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**Rural Industries Research and  
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# **Special Safeguards and Agricultural Trade Liberalisation**

**Global Competitiveness R&D Program**

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**Australian Government**  

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**Rural Industries Research and  
Development Corporation**

# **Special Safeguards and Agricultural Trade Liberalisation**

by David Harris

D.N. Harris & Associates

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# Foreword

In the Uruguay round of multilateral trade negotiations provision was made for the introduction of special safeguards (SSGs) on imported products that were subjected to the tariffication process. The safeguards are designed to add extra import duties to the existing ordinary customs duties if a specified trigger level is breached. The aim of the measures was address concerns of importing countries about the potential for major disruptions to their domestic market from a surge in imports.

The WTO special safeguards are an import restriction. Market access for a range of products in the major developed economies is potentially subject to SSGs. There are two types of safeguards based on price and quantity based formulas. In some cases SSGs have been invoked on a regular basis. There are concerns about the measures operating as an additional layer of permanent import protection that is not consistent with the notion of a safeguard.

The current Doha round of trade negotiations has some prospects for an improvement in market access conditions through reduced tariff rates. If this is achieved there is the potential for a greater incidence of SSG actions if the existing provisions are retained. The trade disruptions could stifle opportunities for longer term trade growth from negotiated improvements in market access conditions.

This study was undertaken to evaluate the design and operational effects of the WTO safeguard provisions. It considers the role of SSGs as a transitional measure for market access reforms like tariffication. The study should be a useful contribution to the design of *Special Safeguard Mechanisms* (SSMs) for developing countries in the Doha trade negotiations and the possible use of safeguards in free trade agreements.

The project was funded from RIRDC core funds provided by the Australian Government. The project was funded through the Global Competitiveness sub-program that aims to identify impediments to the development of a globally competitive Australian agricultural sector. It supports research that will lead to options and strategies that will remove these impediments.

This report is an addition to RIRDC's diverse range of over 1800 research publications. Most of our publications are available for viewing, downloading or purchasing online through our website [www.rirdc.gov.au](http://www.rirdc.gov.au).

**Peter O'Brien**  
Managing Director  
Rural Industries Research and Development Corporation

# Acknowledgements

The author has been involved in economic research on the effects of trade related policy reforms on rural industries for many years. He has an extensive background in quantitative analysis of the impact of trade restrictions on global commodity markets. His professional experience was developed during periods of employment at the Australian Bureau of Agricultural and Resource Economics (ABARE), the Centre for International Economics (CIE), Bonlac Foods Ltd and the OECD Secretariat in Paris.

In recent times the author has prepared a report on industry adjustment to trade related policy reform. He has also prepared a report on the technical issues affecting world trade in agricultural products that focused on the non-tariff barriers incorporated in tariff-quota administration. More recently the author has published a study on *Food Aid and Agricultural Trade Reform*. These studies were funded by RIRDC and were undertaken to highlight some key issues for the Doha Round of WTO trade negotiations. This study looks at another contentious issue in the negotiations.

The focus of this report was influenced by the comments and advice of several individuals at the start of the project. Their contributions were valuable and much appreciated. Ian Shaw and Sally Fletcher from ABARE prepared the quantitative analysis of the protective effect of Japan's beef safeguard. They provided useful advice on the design of the simulation experiment and modifications to the ABARE meat model. Further information on the structure of the model and the simulations results can be obtained from ABARE.

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# Executive summary

## What the report is about

The introduction of special safeguards (SSGs) in the World Trade Organisation (WTO) Agreement on Agriculture (AoA) was a new form of import protection. They are designed to trigger extra import duties according to specific price and quantity based formulas. The trigger formulas and the protective effect of the extra import duties are potentially important issues in the context of realising future gains from the Doha market access negotiations. This study examines experiences with the application of SSGs and evaluates the way the provisions have been operating.

## Who is the report targeted at?

The Doha trade negotiations are expected to achieve improvements in market access conditions. It will include discussions on the future availability of SSGs and the establishment of Special Safeguard Mechanisms (SSMs) for developing countries. Tariff cuts are likely to increase the frequency of WTO safeguard measures being triggered if the current approach is maintained. Free Trade Agreements (FTAs) could see more country specific safeguards established for particular products.

This report highlights some weaknesses in the design of SSGs that should be considered in developing safeguard measures in trade agreements. It questions the need for the continued availability of SSGs and focuses on the need for consistency with notion of exceptional circumstances in the effects of import competition on industry adjustment pressures. The study was undertaken as a contribution to future discussions on the role and development of safeguard measures. It was aimed at trade policy advisors in developed and developing countries.

## Background

In the major developed economies a wide range of products have SSG status. Many have not been activated because high rates of tariff protection discouraged any significant commercial trade. Quantity based SSGs have been invoked from time to time on selected products. Price based SSGs have been triggered by the US and Japan on imports of several products. The EU has regularly triggered price based SSGs on sugar and chicken meat imports. There are concerns the SSGs have not operated as they were intended. They appear to be acting more like a new layer of trade restrictions than a safeguard measure.

## Aims/Objectives

The objective of the study was to investigate how safeguards can affect global trade in agricultural products. The study focused on the existing WTO special safeguard provisions that were part of the Uruguay Round AoA. The aim was to assess the design of the SSGs for consistency with the notion of a safeguard and to highlight deficiencies that should be considered in the development of SSMs and safeguard arrangements in FTAs.

The study was undertaken to:

- assess the incidence of safeguard actions for the major agricultural commodities since AoA was implemented;
- evaluate the design and operational effects of the SSG trigger mechanisms; and
- consider the implications for the future use of safeguards in trade agreements.

## Methods used

The study made extensive use of WTO notifications on the use of special safeguards in conjunction with the relevant sections of the Uruguay Round AoA that set out the safeguard provisions. It has applied economic principles to the way the SSGs have been designed and operating to date. It has also made extensive use of market information on trading conditions to highlight the issues and concerns about the current use of SSGs.

## Key findings

The SSG provisions remained in place after the AoA implementation period finished. As an extra transition mechanism for adjusting to the effects of tariffication the need for SSGs has passed. It was meant to be a risk management mechanism for exceptional circumstances as markets adjusted to the requirements of the AoA. Industries subjected to tariffication have adjusted to the AoA some time ago and most still benefit from high levels of tariff protection.

There is no need or justification for retaining the SSGs in a new AoA. There is also no justification for using the safeguards as an extra transitional mechanism for the effects of future tariff cuts. Doha proposals to allow for self-designation of sensitive products and special products will limit the extent of the tariff reductions on highly protected products. This reinforces the case for eliminating the SSGs. There are no tariffication issues to contend with. Phased tariff cuts along with the sensitive and special product provisions provide ample scope for facilitating industry adjustment.

The justification for developing country SSMS in a new AoA is weak given the availability of other transitional features. But provision has been made for their inclusion in the negotiating modalities. A weakness of the current AoA was the failure to include a sunset clause in the availability of SSGs. This should be addressed in the Doha negotiations with the inclusion of a sunset clause on the availability of SSMS. Limits on the use of SSMS will also be an important consideration.

The availability of SSGs in world trade is perhaps greater than people realise. The major developed economies have a variety of highly protected products with SSG status and account for about two thirds of the total number of SSG designated products in world trade. SSGs are especially common for meat, dairy and sugar products:

- the EU has SSG status on the major meat, dairy, cereal and sugar products;
- Japan has SSG status on a range of meat, dairy and cereal products;
- the US has SSG status on the major dairy and sugar products and various cereal and meat products; and
- Canada has SSG status on the major dairy products and some cereal and meat products.

