

THE EFFECTIVENESS OF THE NEW SPECIAL SAFEGUARD MECHANISM (SSM): AGRICULTURAL PRODUCT SIMULATIONS

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OUTLINE OF PRESENTATION

- **Background and rationale of Doha SSM proposals (compared to the UR SSG)**
- **The ICTSD SSM simulation model**
- **Results of SSM simulations using various parameter settings**
- **Findings and conclusions**

DATA ON SSG USAGE

- **Only 39 WTO member-countries had SSG privileges for 6,156 tariff lines**
- **Only 22 were developing countries who accounted for half of SSG products**
- **Most developing countries had no SSG option or did not invoke SSG**
- **Only 10 countries invoked SSG between 1995-2001**
- **Per ICTSD study, developing countries with SSG privileges used SSG only in 1% of instances when they could have done so**

SSG vs. G33 SSM Proposal

Parameter	UR SSG	Doha SSM
Coverage	Only tariffed products with SSG designation	All products, all developing countries and LDCs
Volume Trigger	Based on historical imports and consumption patterns 	Average import volume in preceding 3 years where data is available
Volume Threshold	SSM imposable only if imports exceed trigger by more than 5%	Same (5%)
Volume-based Remedy	Up to 1/3 of current applied tariff	Percent of bound tariff or absolute percentage terms; SSM duty to depend on excess of cumulative imports over trigger 
Imposition Period	Up to end of year	12 months 

SSG Volume Trigger

Volume Trigger $V = (M \times S) + C$

M - Average Historical Imports
(in last 3 years where data is available)

S - Scaling factor
(based on ratio of imports to consumption)

C - Change in consumption (C)
(between 2 years where data is available)



- Scaling factor **S** ranges from 100% to 125%; **S** is higher if historical import/consumption ratio is smaller
- Developing countries usually have smaller import-to-consumption ratio and end up with higher **S** and larger **V**, making it more difficult to breach trigger
- Developing countries often lack data on consumption at specific tariff line level; if no data, **S** must be set to maximum of 125%
- Consumption of basic foods normally rising in developing countries, resulting in higher **C** and **V**

VOLUME-BASED SSM DUTY (G33)

Imports (M) As Percent Of Trigger Volume	SSM Duty (whichever is higher)	
	As Percent of Bound Tariff	Absolute Percentage Points
$M \leq 105\%$	0	0
$105\% < M \leq 120\%$	50%	20
$120\% < M \leq 150\%$	75%	25
$M > 150\%$	100%	30



SSG vs. G33 SSM Proposal

Parameter	UR SSG	Doha SSM
Price Trigger	Average CIF unit import price in 1986-88 period	Average monthly CIF price in last 3 years
Price Threshold	10% over import price	Zero threshold
Price-based Remedy	Cumulative, in percentage terms, based on difference between import price and trigger 	Difference between import price and trigger, either in absolute terms or on an <i>ad valorem</i> basis
Imposition Period	No clear provision (indefinite?)	12 months
Currency Depreciation Adjustment	No provision	CIF price can be adjusted in case of serious currency depreciation
TRQ constraints	SSG cannot be imposed on imports falling within TRQ commitments	SSM cannot be imposed on imports falling within TRQ commitments 

Price SSG: the formula

P = current import price; T_p = fixed trigger price, and
 D_i = additional duty

If $(T_p - P) < T_p \times 10\%$, then $D_1 = 0$

If $(T_p - P) > (T_p \times 10\%)$ and $(T_p - P) < (T_p \times 40\%)$,
then $D_2 = 30\% \times [(T_p - P) - (T_p \times 10\%)]$

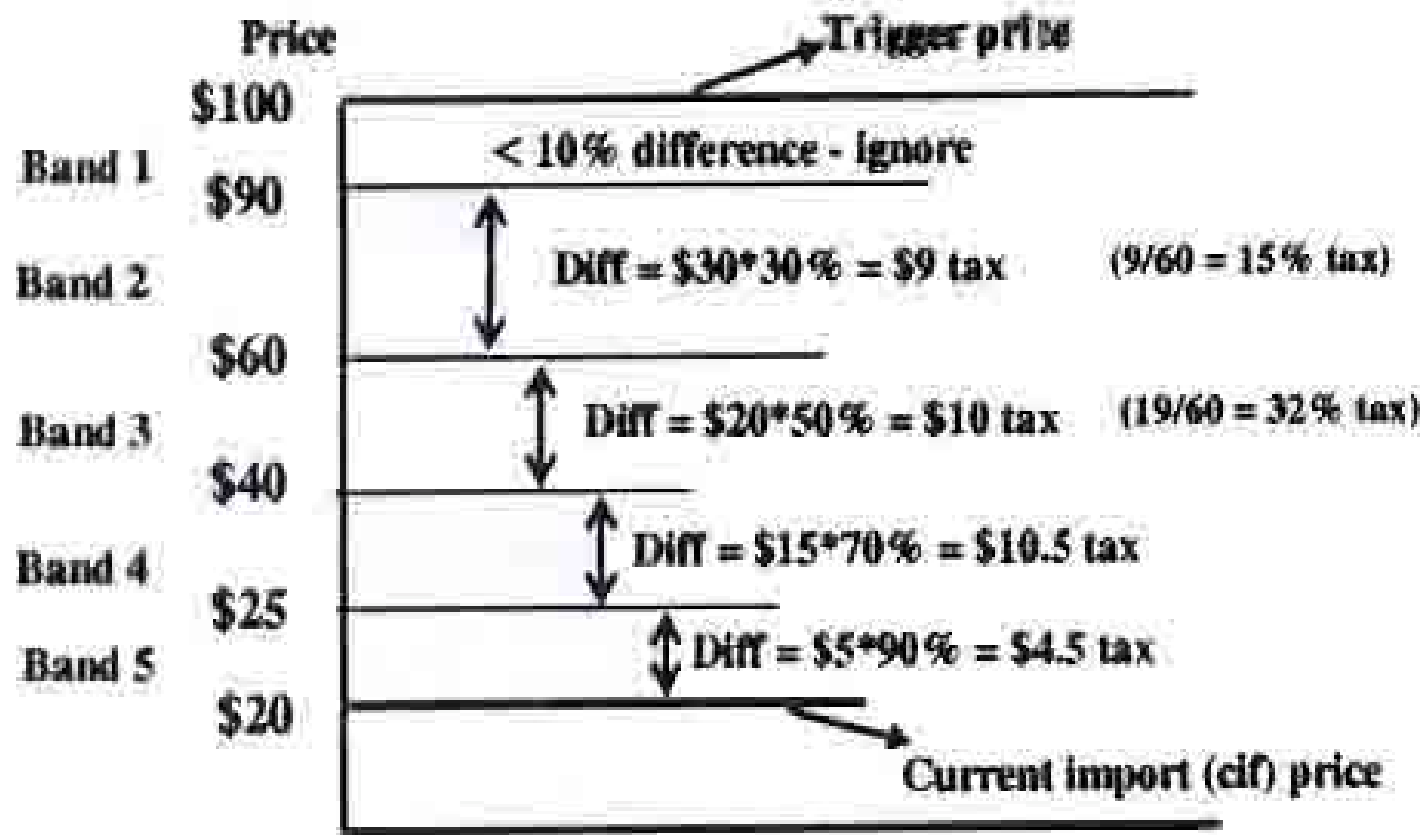
If $(T_p - P) > (T_p \times 40\%)$ and $(T_p - P) < (T_p \times 60\%)$,
then $D_3 = 50\% \times [(T_p - P) - (T_p \times 40\%)] + D_2$

