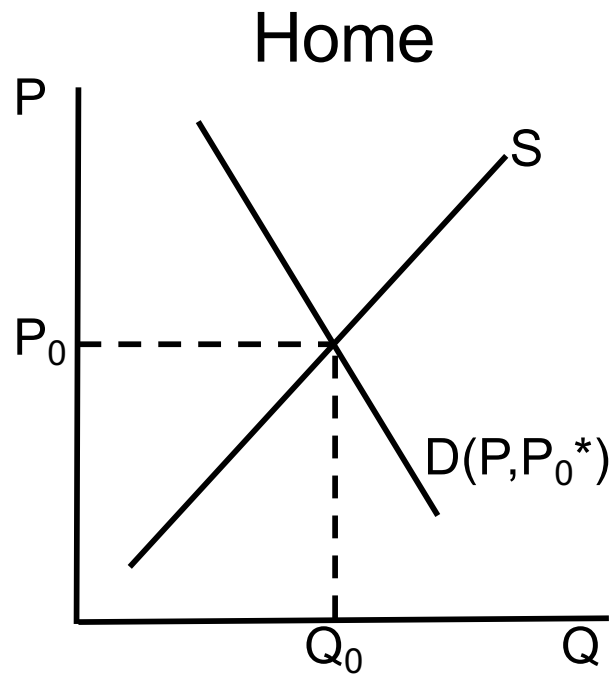
“Injury due to imports”?

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

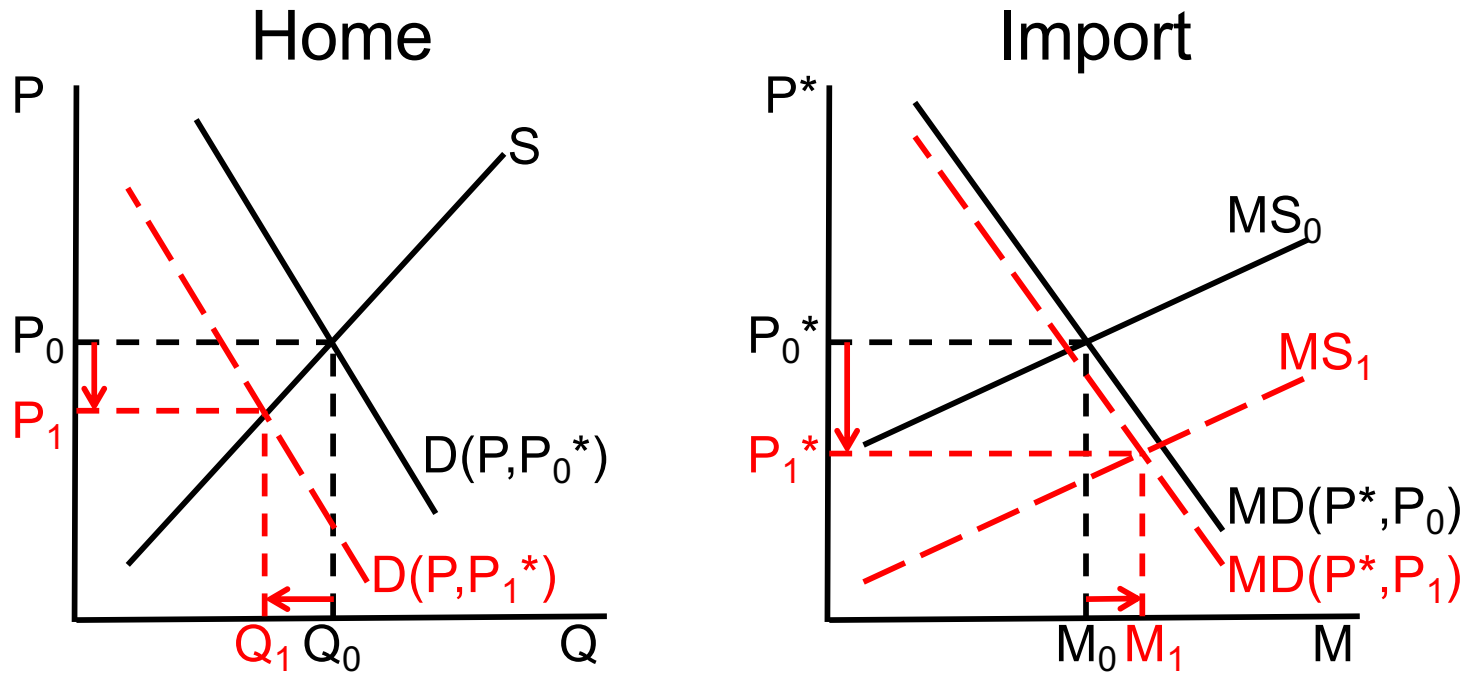
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Differentiated Products