A significant number of SSG actions have been taken since the AoA was implemented. SSG actions have been particularly evident on dairy products. In some cases SSGs have been regularly activated. The US and Japan have been the most active users of their SSG provisions. The US had a safeguards usage rate of about 57% and Japan had a usage rate of about 27% for the period reviewed.

The use of SSGs by the US has mostly involved price based actions on dairy products, beef and sugar. SSG actions by Japan have included numerous price based actions on dairy and processed cereal products. Japan is also the largest user of quantity based SSGs in world trade. These usage rates are very high for a trade measure based on the notion of managing exceptionally strong adjustment pressures from import competition:

- the regular triggering of price based SSGs and, in the case of Japan, the extensive use of quantity based SSGs indicates the safeguards are not operating as they were intended;
- in most cases they are operating like a permanent import protection measure and are being used to restrict competition from non-TQ imports.

The application of SSGs by the EU has involved regular price based actions on imports of sugar and chicken meat. Regular triggering of these SSGs is not consistent with the intention of a safeguard measure and it highlights a deficiency in using a 1986-88 fixed reference period in calculating the trigger price. For example, the EU trigger price for sugar of 418 ECU/t is highly restrictive – it is much higher than world sugar prices of between 143 and 252 ECU/t during the period reviewed.

There is some potential for safeguards to become a more prominent feature of global market access conditions. This will occur if, in the Doha Round, the SSG provisions are retained and there are significant cuts in the tariffs on highly protected SSG designated products. Widespread availability of SSMs and more safeguards in FTAs would add to the complexity of market access conditions:

- the benefits of trade liberalisation could be stifled if safeguards are too restrictive.

There are some aspects about the design of SSGs that should be considered in the future development of safeguard mechanisms. The approach has a number of deficiencies and the formulas are vulnerable to statistical anomalies. The critical issue is the link between safeguard actions and the severity of adjustment pressures facing the import competing industries:

- if safeguard conditions are highly restrictive they will operate like a regular trade barrier;
- action is only warranted if strong import competition is established as the direct cause of a severe disruption in the domestic industry.

The trigger level formula determines the operational effect of the quantity based SSG. In general it is a relatively crude indicator of the effect of import competition on the domestic industry. It can trigger actions in situations where import growth is not the cause of industry adjustment pressures. Inclusion of the market growth factor allows an expansion in the trigger level if domestic consumption is rising. But a footnote in Article 5 of the AoA allows this factor to be ignored.

Consumption levels are generally much larger in absolute terms than import levels. Therefore the market growth factor can negate a trigger level growth factor if consumption has declined. In this situation there is an incentive to include the market growth factor. The footnote creates an anomaly where the formula can be manipulated to generate lower trigger levels subject to the 5% minimum expansion condition.

The quantity based SSG formula is biased towards lower trigger levels and regular import protection. Removal of the footnote could create difficulties when there are issues with data availability. A more balanced approach would use the trigger level growth factor for each tier of market access opportunities as the minimum expansion condition.

More generally the trigger level growth factors seem to be highly restrictive. A trigger level based on the minimum growth condition of 5% of average imports is more aligned with import protection than a safeguard measure. In most situations a 5% growth in imports is unlikely to have a disruptive effect on the domestic industry:

- much higher trigger level growth factors would give a more balanced outcome in line with the notion of 'insurance' against an import surge.

The trigger mechanism can produce some unintended anomalies that are inconsistent with the concept of a safeguard. Situations can arise where the trigger level is less than imports in the preceding year. This can occur if imports in earlier years are small relative to the preceding year or if the change in consumption is negative.

There may be situations of zero imports in earlier years of the formula – the trigger level would be zero if there were no over-quota imports in any of the three years used in the formula. This would create an anomaly where SSG duties are imposed on top of the standard over-quota tariff as soon as any imports are landed in the importing country:

- there would be no ‘SSG-free access’ level outside the TQ;
- the 5% minimum growth condition on the trigger level would have no effect.

Importing countries have discretion in the size of quantity based SSG duty that can be imposed – the maximum duty is 33% of the current applied tariff rate. Imposing the maximum allowable duty on small import volumes with limited market penetration is not consistent with the notion of a safeguard. Reduced discretion through a graduated maximum duty linked to import penetration would be a more balanced approach. A proportional response in setting the SSG duty that takes account of prevailing applied and bound tariff rates is required.

The use of import prices as an indicator of domestic industry adjustment pressures is impractical and conceptually difficult to implement. This is reflected in the deficiencies of the price based SSG. It uses a fixed trigger point which can be biased by particular shipments or short periods of abnormal trading conditions if imports are limited. A fixed reference period doesn’t allow for the dynamics of market behaviour – the point where a fall in the import price may justify SSG action will vary over time.

The trigger point should be set at a level that reflects a significant differential relative to the prevailing domestic price. The price based SSG has no connection between the trigger point and the adjustment pressures faced by import competing industries. Price based SSG actions can be triggered without any consideration of domestic pricing conditions. By itself a low import price is not necessarily disruptive to the domestic industry – it has to be assessed in relative terms to judge the implications for industry adjustment pressures.

The positioning of the trigger price relative to the market price in the importing country is the critical issue. Currently the price based SSG implicitly assumes that if import prices fall below an arbitrary line they will have a disruptive effect on the domestic market. Changing the derivation of the trigger point to a moving average would be an improvement but the fundamental deficiency remains – there is no connection with the concept of a safeguard against severe adjustment pressures.

Price based SSGs apply to individual shipments which is inconsistent with the intention of a safeguard. Industry adjustment pressures may emerge if, on average, the price of imports declines substantially relative to the domestic price. If imports are limited relative to total consumption, an exceptionally low price for selected shipments is unlikely to have a material effect on the domestic industry.

The mechanism for price based SSGs means actions can be triggered for circumstances that will have no significant impact on the domestic industry. Landed import prices fluctuate for a variety of reasons including exchange rate movements and product prices. The price based SSG can be triggered by relatively benign fluctuations in product prices or short variations in exchange rates.

Day-to-day fluctuations in landed prices are not an exceptional circumstance that warrants a safeguard action. The threshold before a price based SSG is activated should be much higher than the current 10% allowance. This would at least provide some capacity for the safeguard to avoid spurious SSG actions caused by short term changes in exchange rates and world product prices.

The use of price based safeguards in trade agreements should be discontinued – they should not be used in future trade agreements including the proposed SSMs. They are unsuitable as an indicator of industry adjustment pressures and are vulnerable to data measurement issues. Wide disparities in SSG trigger prices for the same products are evident across different countries. Such disparities are difficult to reconcile with the concept of a safeguard for changes in the price competitiveness of imports.

The wide disparity in reference prices also shows that CIF (cost, insurance & freight) unit values from 20 years ago are not appropriate for current trading conditions. They can trigger SSG actions that are simply not warranted from a safeguards perspective. In general the price based SSGs are not operating as they were intended – they are operating like an extra layer of import restrictions.