If $(T_p - P) > (T_p \times 60\%)$ and $(T_p - P) < (T_p \times 75\%)$,
then $D_4 = 70\% \times [(T_p - P) - (T_p \times 60\%)] + D_2 + D_3$

If $(T_p - P) > (T_p \times 75\%)$
then $D_5 = 90\% \times [(T_p - P) - (T_p \times 75\%)] + D_2 + D_3 + D_4$



Price SSG: Calculation of additional, SSG duties



Total SSG tax = $\$9 + \$10 + \$10.5 + \$4.5 = \$34$, or
 or $(34+20)/20 = 170\%$ ad valorem

Questions Answered by the ICTSD SSM Simulation Model

- **Is SSM needed?**
 - Frequency (in % of total months) in which import volumes and prices vary from 3 or 5-year historical averages by certain percentages
- **Will the SSM be accessible?**
 - Frequency (in % of total months) in which import volumes (cumulative) and/or prices breach triggers, using different thresholds, implementation and imposition periods, market tests, currency adjustments, etc.

Questions Answered by the ICTSD SSM Simulation Model

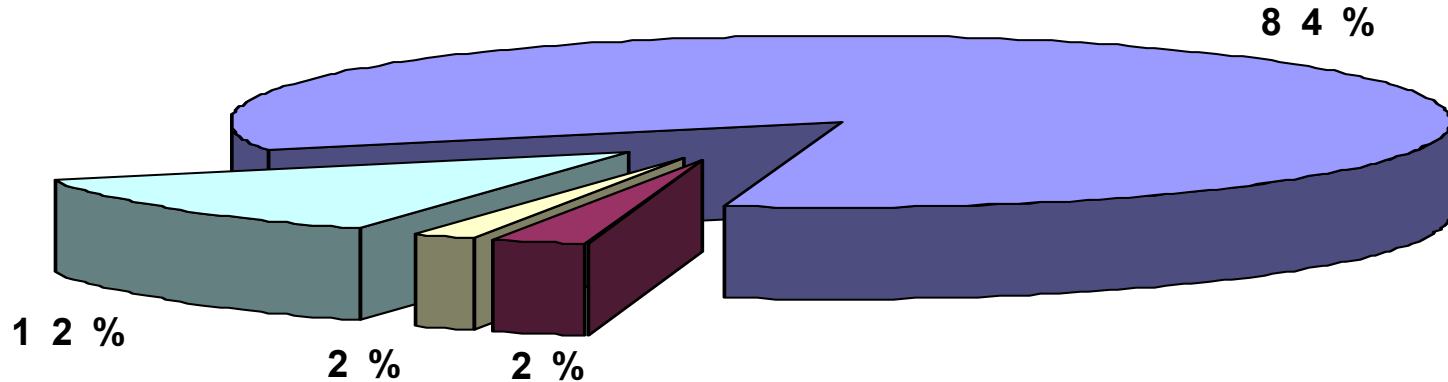
- **Will SSM be effective?**
 - “Problematic month” - month during which import prices (CIF+MFN tariffs) fall below domestic wholesale prices by more than 10%
 - “Effectiveness” measured as frequency (in % of problematic months) when SSM is invocable and is able to bring import prices (CIF+MFN tariff+SSM duty) to within 10% of domestic wholesale prices

Coverage of Simulation Model

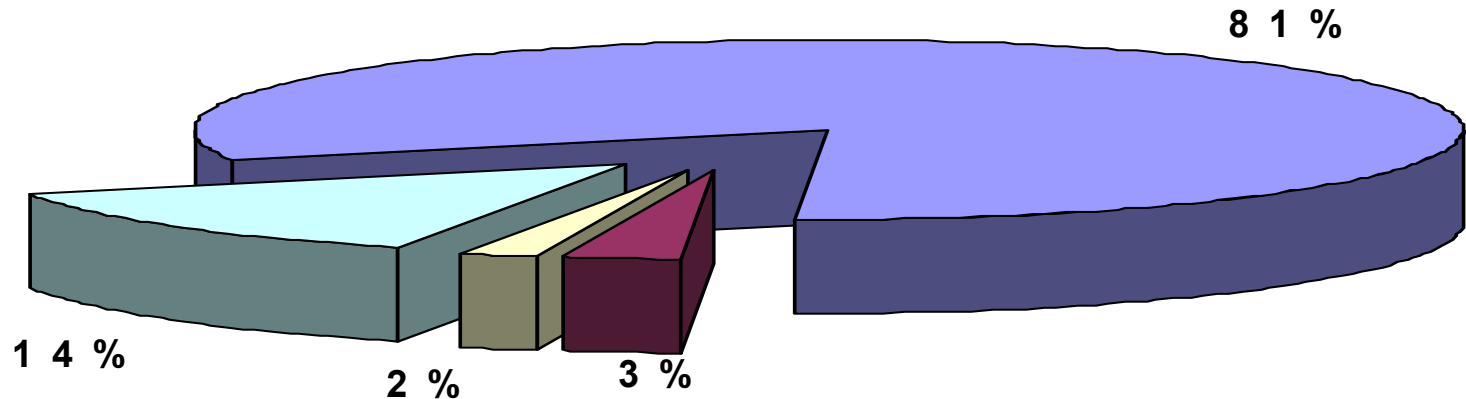
- **Only 3 countries completed so far**
 - **Philippines, Fiji and Ecuador**
 - **Partial data received from Honduras, Kenya and Bangladesh**
- **21 Products covered**
 - **Rice, corn, potato, onion, garlic, carrots, sugar, coconut, coffee, chicken, pork, beef, mutton, wheat grain, tomato, powder milk, soya oil, wheat flour, beans, milk, vegetable oil**
- **Data set from last 4 to 6 years where available**
- **Results are preliminary and partial; simulation uses historical, not forecast, data**