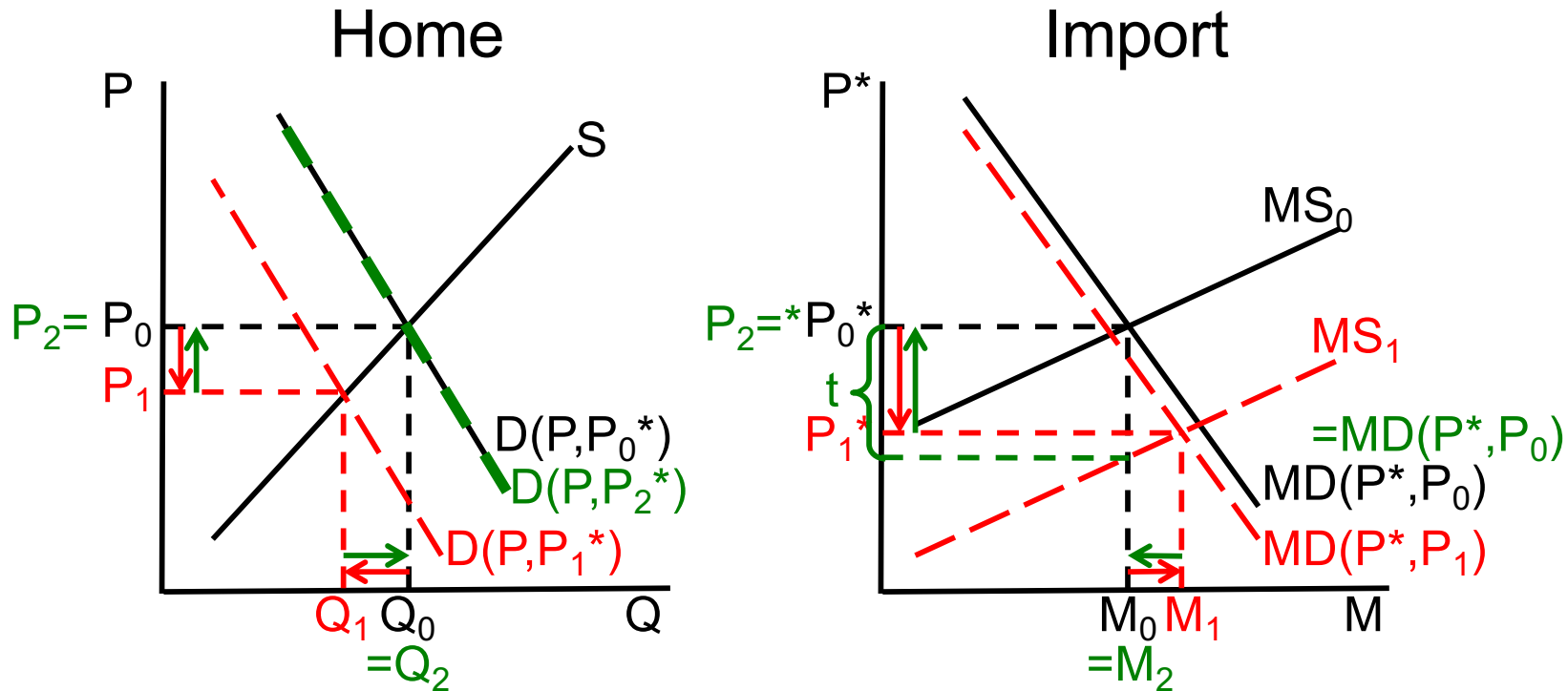


Drop in Foreign Cost



- 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

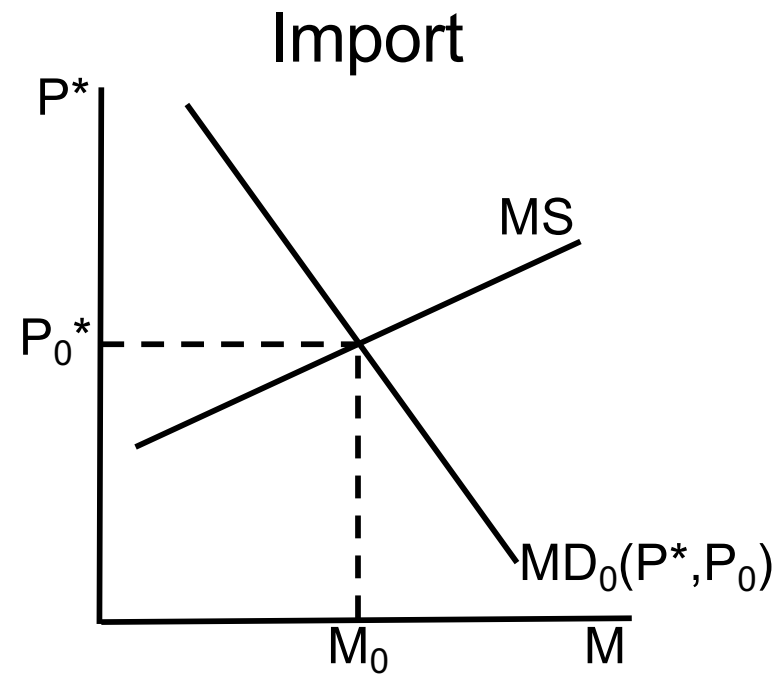
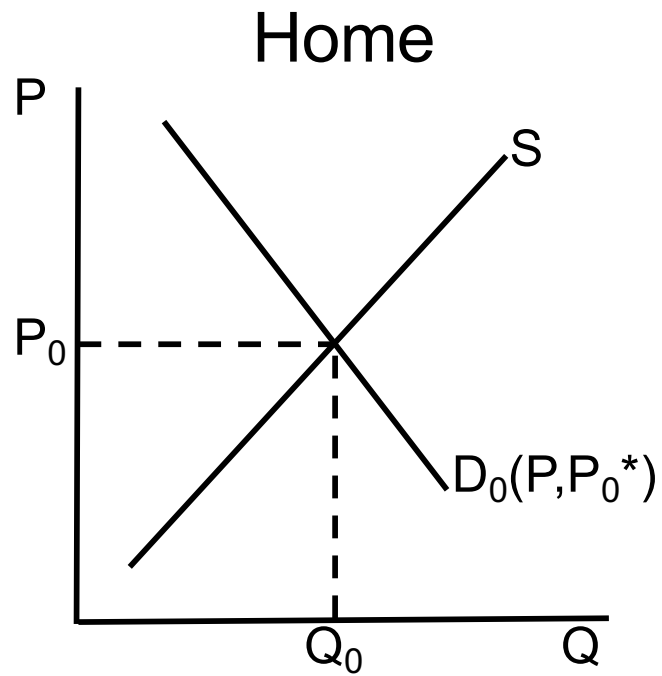
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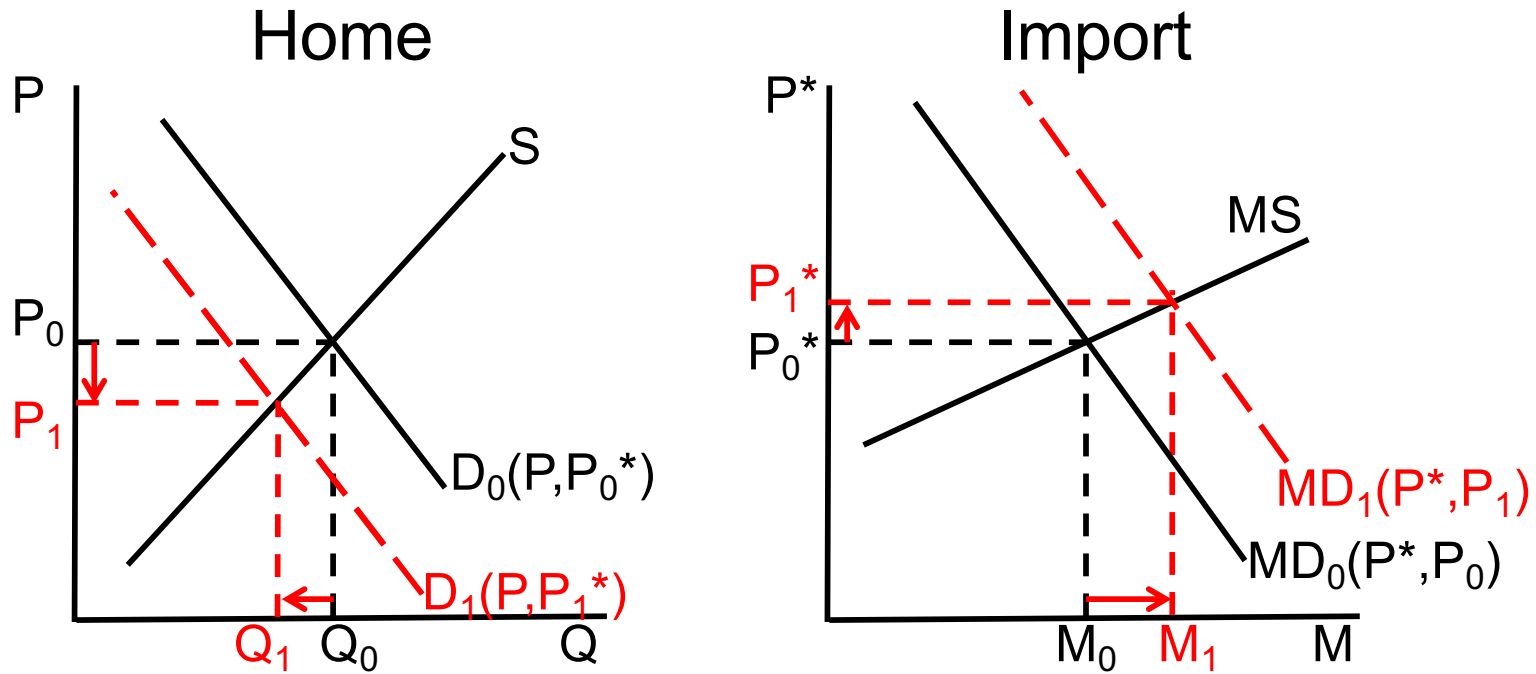