The SSG provisions for price based actions specify the maximum duty that may be imposed. But it is not possible to assess the protective effect of the safeguard. Information on the SSG duty rate is not a requirement of the WTO notification procedures. The lack of transparency should be addressed in the Doha negotiations. There should be a requirement for notification of the size of safeguard duties and the prevailing customs duty at the time a safeguard is triggered. A similar requirement should be imposed on safeguards used in FTAs.

## **Implications for relevant stakeholders**

Trade liberalisation benefits from a new AoA could be stifled if safeguard actions are allowed to proliferate in the future. Similarly the benefits of FTAs could be diluted if highly restrictive safeguard measures are incorporated in the agreements. This study has highlighted a number of weaknesses and deficiencies in the SSG provisions. They should be carefully considered by trade policy advisors when considering the development of safeguard measures in future trade agreements.

The concept and intention of a safeguard is to provide short term relief for exceptional circumstances in industry adjustment pressures caused by strong import competition. The thresholds for triggering safeguard actions and the size of the extra import duties must be consistent with this intention. To be consistent with the principle of adjustment assistance a sunset clause must be attached to all safeguard measures. It is in the interests of all countries to ensure effective disciplines are imposed on the design and use of safeguard measures in trade agreements.

## **Recommendations**

Key recommendations for the future development and use of special safeguards are as follows:

- SSGs should be eliminated in a new Doha Agreement on Agriculture – they were a transitional measure for the effects of tariffication and the need has passed some time ago;
- the use of price based safeguards in trade agreements should be discontinued – there are conceptual and practical difficulties that make them unsuitable as an indicator of adjustment pressures on import competing industries;
- a sunset clause must be imposed on the availability of safeguards in trade agreements – they should not continue beyond the implementation period for market access improvements;
- safeguards must not be allowed to operate on a regular basis to ensure they do not become a new layer of trade barriers – safeguards should be automatically eliminated if actions are taken twice in a rolling 5 year period;
- thresholds for triggering quantity based safeguards must be set at levels consistent with the concept of short term assistance for exceptional circumstances in domestic industry adjustment pressures – trigger levels should be based on an import growth factor of 50-100% depending on the market share held by imports;
- trigger level calculations for quantity based safeguards must have conditions to remove data distortions that artificially restrict the access level – formulas should be suspended for a 50% import growth factor if issues such as zero or limited imports and falls in consumption distort the formula calculations.

# 1. Introduction

The WTO Agreement on Agriculture (AoA) was an important outcome of the Uruguay Round (UR) of multilateral trade negotiations. The Agreement introduced rules on market access, domestic support and export measures. These rules were adopted to reduce distortions in world trade caused by high levels of protection and government support for agricultural commodities.

In the area of market access one of the major benefits of the WTO Agreement was the commitment to convert non-tariff border protection measures to ordinary customs duties. The process of tariffication was expected to create new opportunities for trade by removing measures such as:

- quantitative import controls;
- variable import levies;
- minimum import prices;
- discretionary import licensing;
- voluntary export constraints; and
- other trade restricting measures maintained by state trading enterprises.

The calculation of tariff equivalents was based on the actual difference between internal and external prices. Average CIF unit value of imports or an equivalent estimate was used to represent the external price. The internal price was a representative wholesale price in the domestic market. A quality adjustment coefficient could be applied if it was appropriate.

The WTO Agreement also included provisions on concessionary market access. Existing market access opportunities were maintained and, if necessary, expanded to meet a minimum threshold. Any expansion in access was provided on a non-discriminatory basis. Where there were no significant imports, new minimum access opportunities were established at a level equivalent to at least 5 % of domestic consumption. New access opportunities were provided on a non-discriminatory basis.

The process of tariffication included the introduction of special safeguards (SSGs). Products subject to tariffication have SSG provisions that imposed extra import duties under certain conditions. These provisions remained in place after the AoA implementation period finished and concerns have been raised about the way SSGs can affect trade. The triggering of SSG duties increases import protection and reduces the benefits of other trade liberalisation measures.

## Special safeguards and import protection

The introduction of SSGs in the AoA was a new form of import protection. Market access for a range of products in many countries is potentially subject to SSGs. Extra import duties can be imposed according to trigger mechanisms based on price and quantity based formulas. Some FTA negotiations have also included safeguards measures for particular products using different types of trigger mechanisms.

SSG trigger formulas and the protective effect of the extra import duties are important issues in the context of realising future gains from market access negotiations. In the Doha round of WTO trade negotiations there is expected to be a reduction in the amount of 'water' in the tariffs that apply to highly protected products (Podbury & Roberts 2003). If the tariff cuts are effective it will gradually allow for increased trade opportunities outside the tariff-quota (TQ) arrangements:

- as non-TQ imports become commercially viable the risk of triggering safeguard actions will increase if the SSG provisions remain part of a new WTO agreement on agriculture.

The SSGs were introduced because of concerns by importing countries about the potential disruptive effects of increased import competition from tariffication. They could be reasonably described as a trade measure for dealing with exceptional circumstances. SSGs were designed to address situations where the competitive pressures from imports were deemed to be excessive. But it is often the case that imports are not the cause of adjustment pressures in the domestic industry.

For example, import demand could expand because of exchange rate movements or internal market developments in the importing country such as reduced domestic output or growth in consumer demand. SSGs can be triggered for developments unrelated to lower trade barriers and/or world market developments. If they become a widespread, permanent feature of world trade they will be effectively become a new layer of import protection.

Lower trade barriers can normally be expected to lead to increased demand for imports and adjustment pressures on the domestic industry. WTO changes in market access are phased in over several years to give local producers time to adjust – it is a form of transitional assistance. The critical issue for SSGs are the formulas that set the thresholds for extra protection. If the thresholds are too restrictive the SSG is more likely to operate as a new trade barrier than a safeguard for extreme situations:

- highly restrictive thresholds for SSG duties limit the competition from imports and dilute the benefits of market access gains.

In some respects the SSG provisions acts like an automatic anti-dumping duty except there is no need to prove product dumping or domestic injury. An examination of the formulas suggests the price based SSG are acting more like a minimum import price. The quantity based SSG operates like a tariff-quota but with less certainty on annual access level. If these SSG are continually triggered and establish a prohibitive tariff rate they will effectively operate like a new layer of tariff-quota.

The major developed economies have a variety of highly protected products with SSG status. Many have not been subjected to safeguard duties because the over-quota tariffs are either prohibitive or too high to encourage strong import growth. But in some cases SSGs have been activated on a regular basis. Safeguards are especially common for meat, dairy and sugar products because of the protective measures they were in place before tariffication. For example:

- the EU has SSG status on the major meat, dairy, cereal and sugar products;
- Japan has SSG status on a range of meat, dairy and cereal products;
- the US has SSG status on the major dairy and sugar products and various cereal and meat products; and
- Canada has SSG status on the major dairy products and some cereal and meat products.

The Doha trade negotiations have involved discussions on safeguard measures. SSG provisions remain available to products that faced tariffication under the AoA. There have been discussions on the future of SSGs. But developing countries are concerned that future tariff cuts will increase the vulnerability of some industries to external market instability. Special safeguard mechanisms (SSMs) available to developing countries are being discussed with proposals similar to the current SSG provisions.

An investigation of the design and operation of the AoA provisions for SSGs is worthwhile in the context of the current WTO trade talks. If the SSGs remain in place and there is widespread use of SSMs there is the potential for ad hoc disruptions to world trade which will increase instability of world commodity markets. It is also worthwhile in the context of FTA negotiations as some recent Agreements have included safeguards for particular products:

- the development of safeguards as a short term transitional measure that reflects legitimate exceptional circumstances is an important issue for trade policy reform.

