

# International Economics: Lecture 14

## Anti-dumping & Countervailing Duties

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## Trade Policy Instruments

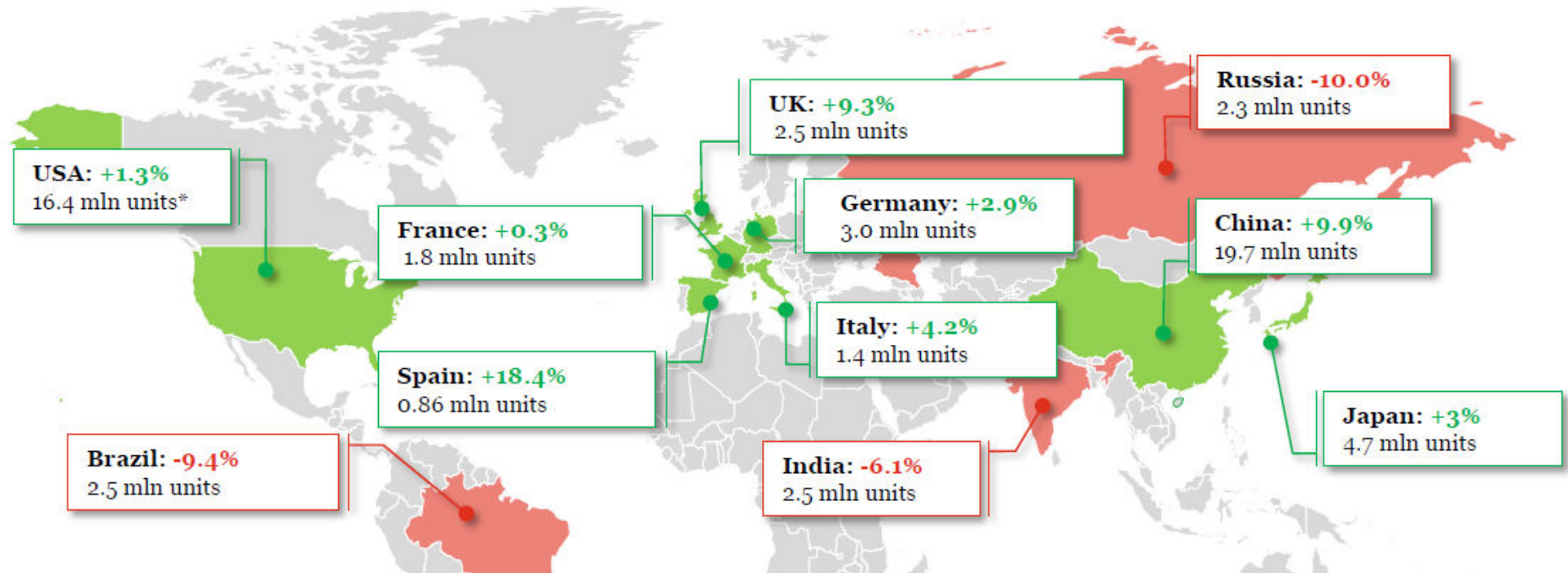
- Tariffs
- Quotas
- Subsidies
- **Anti-dumping & countervailing duties**
- Administrative policies, such as customs valuation
- Local content requirements
- Technical barriers to trade

Export-promotion & import-substitution specific subsidies are prohibited by WTO rules.

## Local content requirements in Russian automotive industry

- first phase started in 2005
  - import duty privileges (0%-5%) for components imports if:
    - 25,000 units annual production volume in 2.5 years
    - 30% localization level in 4.5 years
- second phase started in 2010
  - import duty privileges until 2020, if:
    - 300,000 units annual production volume in 4 years
    - 60% localization level in 5 years
  
  - Productions sites in Russia  
Toyota, Volkswagen, GM, Renault-Nissan, Kia-Hyundai, Ford,  
Fiat-Chrysler, PSA.

## New passenger car sales in key markets in 2014



## Car production in Russia (monthly)



Sales of Passenger Cars (2016, Jan-Aug)

Domestic brands – 178 ths.

Foreign brands assembled in Russia – 471 ths

Imported cars – 179 ths

Total – 828 ths.