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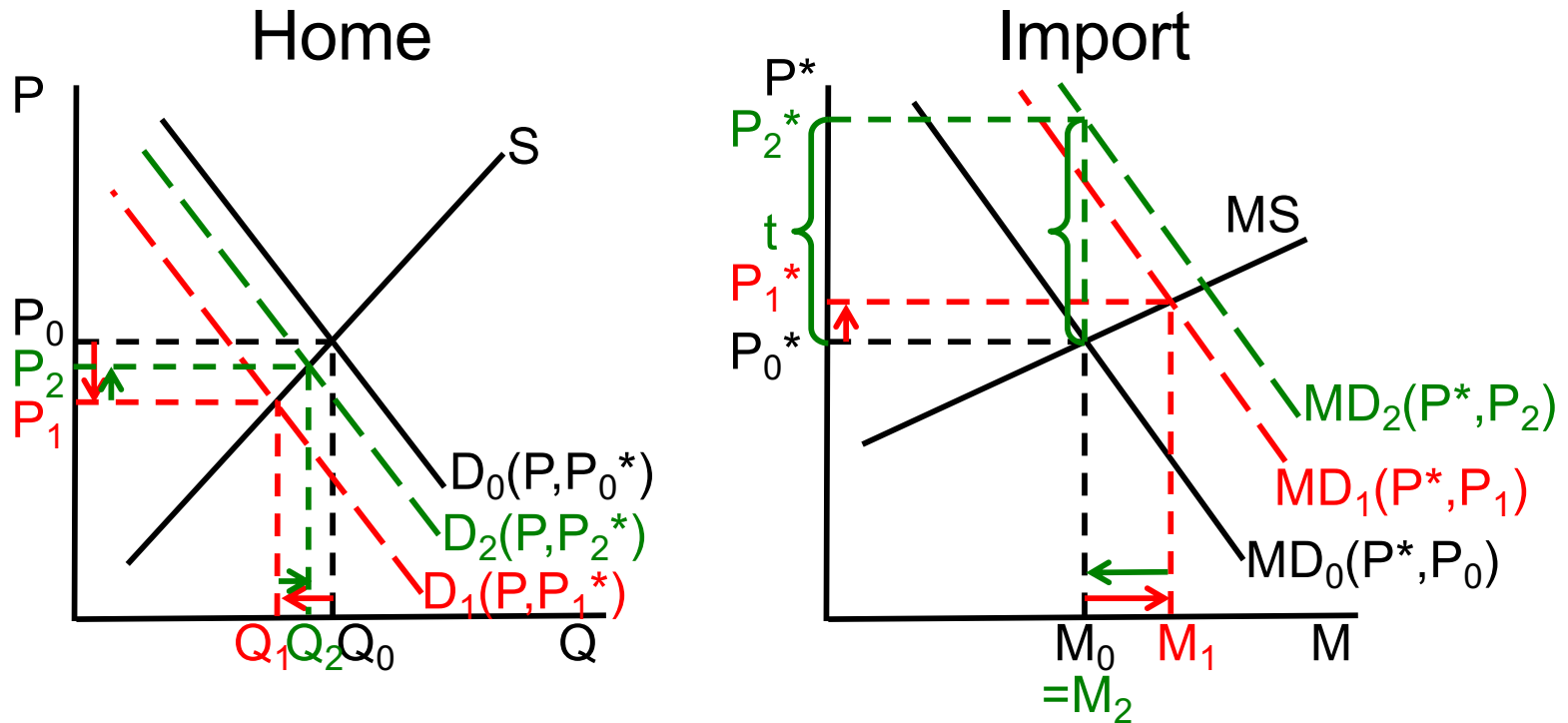


Differentiated Products



- 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

- Of the four cases that we considered, which do you think should 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-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 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 had risen 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
 - That 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 both washers and dryers (even though dryers were not 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
 - Years 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?