## Project aims and objective

The objective of this study was to investigate the way safeguards can affect world trade in agricultural products. The study focuses on the existing SSG provisions from the Uruguay Round AoA. The aim was to assess the design of the SSGs for consistency with the notion of a safeguard and to highlight deficiencies that should be considered in the development of SSMs and safeguard arrangements in FTAs. The study was undertaken to:

- assess the incidence of safeguard actions for the major agricultural commodities since AoA was implemented;
- evaluate the design and operational effects of the SSG trigger mechanisms; and
- consider the implications for the future use of safeguards in trade agreements.

An issue of interest is the potential for increased SSG actions by the major developed economies should they remain in place. The AoA tariffication process established greater certainty in market access conditions for a number of highly protected products. But in general the opportunities for trade outside concessionary TQ arrangements have been limited by the size of over-quota tariffs.

The objective of the Doha negotiations on agriculture is to gain an agreement that will liberalise trade. Substantial cuts in over-quota tariffs are necessary because it will gradually remove the 'water' in the tariffs that currently exists for some products. But widespread use of safeguard actions could dilute the benefits of an agreement and increase instability in world trade.

If Doha proposals for substantial reductions in tariff rates are realised there is likely to be a much greater incidence of safeguard actions in the future especially if SSGs remain part of a new AoA. It is important to examine the design of the SSGs to determine if they are operating as they were intended. Any deficiencies in the SSG provisions should be carefully considered in the development of new WTO or FTA safeguard measures:

- consistency with the concept of a safeguard is a critical issue; and
- time limits on the availability of safeguard provisions (ie a sunset clause) are an important consideration for a transitional assistance measure.

The Doha proposal to allow self-designated sensitive products and special products will limit the tariff reductions required for highly protected products. It raises legitimate questions about the justification and need for safeguard measures. They add complexity to market access conditions, have distortion effects on world trade and run the risk of developing into a permanent import protection measure. Safeguards are intended to be a short term transitional measure for exceptional circumstances:

- the need for industries adjusting to limited tariff reductions spread over several years to have access to additional adjustment assistance from safeguards is questionable.

The results of the study will have implications for the future use of SSGs, the design of SSMs for developing countries and the development of safeguard measures in FTAs. It will focus on the WTO provisions for SSGs that are currently in place. An analysis of all SSG designated products is beyond the scope of the study. But there are a number of highly protected products with SSG status in the major developed economies that are worthwhile examining. Selected examples will be used to highlight the way the provisions are operating and their implications for trade.

## 2. WTO special safeguards

Part 3 Article 5 of the WTO Agreement on Agriculture sets out the provisions for the application of special safeguards (WTO 2002). Member countries can invoke SSG's through a price based formula and a quantity based formula. Safeguards can only be invoked for products that were nominated for SSG status and only one type of safeguard action can operate at any time.

SSGs were introduced to address concerns about sudden and excessive increases in the competitive position of imports disrupting the domestic industry. They applied to products where border protection was subjected to tariffication. It was to cover situation of a sudden 'surge' in the volume of imports. But it was also taken to mean situations of prolonged depressed price of imports.

The notion of a surge in imports causing damage to the financial position of domestic producers would seem to be self-evident. But this implicitly assumes that for all products, imports and domestic output are homogenous. It also ignores the magnitude of the price responsiveness of the domestic product to import competition. The possibility that strong growth in imports or a sudden fall in import prices may not be damaging is not considered except that application of SSG duties is discretionary.

### Special safeguard provisions

The SSGs provisions allow for the imposition of extra import duties if the price or quantity of imports breaches a specified trigger level. Price based SSG actions are triggered by comparisons to a fixed reference price. Quantity based actions are based on a variable trigger level that uses a rolling three year average of historical imports. The actions are applied on an annual basis which means the extra import duties are removed at the end of the designated 12 month period.

The price based formula is based on a comparison of the exchange rate adjusted landed (cif) price of imports relative to a fixed reference price. The trigger point is an average of prices in the 1986-1988 reference period. There is some flexibility in defining the reference price. It can be an average CIF unit value of imports or the market price of a product of equivalent quality to the imported product.

There are five levels to the price based safeguards trigger level. Additional duties may be imposed if the CIF price falls below the trigger level by a specified amount. The size of the extra import duty rises as the price gap generated by the formula rises:

- (a) there is no import duty imposed if the price gap is less than or equal to 10%;
- (b) if the price gap is between 10% and 40% a duty equal to 30% of the amount by which the price gap exceeds 10% may be imposed;
- (c) if the price gap is between 40% and 60% a duty equal to 50% of the amount by which the price gap exceeds 40% plus the extra duty allowed under (b) may be imposed;
- (d) if the price gap is between 60% and 75% a duty equal to 70% of the amount by which the price gap exceeds 60% plus the extra duty allowed under (b) and (c) may be imposed;
- (e) if the price gap is greater 75% a duty equal to 90% of the amount by which the price gap exceeds 75% plus the extra duty allowed under (b), (c) and (d) may be imposed.

Table 1 provides an example of the way the SSG trigger formulas work for a hypothetical import price. The US has SSG status on the imports of all major dairy products and cheddar cheese was used to illustrate how the extra import duty varies with the size of the price gap:

- the current over-quota tariff for US cheddar cheese imports is US\$1,227/tonne;
- for an import price 10% below the trigger price the tariff equivalent effect is 63%.

## 1. An example of price based SSG duties #

	<i>Trigger price</i>	<i>Import price</i>	<i>Difference</i>	<i>SSG duty</i>		<i>Full tariff effect *</i>	
	<i>US\$/tonne</i>	<i>US\$/tonne</i>	<i>%</i>	<i>US\$/tonne</i>	<i>%</i>	<i>US\$/tonne</i>	<i>%</i>
<b>Level (a)</b>	2 180	1 962	-10.0	..	..	1 227	62.5
<b>Level (b)</b>	2 180	1 940	-11.0	7	0.3	1 234	63.6
- maximum threshold	2 180	1 308	-40.0	196	15.0	1 423	108.8
<b>Level (c)</b>	2 180	1 286	-41.0	207	16.1	1 434	111.5
- maximum threshold	2 180	872	-60.0	414	47.5	1 641	188.2
<b>Level (d)</b>	2 180	850	-61.0	429	50.5	1 656	194.8
- maximum threshold	2 180	545	-75.0	643	118.0	1 870	343.1
<b>Level (e)</b>	2 180	523	-76.0	663	126.7	1 890	361.2

# A demonstration of the SSG duties for the low point of the trigger price band.

Source: WTO 2004.

The US trigger price for cheddar cheese is used in the example. The duty is added to the current over-quota tariff.

\* Tariff equivalent effect of SSG duty and current over-quota tariff of US\$1,227/tonne for cheddar cheese (0406.90.12).

In the selected example the SSG trigger formula has an escalating tariff equivalent effect as the price difference from the trigger level increases. This reflects the fact that the over-quota tariff is a fixed duty applied to a progressively lower import price. But it also reflects the increasing size of the SSG duty. It shows that the application of SSG duties becomes increasingly restrictive:

- the protective effect of an import duty increases as import prices decline in comparison to an ad valorem tariff;
- the application of SSG duties compounds this effect because it is dealing with progressively lower price levels;
- ad valorem SSG tariffs may be a preferable approach.