## Anti-dumping measures are the most widely used tool against cheap imports

### World crude steel production & net imports, 2015 (ml. ton.)

	Prod.	Net imp.
China	804	-98
EU	166	4
Japan	105	-35
India	89	6
US	79	26.5
Russia	71	-25
Korea	70	-9.5
Germany	43	-0.3
Brazil	33	-10.5
Turkey	32	3.7
Ukraine	23	-17
Italy	22	3
Taiwan	21	4
World	1621	

Source: Worldsteel association

In July, 2016 U.S. imposed AD & CV duties on corrosion-resistant steel imports from:  
 China – 210% (AD); 39-241% (CV)  
 Taiwan – 10%  
 Korea – 28%  
 Italy – 13-92% (AD); 0.5-38.5% (CV)  
 India – 4% (AD); 8-29.5% (CV)

In January, 2017 EU imposed AD duties on steel products from  
 China – 31-65% (AD)  
 Taiwan – 5-12% (AD)  
 Overall, EU has 39 AD & CV measures against steel imports, 17 of which against China.

AD – anti-dumping duty  
 CV – countervailing duty

**Top Importers:** US, Vietnam, Thailand, Indonesia, Mexico  
**Top Exporters:** China, Japan, Russia, Ukraine, Brazil, Korea

## Anti-dumping measures statistics

- Total number (1995-2016) – 3316, of which applied
  - against
    - China – 840 (applied by India: 149; US: 107; EU: 88; Argentina: 75; Brazil: 64)
    - Korea: 229
    - Taiwan – 187
    - Japan – 140
    - Russia: 112
  - by
    - India: 559
    - US: 368
    - EU: 310

Source: WTO

## Countervailing measures statistics

- Total number (1995-2016) – 225, of which applied
  - against
    - China – 69 (applied by US: 36; EU: Canada: 18; EU: 5)
    - India: 39
    - EU – 12
    - US – 8
  - by
    - US: 98
    - EU: 37
    - Canada: 27

Source: WTO



## Anti-dumping measures may be levied, if...

*Article 6, GATT*

- 1<sup>st</sup> criteria: Incidence of dumping, which means the import price is **below the normal value**, i.e. below:
  - home market (country of origin) price
  - third market price
  - production cost (cost + selling cost + profit)differences in taxation and terms of sale should be taken into account.
- 2<sup>nd</sup> criteria: Material injury because of the dumping (causes or threatens to cause to an established industry, or retards the establishment of an industry).

## Countervailing measures may be levied, if...

*Article 6, GATT*

- 1<sup>st</sup> criteria: Incidence of subsidy, direct or indirect, such as
  - direct cash payments from government to producers
  - loan guarantees, and other potential transfers
  - tax credits, and other gov. foregone revenue, which is otherwise due
  - government procurement by higher than market prices
  - any form of income or price support, which directly or indirectly increases exports or decreases imports
  
- 2<sup>nd</sup> criteria: Material injury because of the subsidy (causes or threatens to cause to an established industry, or retards the establishment of an industry).

# The size & duration of anti-dumping & countervailing measures

*Article 6, GATT*

## ■ Size

- Anti-dumping duty may not exceed dumping margin.
- Countervailing duty may not exceed the size of the subsidy.

## ■ Duration (sunset clause)

- AD & CV duties should terminate no later than five years after being applied, unless a new investigation shows that the expiry would lead to material injury.

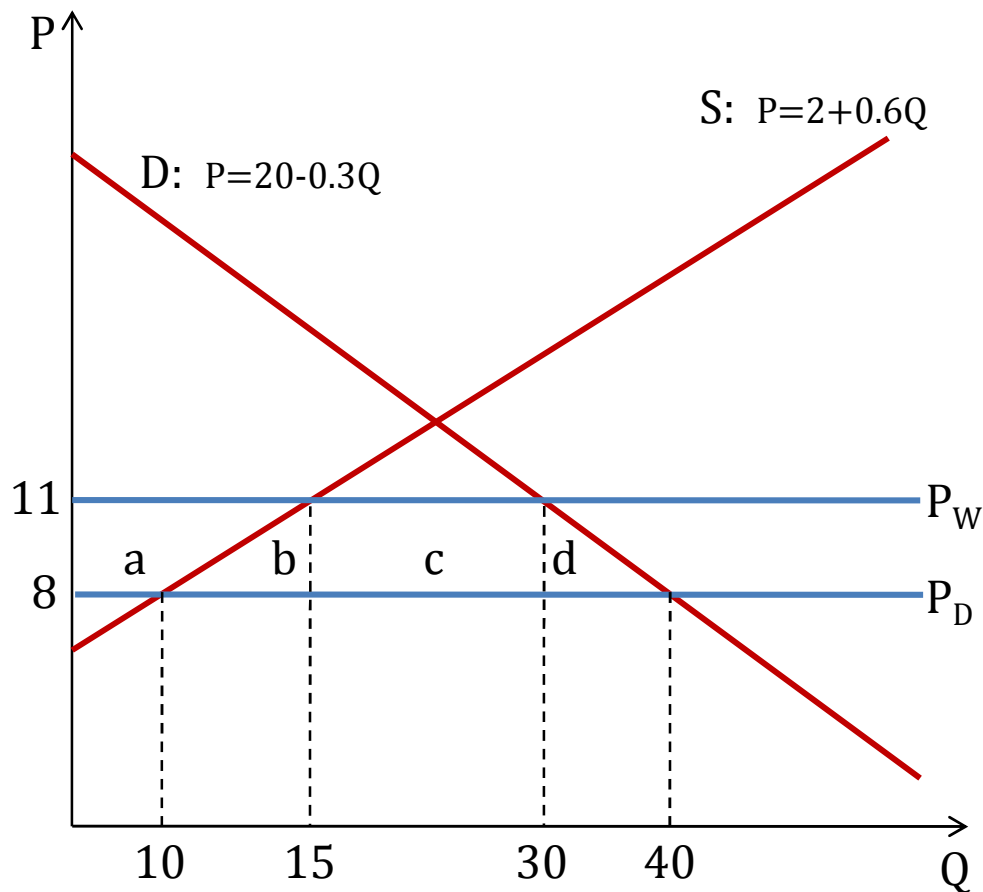
The effect of anti-dumping & countervailing measures is higher price, because of which:

- (quasi positive) Domestic producers are protected.
- (negative) Industries, which use the protected goods, are penalized.
- (negative) Consumers are penalized.
- Overall, the importing country gains from dumping or foreign subsidy (perhaps except in the case of predatory dumping).
  - **Predatory dumping** – dumping with the intention to drive the local competitors out of the market, to gain monopoly power and to raise prices.
  - **Persistent dumping** – international price discrimination.
  - Sporadic dumping – the firm disposes of surplus inventory in foreign markets.

## How anti-dumping & countervailing measures are applied?

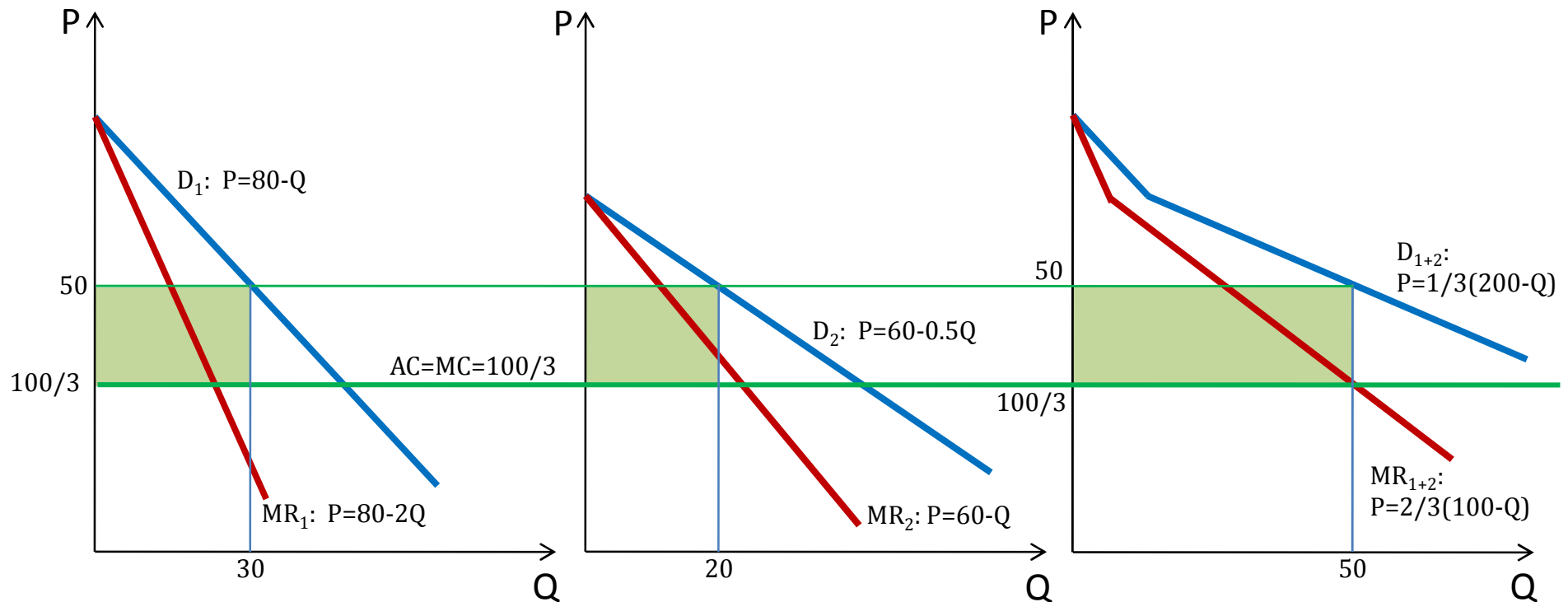
- If an industry believes that it is being injured by unfair competition through dumping or foreign subsidy, it may file a petition with an agency administering anti-dumping measures
  - in Armenia this is the Ministry of Economic Development
  - In the U.S. these are Department of Commerce & International Trade Commission
  