INCIDENCE OF IMPORT VOLUME SURGES

U S I N G 3 - Y E A R A V E R A G E S



U S I N G 5 - Y E A R A V E R A G E S

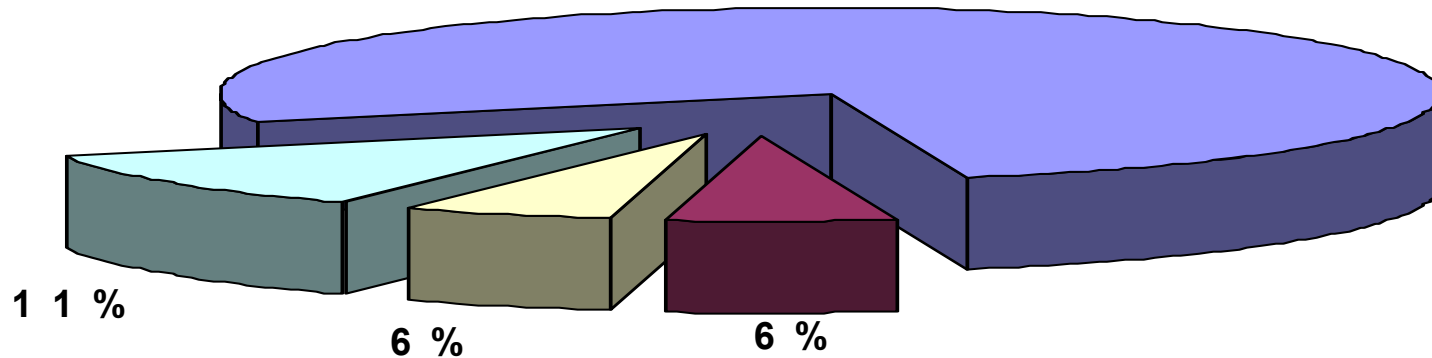


- Less than 10% Above Average
- Between 10-20% Above Average
- Between 20-30% Above Average
- More than 30% Above Average

INCIDENCE OF IMPORT PRICE DEPRESSIONS

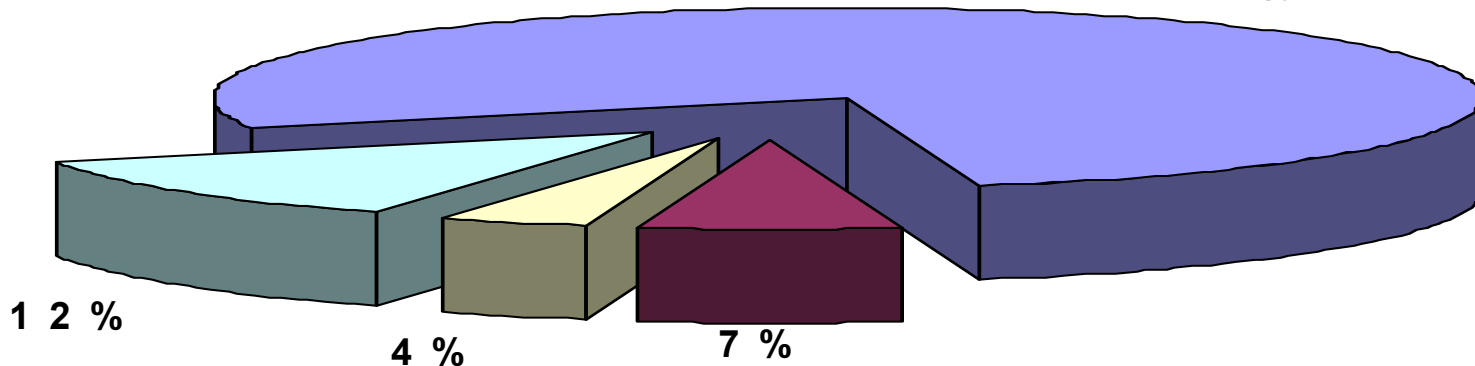
U S I N G 3 - Y E A R A V E R A G E S

7 7 %



U S I N G 5 - Y E A R A V E R A G E S

7 7 %

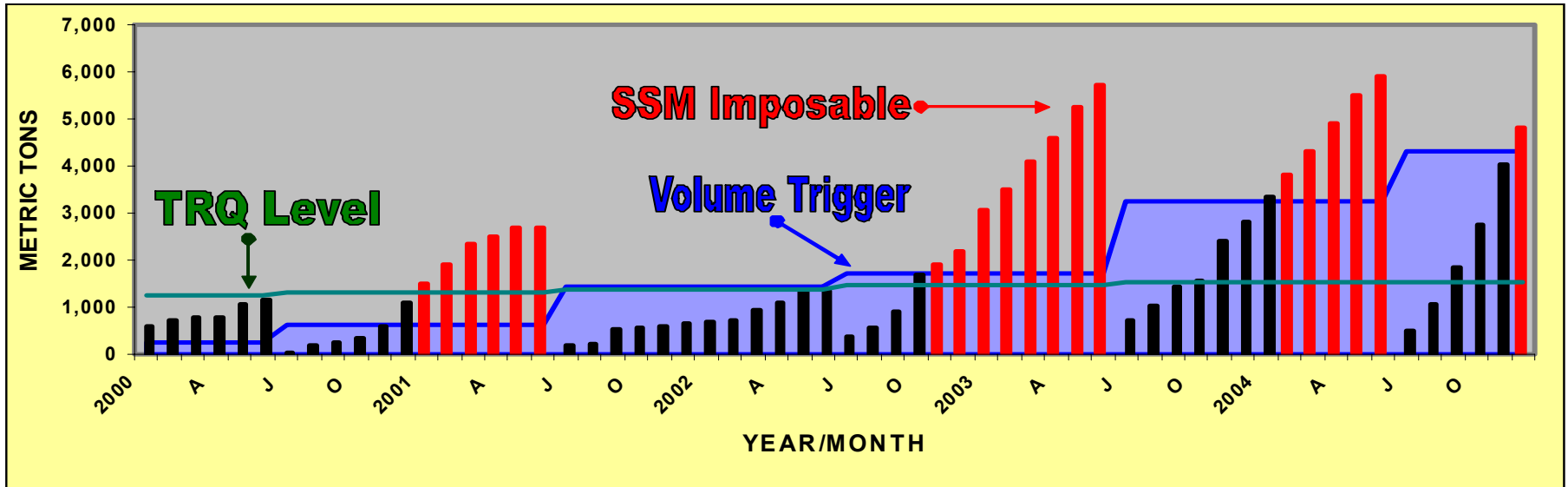


- Less than 10% Above Average
- Between 10-20% Above Average
- Between 20-30% Above Average
- More than 30% Above Average