The quantity based formula is based on a comparison of current year imports against a trigger level. The formula for the trigger level is the sum of a three year moving average of imports adjusted by a trigger level growth factor and a one year consumption growth factor. TQ imports are included in calculations but are not subject to SSG duties.

There are three tiers of trigger level growth factors based on market opportunities for imports. Market access opportunities are defined as a three year moving average of the import share of consumption in the importing country. The growth factors are specified by the following rules:

- if the market access opportunities are 10% or less the trigger level growth factor is 25%;
- if it is between 10% and 30% the growth factor is 10%;
- if it is greater than 30% the growth factor is 5%.

The formula applies the relevant growth factor to the moving average of imports and adds the most recent estimate of the annual change in consumption. If domestic consumption is not considered in the assessment, the trigger level is set by applying the maximum growth factor (25%) to average imports. The minimum allowable trigger level is a 5% growth on the average level of imports.

## 2. The restrictiveness of quantity based SSG trigger levels #

	<i>Import consumption share</i>	<i>Three year average of imports *</i>	<i>Trigger level growth factor</i>	<i>Trigger level</i>	
	<i>%</i>	<i>tonnes</i>	<i>%</i>	<i>tonnes</i>	<i>% change</i>
<b>Level (a)</b>	10	8 543	25	10 679	..
<b>Level (b)</b>	11	8 543	10	9 397	-12.0
<b>Level (b)</b>	30	8 543	10	9 397	..
<b>Level (c)</b>	31	8 543	5	8 970	-4.5

# SSG trigger levels with no growth in consumption.

Source: WTO 2007d.

\* Data for the Japanese trigger level calculation for butter imports in JFY 2003-04.

A minimum growth condition in the trigger level calculation is important as there can be situations where the change in consumption is negative. Consumption levels are generally much larger in absolute terms than the level of imports. Therefore this aspect of the formula could negate the trigger level growth factor if consumption had declined. But the minimum growth condition does not guarantee a higher trigger level as it applies to a three year moving average of imports.

The 5% minimum growth condition is highly restrictive for situations of limited imports with a low market share. The trigger level growth factor is 25% for a market share of 10% or less. In this situation a small fall in consumption could easily off-set a rising trend in imports and activate the minimum growth condition. The safeguard becomes biased towards import protection rather than addressing a surge in imports:

- it is highly unlikely a 5% growth rate on very low levels of imports will have a disruptive effect on the domestic industry.

Inclusion of the annual change in consumption does allow for growth in the trigger level in situations where consumption is rising. But this can be avoided if an importing country does not take account of consumption in the trigger level calculation. A footnote in Article 5 of the AoA provides this option in exchange for the highest (25%) trigger level growth factor.

In effect importing countries can limit the trigger level to 125% of average imports by ignoring the consumption component of the formula. But if the data is available there is the option of including a fall in consumption to limit growth in the trigger level:

- when combined with other conditions the footnote creates a bias towards import protection, especially for situations where imports have a limited market share (less than 10%);
- it can lead to miss-use of the safeguard measures.

The discretion allowed by the footnote creates an anomaly where the formula can be manipulated to generate lower trigger levels. In situations when imports are small and have a minimal market share it shifts the measure away from the notion of a safeguard. The intention was to address exceptional circumstances in import competition not to further restrict market access.

Removal of the discretionary footnote could create difficulties when there are legitimate issues with data availability. A consumption growth factor needs to be retained in the formula. A more balanced outcome would be achieved by using the trigger level growth factor for each tier of market access opportunities as the minimum expansion condition.

In other words if consumption cannot be measured the 25% growth factor would set the trigger level. But if consumption is negative, ignored or unavailable the minimum trigger level would be set by the level of market access opportunities. It would be calculated as:

- 105%, 110% or 125% of average imports for the respective tiers of import market shares.

In the major developed economies it is not unusual for some mature product markets to show very little growth in consumption. If there was no growth in consumption, changes in the trigger level become a step function based on the different levels of import market share. The trigger level is more restrictive at the cross-over points to a higher threshold.

A hypothetical example using the same 3 year average of imports demonstrates this point (table 2). Assuming there is no change in consumption the trigger point falls when a new threshold is breached because the trigger level growth factor declines. The unintended consequence is that the safeguard acts more like an import protection measure:

- the 'SSG-free access' level suddenly falls which would seem to be at odds with the notion of 'insurance' against a surge in import;
- gradual adjustments in the benchmark for a surge in imports would be more appropriate.

This raises the issue of defining a surge in imports. The intention of the quantity based SSG provisions was to provide a safeguard measure against exceptional circumstances in the rate of import growth. The definition has to relate to judgements about what constitutes severe adjustment pressures on the local industry.

To some extent it depends on the price responsiveness of individual markets. But in most situations a 5% increase could not be considered an import surge that would cause a major disruption to the local industry. A doubling of imports over a short time period may be disruptive. But even then if the import volume is very small a 100% increase may have no material effect on the local industry.

In general the trigger level growth factors seem to be highly restrictive. A trigger level based on the minimum growth condition of 5% of average imports is weighted towards the interests of import competing industries. This is especially the case if import penetration is less than 30% and substantial SSG import duties are imposed.

Even if imports accounted for half of total market sales the effect of a 5% growth in imports on market returns is not especially onerous. Total product availability in the importing country increases by half this amount in percentage terms. Changes of this magnitude are unlikely to cause a major disruption on the domestic industry. Variations in domestic output of this magnitude are far from abnormal:

- the quantity based SSG provisions are too generous and not reflective of exceptional circumstances;
- much higher trigger level growth factors would give a more balanced outcome in line with the notion of 'insurance' against an import surge.

SSGs duties apply to trade outside the TQs. Highly protected product markets generally have high over-quota tariffs and limited non-TQ imports. Quantity based SSGs actions are likely to become more widespread if they remain part of a successful Doha Round. Under the existing formulas the quantity based SSGs could begin to operate more like a second tier of TQs than a safeguard.

The design of the trigger mechanism can produce some unintended anomalies in the protective effect of the safeguards. The quantity based SSG trigger level uses a moving average of imports in the three preceding years. In a growing market it would not be unusual to have situations where the trigger level is less than imports in the immediate preceding year. This sort of outcome is not consistent with the concept of a safeguard against an import surge.

This can occur if imports in earlier years are small relative to the immediate preceding year. It can occur if the annual change in consumption is negative. There may even be situations of zero imports in the earlier years of the formula. In the most extreme case the trigger level would be zero if there were no over-quota imports in the any of the three years used in the formula:

- this would create an anomaly where extra SSG duties are imposed on top of the standard over-quota tariff as soon as any imports are landed in the importing country;
- there would be no 'SSG-free access' level outside the TQ;
- the 5% minimum growth condition on the trigger level would have no effect.

Importing countries have discretion in the size of quantity based SSG duty that can be imposed. The provisions allow for a maximum duty of 33% of the current applied tariff rate. This applies for each of the three tiers of trigger level growth. A measured, proportional response in setting the SSG duty relies on the discretion of the importing country.

The maximum SSG duty could be imposed in situations where imports have a small consumption share and face a relatively high over-quota tariff. This would mean a substantial rise in protection that is not consistent with the notion of safeguards against an import surge. In this situation the protective effect would seem to be out of proportion with the competitive pressures of the import growth.