- If the investigation confirms that in fact there is a dumping or a subsidy and it causes a material injury to the domestic industry, then the country imposes anti-dumping or countervailing duty equal to the dumping margin or equivalent to foreign subsidy.
  - Dumping margin - difference between the normal value and the import price.

## Economic effects of Dumping



- Because of dumping or foreign subsidy domestic price decreases.
- Consumer surplus  $+(a+b+c+d)=105$
- Producers surplus  $-a= -37.5$
- National welfare  $+(b+c+d)=67.5$
- According to partial equilibrium analysis a country should send a thank you letter to the dumping firm or the subsidizing country.

## No dumping – one price



To get  $MR_{1+2}$  line, we need to sum  $MR_1$  &  $MR_2$  lines horizontally.

$$MR_{1+2} = MR_1 + MR_2$$

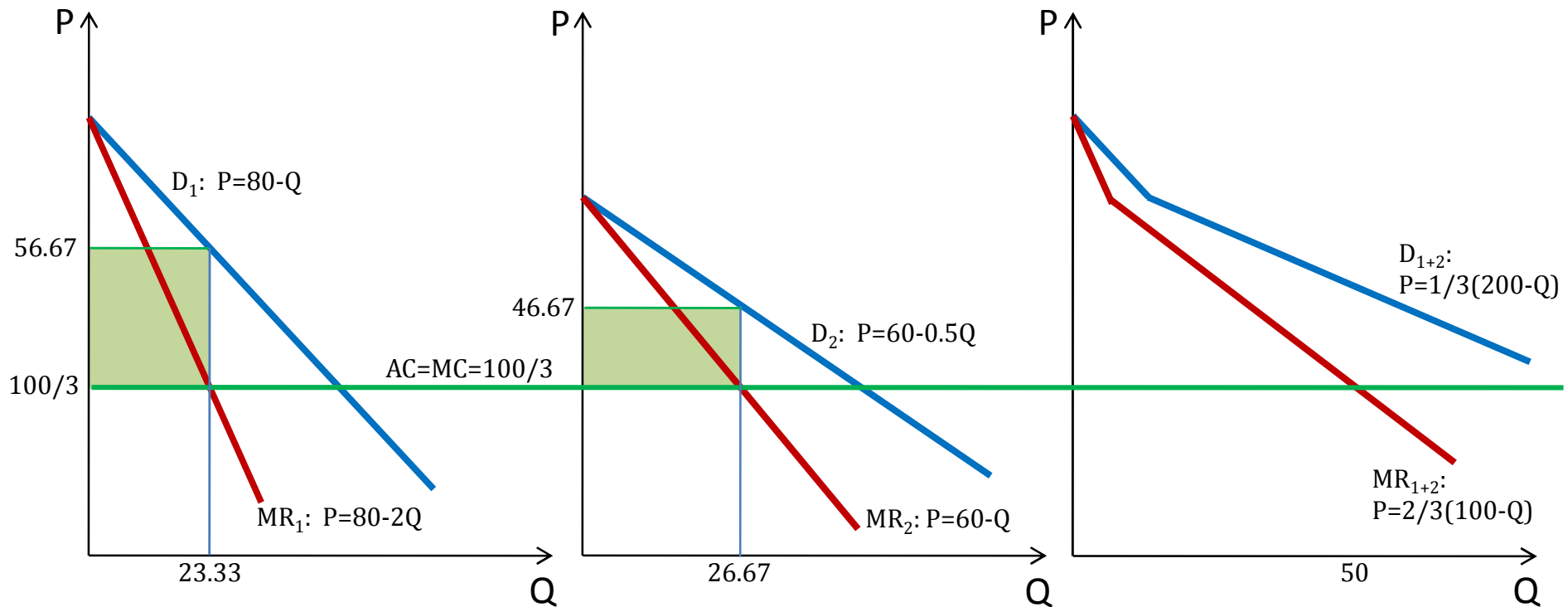
$$MR_1: Q = 40 - 0.5P$$

$$MR_2: Q = 60 - P$$

$$MR_{1+2}: Q = 100 - 1.5P, \text{ when } P < 60; Q = 40 - 0.5P, \text{ when } 60 < P < 80$$