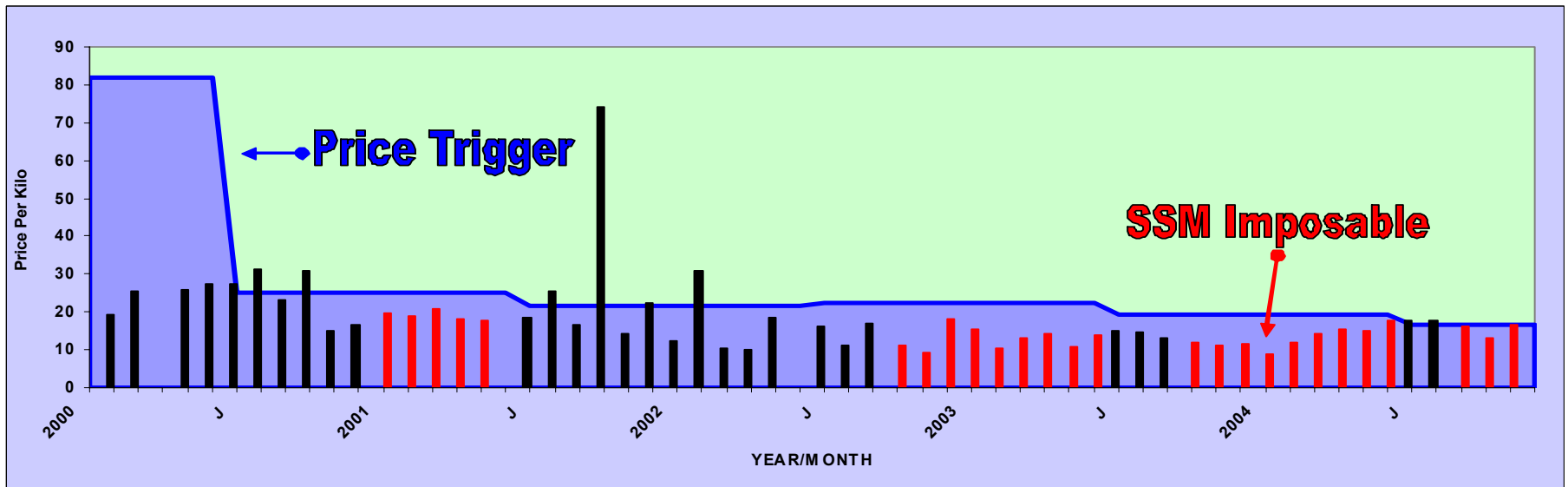
ACCESS RATES: Baseline Parameters

- **Implementation period is calendar year**
- **Volume and price triggers set to 3-year averages**
- **SSM imposable only if cumulative import volume exceeds trigger volume by more than 10% or if import price falls below trigger price**
- **If local currency depreciates by at least 10% over last 12 months, preceding 3-year average exchange rate is used to value imports**
- **SSM duty can be imposed for up to 12 months**
- **SSM duty cannot be imposed on TRQ imports**

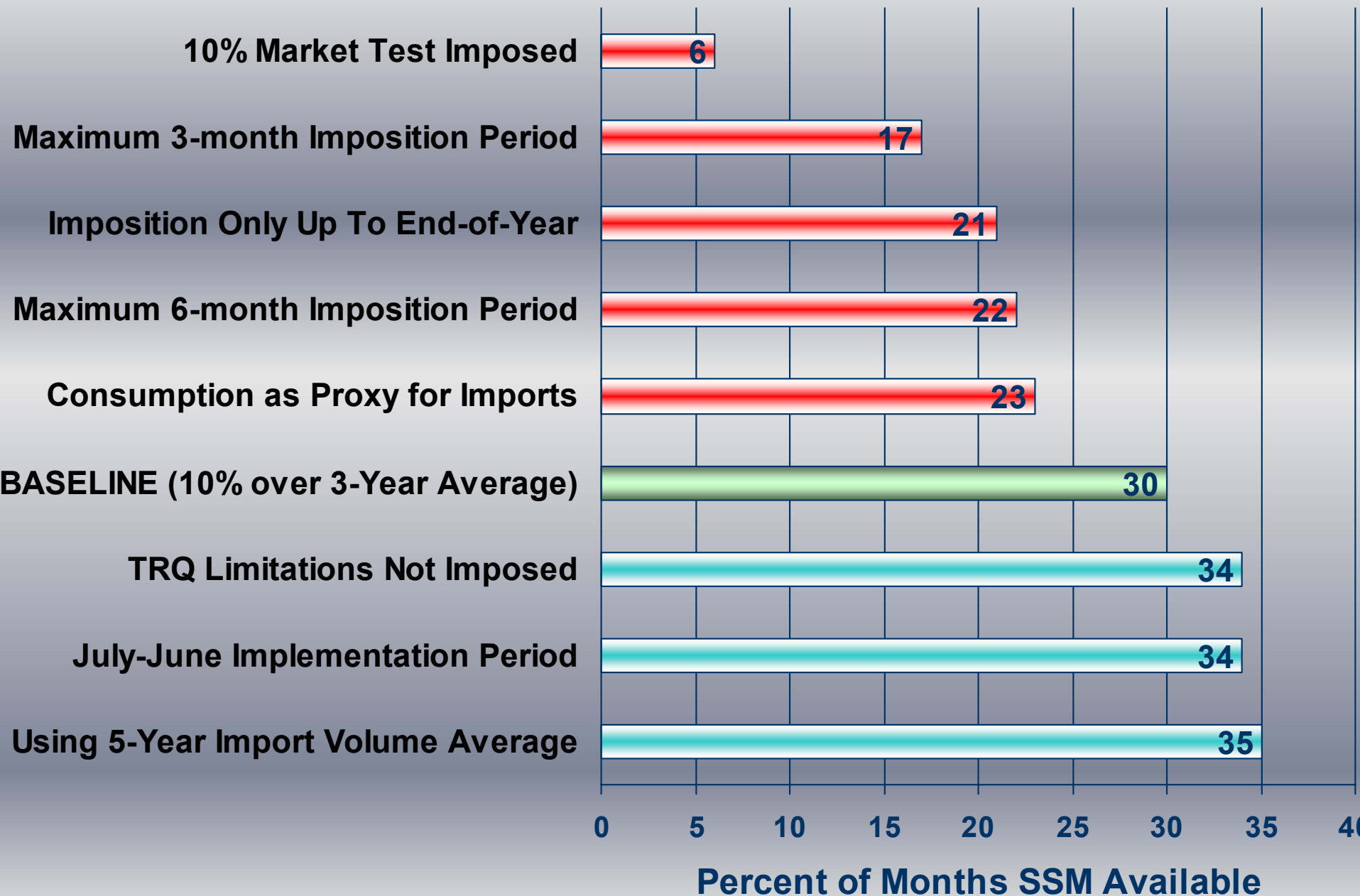
Frequency Plot of Volume SSM Access Rates