Even if the Doha negotiations achieve significant tariff reductions, quantity based SSG duties could result in a snap back to prohibitive tariff rates. If the SSG provisions are retained there is a high risk they will operate as a new layer of import protection. Limiting the degree of discretion through a graduated maximum duty linked to import penetration would provide a more balanced approach for safeguards against major disruptions to import competing industries.

## **Potential application of SSGs**

This overview highlights the operational complexity and potential protective effect of SSGs. The current availability of SSGs is limited to products that underwent tariffication in the AoA. Availability of safeguard measures will be extended through the Doha discussions on SSMs for developing countries. It is worthwhile examining the current incidence of SSG designated products.

There are a large number of products with SSG status (table 3). Developed countries have about two thirds of the SSG designated products. They apply to a wide range of products. Meat, dairy, cereal, oilseed and sugar products feature prominently (WTO 2002). There are numerous SSGs for fruit and vegetables but this reflects the large number of individual products included in the category.

Developing countries also have a significant number of SSG designated products. The impetus to establish SSMs in the Doha negotiations was in part based on an apparent lack of access to the current SSG provisions (FAO 2003a). The proposal is that SSMs be available for all products but there will be limits on the number of product applications in any given year (WTO 2008, 2007h, 2007i, 2006d).

If the SSG provisions are retained some developing countries could potentially enforce safeguards on a wide range of products simultaneously. When combined with the provisions for sensitive products and special products, global market access conditions will become much more complex. This is likely to be an impediment to commercial trading activities and greater trade liberalisation.

### 3. Products with SSG status in WTO member countries #

		<i>Developed countries</i>	<i>Developing countries</i>	<i>Total</i>
<b>Meat products</b>	<i>number</i>	885	471	1 356
	<i>% of category</i>	65.3	34.7	
<b>Dairy products</b>	<i>number</i>	464	365	829
	<i>% of category</i>	56.0	44.0	
<b>Cereal products</b>	<i>number</i>	690	399	1 089
	<i>% of category</i>	63.4	36.6	
<b>Oilseed products</b>	<i>number</i>	407	304	711
	<i>% of category</i>	57.2	42.8	
<b>Sugar products</b>	<i>number</i>	148	150	298
	<i>% of category</i>	49.7	50.3	
<b>Fruit &amp; vegetables</b>	<i>number</i>	644	187	831
	<i>% of category</i>	77.5	22.5	
<b>Other products</b>	<i>number</i>	793	249	1 042
	<i>% of category</i>	76.1	23.9	
<b>Total</b>	<i>number</i>	4 031	2 125	6 156
	<i>% of category</i>	65.5	34.5	

# Products with designated SSG status as specified in AoA country schedules.

Source: WTO 2002.

In the interests of transparency, reduced complexity for trading conditions and limiting administration costs a restricted lifespan on the availability of safeguard measures should be incorporated in the Doha agreement. The conditions for safeguard actions should be simplified and designed to reflect legitimate situations of exceptional circumstances in the competitive pressures from growth in imports.

Widespread use of safeguard measures as a permanent import protection measure would be counter-productive to the goal of trade liberalisation. This is the primary reason for negotiating a new AoA. If the deficiencies in the SSG provisions are transferred to SSMs, the potential for realising new trade opportunities will be curtailed:

- it is in the interests of all countries to ensure safeguard measures do not become a new layer of trade barriers.

To assess the risk it is important to examine the profile of the availability of SSGs. The AoA schedules for a selection of countries were examined to investigate the incidence of SSGs on various types of products. This included a review of the major developed economies and a range of Asian developing countries that are major importers of agricultural products. Of the countries that were not reviewed many have no SSG designated products. However, there are some that have SSG status for a number of key products (FAO 2003a).

The review of SSG products was limited to the major commodities in world agricultural trade. Of particular interest are the products from highly protected industries in the major developed economies – meat, dairy, cereal and sugar products. In general there is a high incidence of SSGs in the major developed economies for all dairy products, beef, wheat and barley (table 4). There are no SSGs on oilseed products and a relatively low incidence of SSGs on the other major products.

#### 4. Incidence of SSGs in world trade for major products #

	<i>Major Developed Economies</i>	<i>South East Asian Economies</i>	<i>North Asian Economies</i>	<i>Other Selected Economies</i>
<b>Meat products</b>				
<i>Beef</i>	High	Low	No SSGs	Low
<i>Pig meat</i>	Low	Low	Low	High
<i>Sheep meat</i>	Low	Low	No SSGs	Low
<i>Chicken meat</i>	Low	Low	Low	High
<b>Dairy products</b>				
<i>Fluid milk products *</i>	High	Low	Low	High
<i>Milk powders **</i>	High	Low	No SSGs	High
<i>Butter products ***</i>	High	Low	No SSGs	High
<i>Cheese</i>	High	No SSGs	No SSGs	High
<b>Cereal products</b>				
<i>Wheat</i>	High	Low	Low	High
<i>Barley</i>	High	Low	Low	High
<i>Maize</i>	Low	Low	Low	High
<i>Rice</i>	Low	Low	Low	High
<b>Other products</b>				
<i>Sugar</i>	Low	Low	Low	High
<i>Cotton</i>	Low	No SSGs	Low	Low
<i>Wool</i>	No SSGs	No SSGs	Low	No SSGs
<i>Soya beans ^</i>	No SSGs	Low	Low	High
<i>Canola ^</i>	No SSGs	No SSGs	No SSGs	High

# Rating based on review of key importing countries for selected products.

Source: USDA 2007i.

Developed economies include Japan, US, EU, Canada, Australia & New Zealand.

South East Asian economies include Thailand, the Philippines, Malaysia, Indonesia & Singapore.

North Asian economies include South Korea, China, Taiwan & India.

Other selected economies include South Africa, Mexico, Venezuela & Colombia.

\* Includes fluid milk, cream & condensed milk.

\*\* Includes skim milk powder (SMP), whole milk powder (WMP) & butter milk powder (BMP).

\*\*\* Includes butter oil products with > 85% fat (ie ghee, AMF).

^ Includes oilseeds, meals & oils.

In general the incidence of SSGs in the Asian developing economies is relatively low. There are no SSGs available for imports of beef and most of the major dairy products by the major North Asian developing economies. In a few cases there are SSG designations for imports of sugar and some cereal products. The incidence of SSGs in the South East Asian developing economies is also limited:

- there is a much higher incidence of SSGs in some other developing countries for dairy, cereal, oilseed, sugar and meat products.

A breakdown of the incidence of SSGs in the major developed economies highlights the potential for safeguard actions on the highly protected agricultural products. It shows the EU and Japan have an extensive array of imported products with designated SSG status (table 5). The US and Canada also have a number of key products with SSG status.