$$\begin{aligned} \text{Total Profit} &= \\ &= 50 \times (50 - 100/3) = \\ &= 2500/3 = 833.33 \end{aligned}$$

# Persistent dumping – international price discrimination



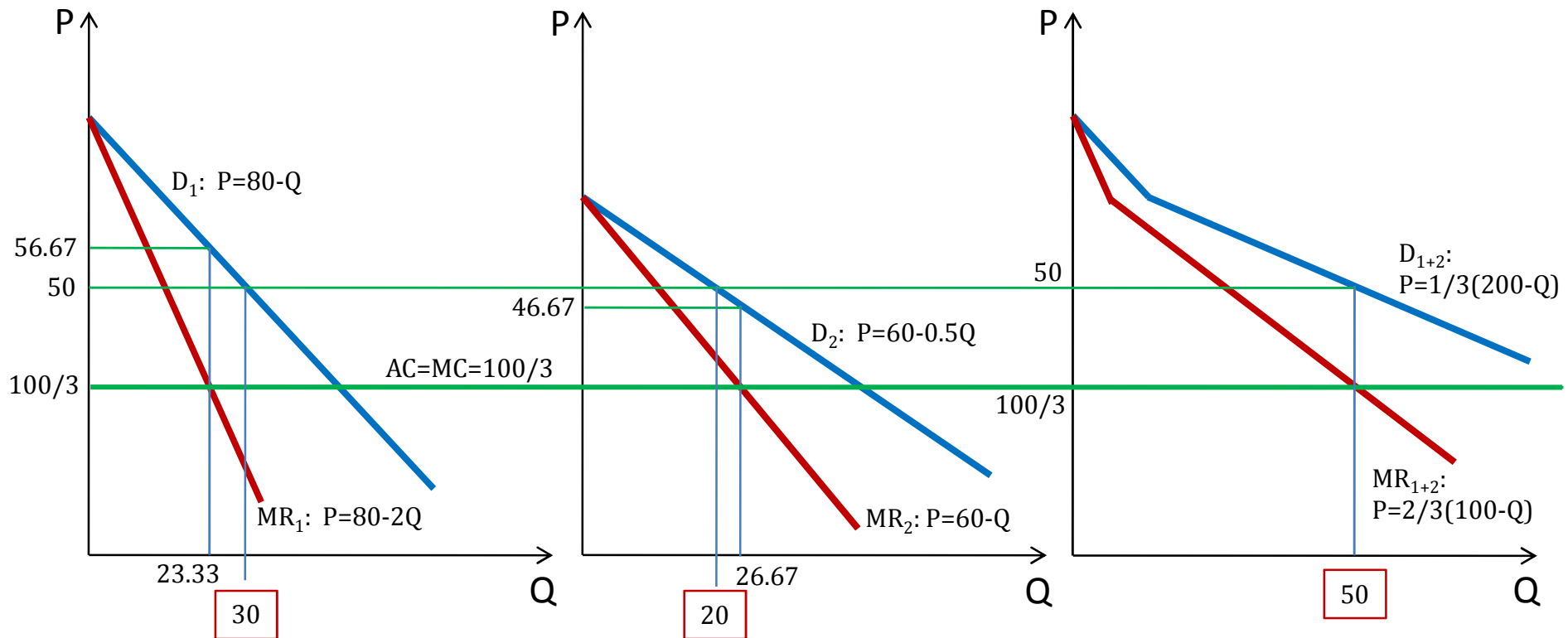
Profit1 =  
 $23.33 \times (56.67 - 33.33) = 544.44$

Profit2 =  
 $26.67 \times (46.67 - 33.33) = 351.11$

Total Profit =  
 $544.44 + 351.11 = 895.56$



# Persistent dumping vs. No dumping



Total profit

■ One price: 833.33

■ Price discrimination: 895.56

Total production

■ One price: 50

■ Price discrimination = 50

Thank you and take care,

but remember

The whole purpose of  
education is to turn mirrors  
into windows.

Sydney J. Harris