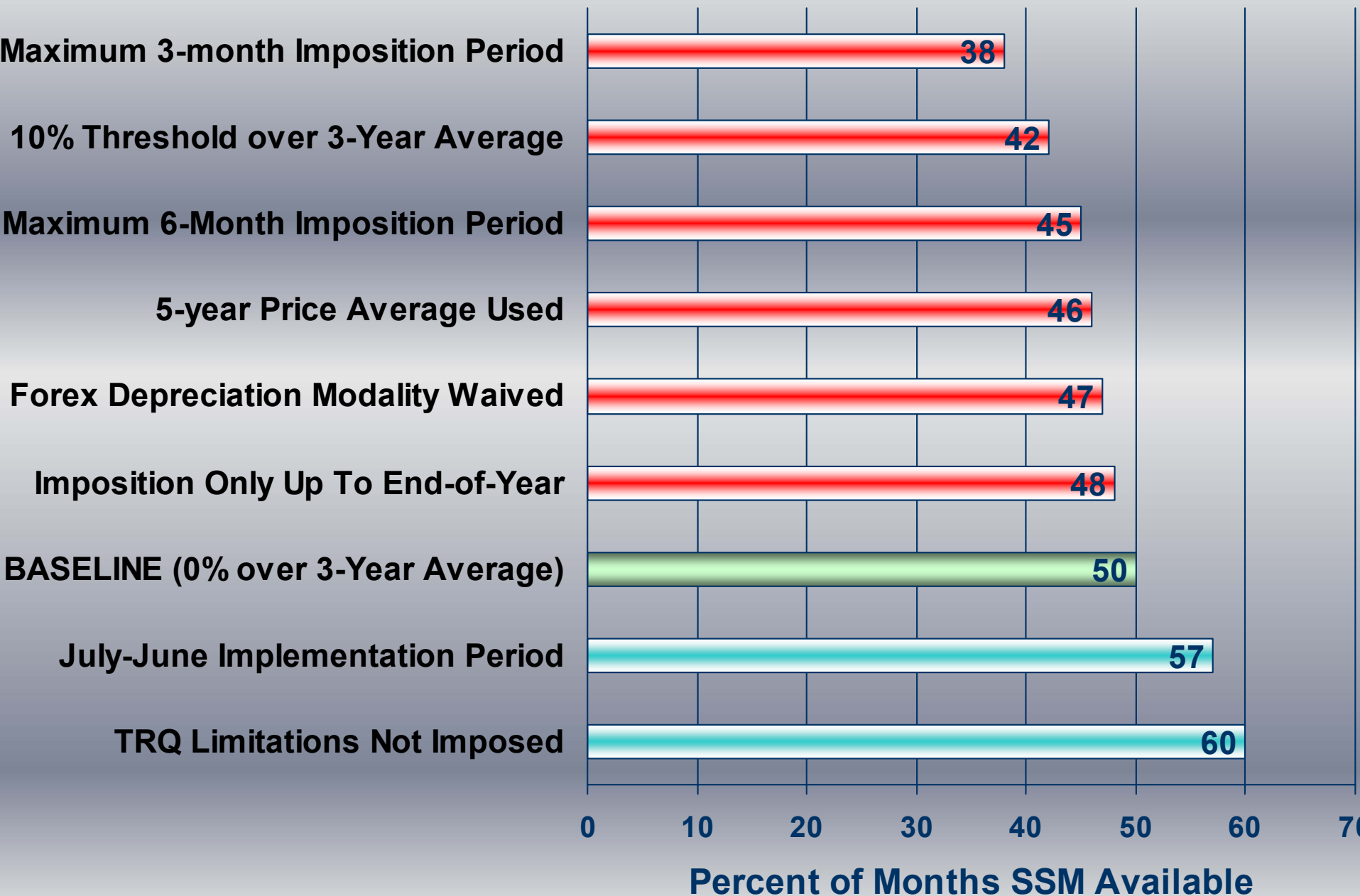
Frequency Plot of Price SSM Access Rates