## 5. Imports with SSG status in the major developed economies #

	Tariff Line	Japan	US	EU	Canada
<b>Meat products</b>					
Beef	201.10 to 201.30; 202.10 to 202.30	yes ***	yes	yes	yes
Pig meat	203.11 to 203.19; 203.21 to 203.29	yes	..	yes	..
Cured pig meat	210.11	yes	..	yes	..
Sheep meat	204.21 to 204.23; 204.41 to 204.43	..	yes ^	yes	..
Chicken meat	207.10; 207.39; 207.21; 207.41	..	..	yes	yes
<b>Dairy products</b>					
Fluid milk products *	401.10 to 410.30; 402.99	yes	yes	yes	yes
SMP	402.10	yes	yes	yes	yes
WMP	402.21 to 402.91	yes	yes	yes	yes
BMP	403.10; 403.9	yes	yes	yes	yes
Whey powder	404.10	yes	yes	yes	yes
Butter **	405.00.10; 405.00.90	yes	yes	yes	yes
Cheddar cheese	406.90	..	yes	yes	yes
Other cheeses	406.10 to 406.40	..	yes	yes	yes
<b>Cereal products</b>					
Wheat	1001	yes	..	yes	yes
Barley	1003	yes	..	yes	yes
Maize	1005	..	..	yes	..
Rice	1006	yes ^^	..	yes	..
Wheat flour	1101	yes	..	yes	yes
Barley flour	1102.90	yes	..	yes	yes
Maize flour	1102.20	..	..	yes	..
Rice flour	1102.30	yes ^^	..	yes	..
<b>Other products</b>					
Sugar	1701.11; 1701.12	..	yes	yes	..
Cotton	5201	..	yes	..	..
Wool	5101	..	..	..	..
Soya beans	1201	..	..	..	..
Canola	1205	..	..	..	..
Soya bean meal	1208.10	..	..	..	..
Canola meal	1208.90	..	..	..	..
Soya bean oil	1507	..	..	..	..
Canola oil	1514	..	..	..	..

# Review of major product categories - other products may have SSG status.

Source: USDA 2007i.

Australia has an SSG on cheese imports. New Zealand has no SSGs on imports of these products.

\* Includes fluid milk, cream & condensed milk.

\*\* Includes butter oil products with > 85% fat (ie ghee, AMF).

\*\*\* Not subject to price based SSG actions. SSG allows for increased applied tariff rate - not included in AoA Schedule.

^ Excludes lamb & goat meat (ie SSG only applies to mutton).

^^ Accorded special treatment status in Uruguay Round AoA ("ST Annex 5") which allowed maintenance of non-tariff border measures under certain conditions. Tariffication with SSG status applied from JFY 1999-00.

There are several points worth noting about the incidence of SSGs in the major developed economies:

- the EU and Japan have a complete SSG coverage on the major meat, dairy and cereal products – the exception is cheese imports by Japan;
- apart from Japanese cheese imports all four economies have SSG status on imports of the major dairy products;
- the US and EU have SSG status on sugar imports, a highly protected product in both cases;
- all four economies have SSG status on beef imports;

- Canada has SSG status on imports of dairy and chicken meat products – these are highly protected industries with supply controls;
- Japan has SSG status on rice imports, a highly protected product; and
- there is no SSG status on imports of oil seed products across the four economies.

An overall assessment of SSGs in the major developed economies is that the beef and dairy trade have the greatest potential for trade disruptions. If the Doha talks are successful and the SSG provisions are retained these are the products where new opportunities for trade could be affected by SSG actions. The risk will depend on three factors:

- the size and pace of tariff reductions;
- changes in the rate of protection for individual products (ie movements in the differential between domestic and landed import prices); and
- the design and application of the SSG trigger mechanisms.

The risk of trade disruptions for other products with SSG status will similarly depend on these factors. Apart from Japanese rice imports the potential for disruptions from SSG actions in cereal and oilseed products appears to be less of an issue. SSGs on wheat and barley in Japan and the EU could become an active trade restriction in the future. But the SSG status on Canadian imports of these products is unlikely to be relevant.

A breakdown of the incidence of SSGs in the developing economies that were reviewed is presented in appendix A. In general it shows the Asian economies have a much smaller coverage of SSGs than the major developed economies. The South East Asian economies have more products with SSG status than the North Asian economies. There is no common focus in the products covered. But cereals and rice in particular have a greater incidence of SSGs than the other major products.

An assessment of SSGs in the major Asian developing economies is that beef and dairy products are relatively free of safeguard measures. Rice and sugar have the greatest potential for trade disruptions. If the Doha talks are successful and the SSG provisions are retained these are the products where new opportunities for trade could be affected by SSG actions:

- the incidence of safeguard measures in Asian developing economies could increase if the Doha negotiations reach agreement on the introduction of SSMs;
- chicken meat, maize, rice and sugar are some of the products that could become subject to SSMs.

Key features about the incidence of SSGs in the Asian developing economies include:

- the incidence of SSGs on dairy products is limited – the exceptions are milk powders in Thailand and Indonesia, butter in Indonesia and fluid milk in Thailand and Malaysia;
- apart from the Philippines there are no SSGs on beef imports;
- Thailand, China and Taiwan has SSG status on rice imports;
- Taiwan, Thailand and the Philippines has SSG status on sugar imports;
- China has SSGs on the major cereal products;
- Korea has no SSGs on meat and dairy products – barley and maize are subject to SSGs;
- India does not have SSG status on any of the major products that were reviewed.

There are a range of non-Asian developing countries with SSG designated products. Countries with a high incidence of SSGs include Mexico, Venezuela, Colombia and South Africa. They each have a full coverage of SSGs on sugar, dairy and cereal products. There is also an extensive SSG coverage on meat and oilseed products. If SSMs are introduced, meat and cereals are the products most likely to be affected in other developing countries.

## The use of SSGs

The availability of SSGs does not necessarily mean there has been a widespread application of extra import duties on trade outside the TQ access arrangements. In many cases global trading conditions and large over-quota tariffs has limited the use of the safeguards. In addition importing countries have discretion in applying SSGs when the trigger mechanisms are breached. There may have been times when import countries decided not to apply safeguard actions (FAO 2005a and 2005b).

The product coverage of SSGs is important in the context of the Doha trade talks. In considering the implications of retaining safeguard measures it is useful to examine the frequency of SSGs actions since the AoA was implemented. Differences in the use of quantity and price based SSGs may indicate which type of measure is more likely to be activated in a more liberalised trading environment.

It is difficult to gain a precise measure of the size of over-quota trade for SSG designated products. In many cases WTO notifications on TQ utilisation do not provide a basis for assessing trade outside the TQs. There has been some non-TQ trade in products with SSG status but in general trade flows have been limited.

In the major developed economies many highly protected products with SSG status have substantial over-quota tariffs. The tariffs have either been prohibitive or the growth in over-quota trade has not been strong enough to bring the quantity based SSGs into play. In situations where SSG trigger levels have been breached, the trade administration systems will automatically apply the extra duties for price or quantity based actions.

Notifications to the WTO provide a basis for assessing the extent of trade disruptions caused by SSG actions. But it is important to note that it may not reflect the full extent of potential SSG actions. There may be circumstances where SSG actions can be activated but it does not occur. Trade administration systems in some developing countries may face delays in data collection or do not have the procedures to facilitate the automatic application of SSG duties.

In some situations government authorities may have decided the imposition of SSG duties was not warranted. They may have judged the trade developments did not reflect a surge in imports that would disrupt the domestic industry. They could also have decided against the application of a price based SSG because the volume of imports was declining. This is an optional undertaking in the AoA safeguard provisions (WTO 2002)

There may also have been situations where applied tariffs were raised instead of applying SSG duties (FAO 2005a & b). If applied tariffs were below WTO bound rates they could be raised to reduce the price competitiveness of non-TQ imports. In some cases SSG actions may have provided higher import protection than a snap back to bound tariff rates and was a preferable action to take.

