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

- **USA**: +1.3% 16.4 mln units
- **France**: +0.3% 1.8 mln units
- **Spain**: +18.4% 0.86 mln units
- **UK**: +9.3% 2.5 mln units
- **Germany**: +2.9% 3.0 mln units
- **Italy**: +4.2% 1.4 mln units
- **China**: +9.9% 19.7 mln units
- **Japan**: +3% 4.7 mln units
- **Russia**: -10.0% 2.3 mln units
- **Brazil**: -9.4% 2.5 mln units
- **India**: -6.1% 2.5 mln units
Local Content Requirements

Car production in Russia (monthly)

Max: 2013, Nov. – 187 ths.

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.)

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<th>Net imp.</th>
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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\(^{st}\) 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\(^{nd}\) 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\textsuperscript{st} 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\textsuperscript{nd} 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

\[ D_1: P = 80 - Q \]
\[ D_2: P = 60 - 0.5Q \]
\[ D_{1+2}: \frac{1}{3}(200 - Q) \]
\[ D_1: P = 1/3(200-Q) \]
\[ D_2: P = 60 - 0.5Q \]
\[ D_{1+2}: \frac{1}{3}(200 - Q) \]

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

\( MR_{1+2} = MR_1 + MR_2 \)
\( MR_1: Q = 40 - 0.5P \)
\( MR_2: Q = 60 - P \)
\( MR_{1+2}: Q = 100 - 1.5P \), when \( P < 60 \); \( Q = 40 - 0.5P \), when \( 60 < P < 80 \)

Total Profit = 
\[ 50 \times (50 - \frac{100}{3}) = \]
\[ 2500/3 = 833.33 \]
Persistent dumping – international price discrimination

Profit maximization

\[ \text{Profit}_1 = 23.33 \times (56.67 - 33.33) = 544.44 \]

\[ \text{Profit}_2 = 26.67 \times (46.67 - 33.33) = 351.11 \]

\[ \text{Total Profit} = 544.44 + 351.11 = 895.56 \]
Persistent dumping vs. No dumping

Profit maximization

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