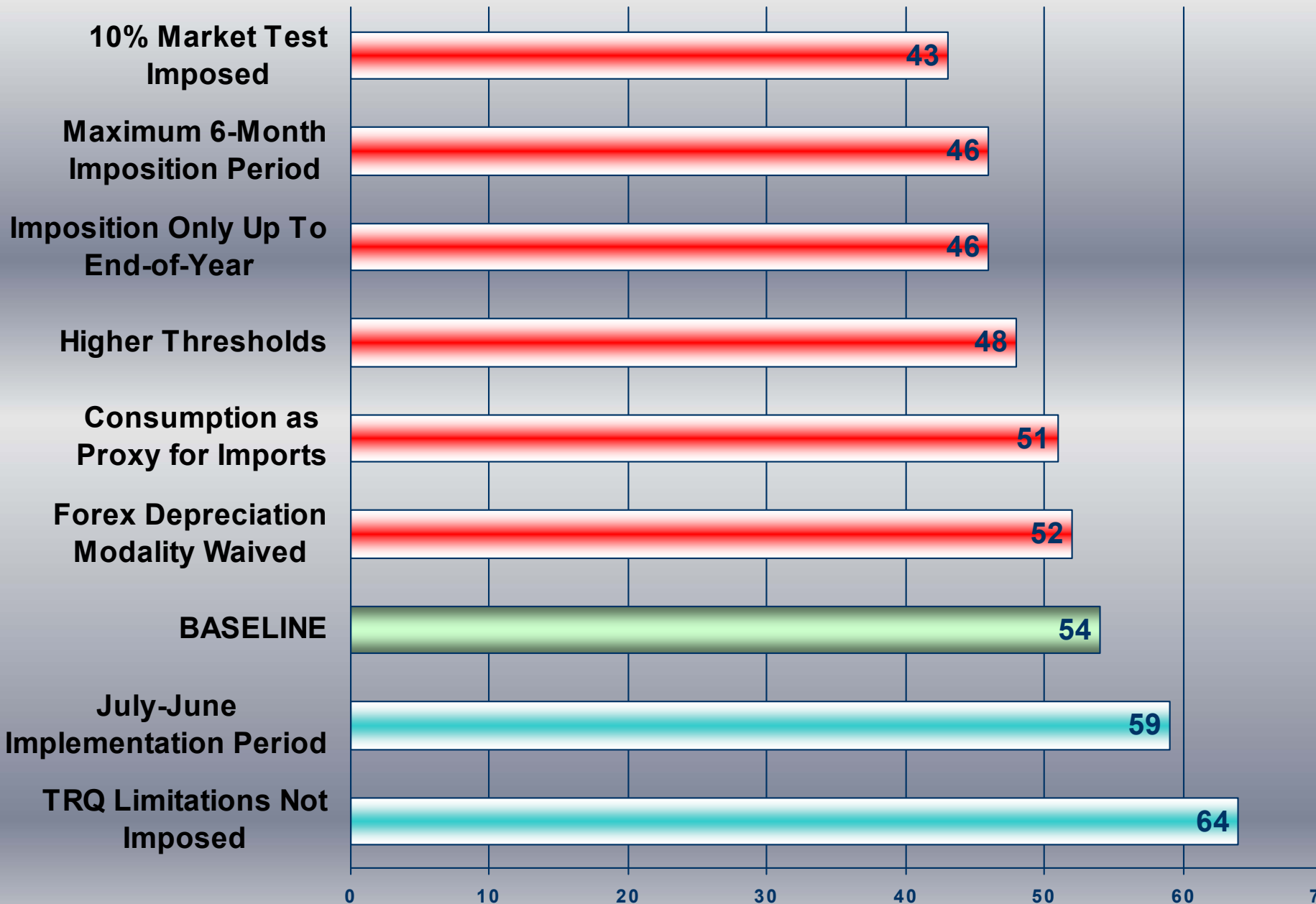
ACCESS RATES TO VOLUME-BASED SSM



ACCESS RATES TO PRICE-BASED SSM



COMBINED ACCESS RATES TO SSM

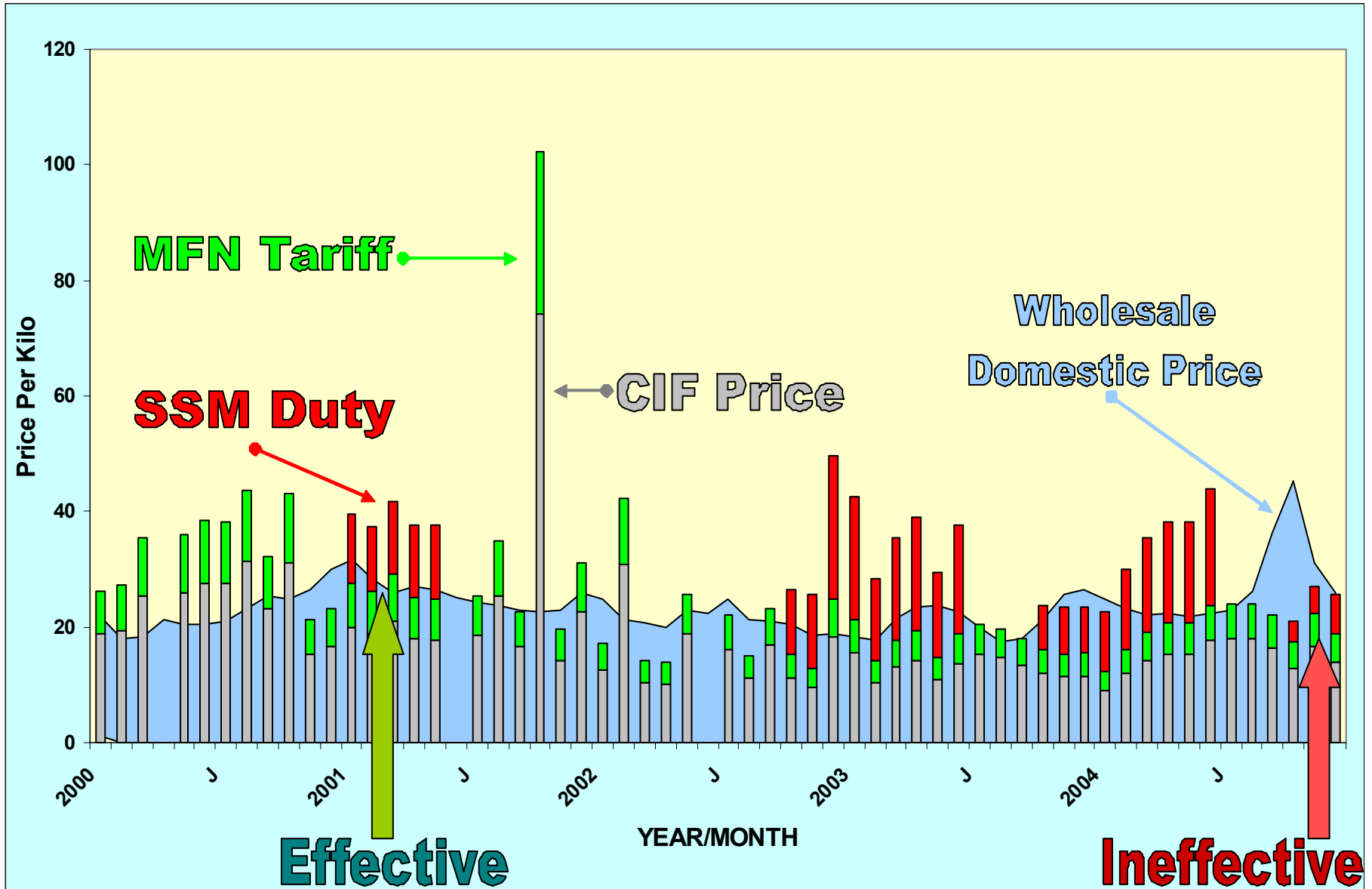


Percent of Months SSM Available

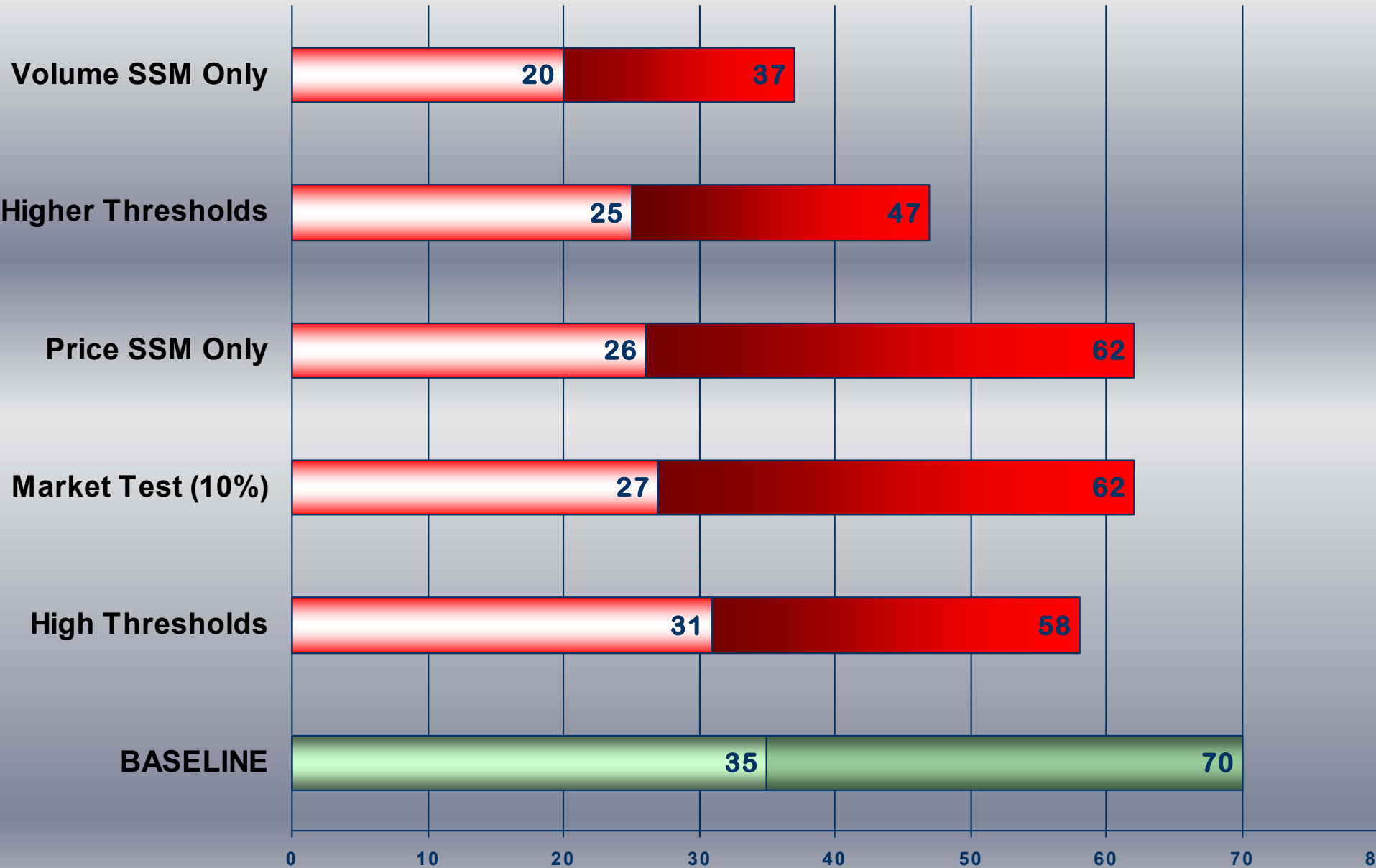
EFFECTIVENESS RATES: Baseline Parameters

- Same as with access rate simulations plus:
- Volume surge remedies based on ratio of imports to trigger:
 - Zero if ratio is 105% or less
 - 50% of bound tariff, or 40 % pctge points if $105\% < \text{ratio} \leq 110\%$
 - 75% of bound tariff, or 50 pctge points if $110\% < \text{ratio} \leq 130\%$
 - 100% of bound tariff, or 60 percentage points if $\text{ratio} > 130\%$
 - Implementation period is calendar year
- Price depression remedy set to difference between price trigger and import price in ad valorem terms
- No additional caps on volume and price-based remedies
- A month is deemed problematic if the import price plus MFN tariff falls below the monthly domestic wholesale price by more than 10%

Frequency Plot of SSM Effectiveness Rates

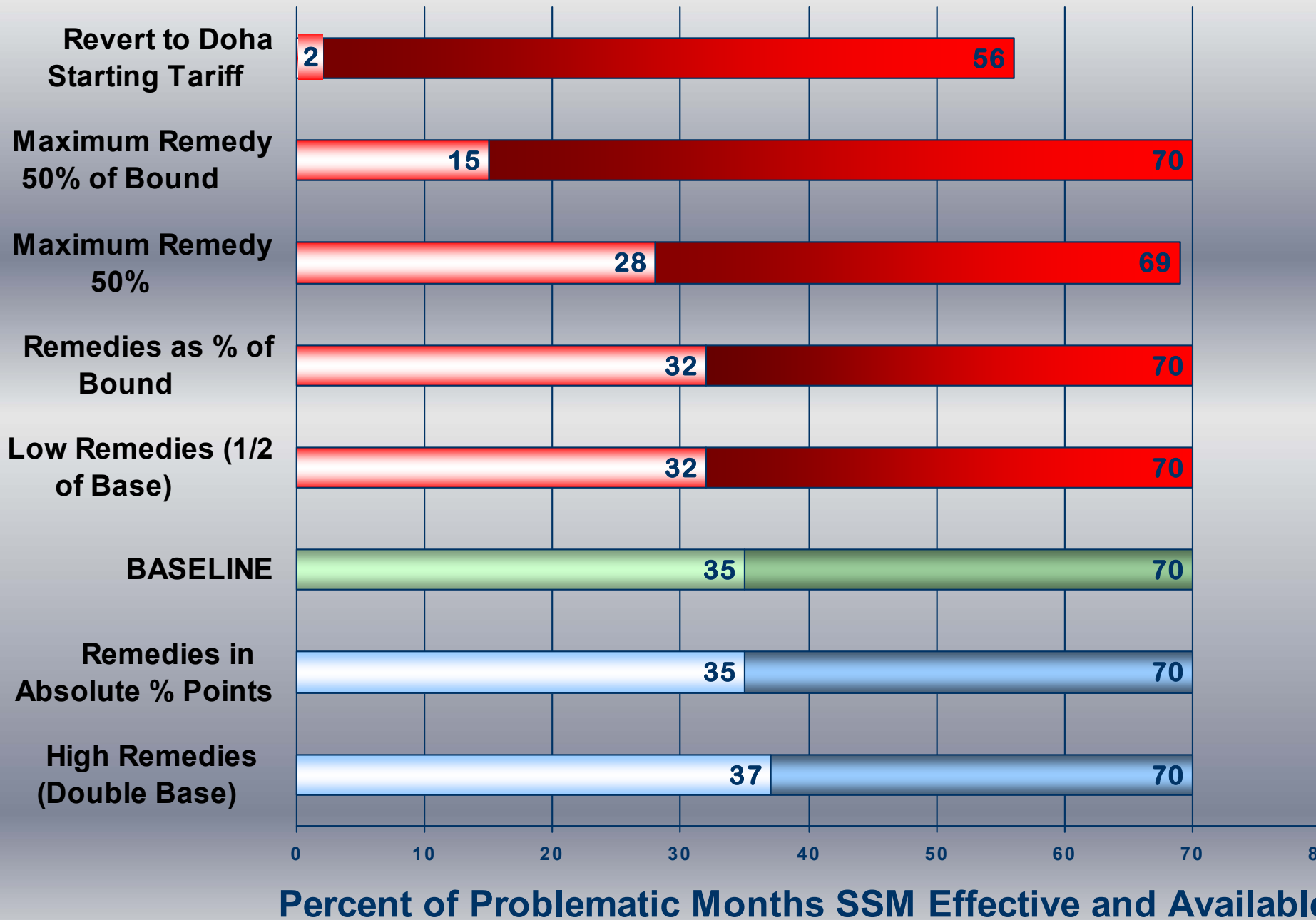


EFFECTIVENESS OF SSM

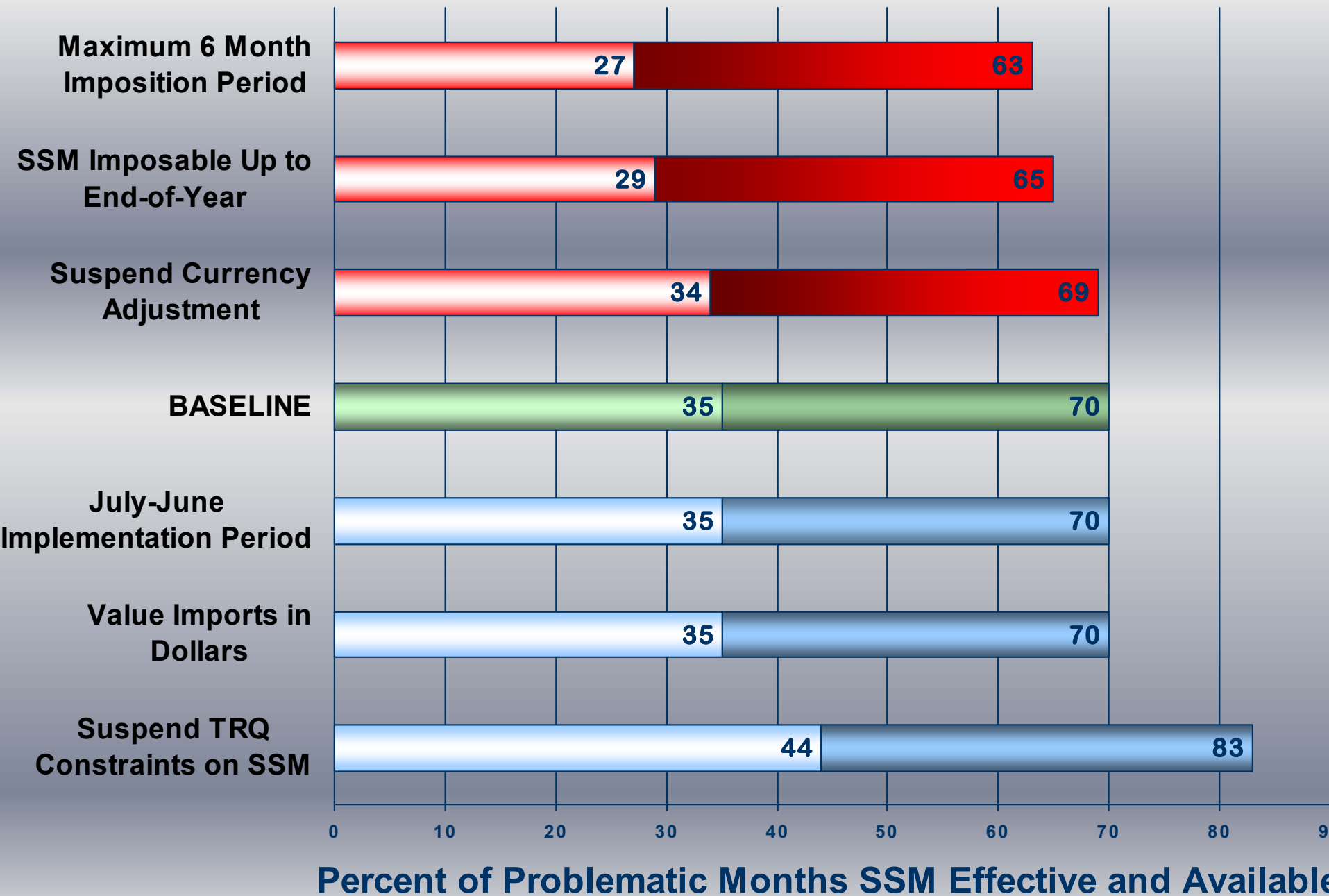


Percent of Problematic Months SSM Effective and Available

EFFECTIVENESS OF SSM



EFFECTIVENESS OF SSM



MAJOR FINDINGS FROM SSM SIMULATIONS

- Incidence of import volume surges and price depressions relatively significant
- Price-based SSM more accessible than volume-based SSM
- Shorter implementation periods and market tests more restrictive than higher triggers or thresholds
- Suspending TRQ constraints on SSM usage significantly improves access to remedy

MAJOR FINDINGS FROM SSM SIMULATIONS

- **SSM generally available during “problematic months” but effective only 1/3 of the time**
- **SSM effectiveness negatively affected by very high thresholds, market tests, caps on allowable remedies, and shorter SSM duty imposition periods**
- **Effectiveness improves marginally when remedial duties are increased and more significantly when TRQ constraints on the use of safeguards are lifted**

CONCLUSIONS

- **Credible SSM necessary for a Doha deal**
 - Need to “rebalance” trade agreement
 - Further trade liberalization saleable domestically only if remedial/emergency tools are available
 - Additional restrictions on SSM could be accommodated but not at expense of rendering SSM remedy inutile
- **Fear of abuse of SSM privileges overstated**
 - Low historical use of SSG privileges; data, administrative and other internal deficiencies will also limit SSM usage
 - Governments cannot afford to have food shortages or high food prices
 - SSM effective in bridging price gaps in only 1/3 of problematic months