While some countries may have chosen not to enforce SSG restrictions it is illustrative to examine the situations where safeguards have been invoked. Most of the SSG actions invoked since the AoA was implemented were undertaken by the major developed economies. They accounted for about three quarters of the SSG actions taken by the countries that were reviewed (table 6).

Japan and the US have made the greatest use of the SSG provisions. The US had the largest number of SSG actions. In contrast Canada did not use any of their SSGs on imports of the major products. Most of the SSGs invoked by the major developed economies were price based actions – there were only six quantity based SSG actions. This assessment was limited by the availability of WTO notifications:

- the most recent year of WTO notifications for the US and the EU was 2002 – notifications for Japan and Canada were available to 2006.

## 6. SSG actions initiated on major agricultural products #

	Products with SSGs	Period of review *	SSG actions invoked:			Potential for actions:	
			Price based	Quantity based	Total **	Total ***	Invoked %
<b>Major developed economies</b>							
Japan	15	1995 to 2006	30	23	53	180	27.2
US	12	1995 to 2002	54	2	56	96	57.3
EU	22	1996 to 2002	14	..	14	154	9.1
Canada	14	1996 to 2006	0	..	0	154	0.0
<b>Major Asian economies</b>							
South Korea	4	1995 to 2004	5	..	5	40	12.5
China	8	2002 to 2006	..	..	0	40	..
Taiwan	5	2002 to 2006	15	13	28	25	72.0
India	..	..	..	..	..	..	..
Thailand	8	1995 to 2005	..	..	0	88	..
Philippines	9	1995 to 2004	2	..	2	90	2.2
Malaysia	5	1995 to 2004	..	..	0	50	..
Indonesia	3	1995 to 2000	..	..	0	18	..
<b>Other selected economies</b>							
Mexico	23	1995 to 2005	..	..	0	253	..
Venezuela	26	1995 to 2004	..	..	0	260	..
Colombia	27	1995 to 2004	..	..	0	270	..
South Africa	25	1995 to 2004	..	..	0	250	..
<b>Total</b>	<b>206</b>		<b>120</b>	<b>38</b>	<b>158</b>	<b>1 968</b>	<b>7.3</b>

# Review of products with SSG status listed in table 5.

Sources: WTO 2007a, b, c, d, e, f & g, 2006a, b, c & e.

\* Refers to the period that WTO notifications on SSG actions are available.

WTO 2005, 2004, 2003, 2001a & b.

\*\* Refers to an action invoked in a product category during any of the 12 month SSG assessment periods.

In some years more than one price based action may have been invoked in a product category.

\*\*\* Refers to product categories affected by a single instance of a price or quantity based action in the years reviewed.

For example, the US has 12 SSG designated product categories & the review period was 8 years.

In years when a price & quantity based SSG was triggered it was counted as a single instance of SSG action.

Utilisation of SSGs by the Asian developing economies was limited to 13 quantity based actions and 22 price based actions. There were no SSG actions taken by the other countries that were reviewed for the analysis. Taiwan made the greatest use of SSGs with a total of 28 actions during the 2002-2006 period. In comparison to the other Asian developing economies Taiwan has been an active user of SSGs as the review period for Taiwan was considerably smaller:

- the review period for most of the other Asian economies was 10-11 years compared with five years for Taiwan;
- China did not invoke any SSGs during the 2002-2006 period.

This assessment was limited to identifying a single instance of action taken in a 12 month period. The total number of actions was much higher as several price based actions occurred in a single year in some cases. A quantity based SSG action means the extra import duties apply for the remainder of the year in which the trigger level was breached. It is also worth noting that price based actions cannot be undertaken if a quantity based SSG has been invoked.

## 7. SSGs activated by the United States on major products #

Year ended December	1995	1996	1997	1998	1999	2000	2001	2002
<b>Price based SSG actions</b>								
Beef					✓	✓	✓	✓
Fluid milk products *			✓	✓	✓	✓	✓	✓
SMP		✓	✓	✓	✓			
WMP	✓	✓	✓	✓	✓	✓	✓	✓
BMP		✓				✓	✓	✓
Whey powder		✓		✓				
Butter **	✓				✓	✓	✓	✓
Cheddar cheese		✓	✓	✓	✓	✓	✓	✓
Other cheeses		✓	✓	✓	✓	✓	✓	✓
Sugar		✓	✓	✓	✓	✓		✓
Cotton		✓						
<b>Quantity based SSG actions</b>								
Beef				No quantity based SSGs were triggered.				
Sheep meat ***				✓				
Other cheeses ^								✓
Other dairy products ^^				No quantity based SSGs were triggered.				
Other major products ^^				No quantity based SSGs were triggered.				

# Actions triggered for the major product categories with SSG status (see table 5).

Source: WTO 2004.

WTO Notifications on SSGs after 2002 were not available.

\* Includes fluid milk, cream & condensed milk.

\*\* Includes butter oil products with > 85% fat (ie ghee, AMF).

\*\*\* Sheep meat is not subject to price based SSG actions. SSG status does not apply to lamb imports.

^ SSG action was applied to imports of American type cheese.

^^ Includes fluid milk products, SMP, WMP, BMP, whey powder, butter & cheddar cheese.

^^^ Includes sugar & cotton.

Price based SSG are applied on a shipment by shipment basis. In other words the extra duty is only imposed on individual shipments if the landed import price falls below the trigger point. This is an important feature of the safeguard provisions. The price based SSG would be highly protectionist if it were applied to all shipments from all supplying countries during a 12 month period:

- price and quantity based SSG duties are only applied to imports outside the TQ.

For the countries that were reviewed there were 158 instances when an SSG action was taken on imports of the major products. Close to 75% of the actions were taken under price based SSGs. This will understate the relative use of the two types of measures as there were cases where several price based SSGs were invoked for the same product category within a year.

An accurate picture of the total number of price based SSG actions is not possible as the US and the EU do not provide the necessary information in their WTO notifications. Japan has notified the WTO of instances where multiple price based actions were taken in a single year. It has mainly involved rice, rice flour and wheat flour:

- in some years there were up to five price based actions on these products;
- Taiwan has also initiated multiple price based actions for selected products.

## 8. SSGs activated by Japan on major products #

Year ended March	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Price based SSG actions</b>												
Pig meat	✓	✓	✓									
Cured pig meat					No price based SSGs were triggered.							
Fluid milk products *							✓		✓			
SMP	✓											
WMP					✓	✓			✓		✓	✓
BMP					No price based SSGs were triggered.							
Whey powder	✓											
Butter **						✓	✓	✓	✓			
Wheat					No price based SSGs were triggered.							
Barley					No price based SSGs were triggered.							
Rice ***								✓				✓
Wheat flour				✓	✓	✓	✓	✓	✓		✓	✓
Barley flour					No price based SSGs were triggered.							
Rice flour ***								✓	✓	✓	✓	
<b>Quantity based SSG actions</b>												
Beef ^	✓								✓			
Pig meat	✓	✓					✓	✓	✓	✓		
Fluid milk products *		✓	✓	✓	✓		✓			✓	✓	✓
WMP		✓										
BMP		✓				✓	✓				✓	✓
Butter									✓			
Other dairy products ^^					No quantity based SSGs were triggered.							
Cereal products ^^					No quantity based SSGs were triggered.							

# Actions triggered for the major product categories with SSG status (see table 5).

Source: WTO 2007d.

\* Includes fluid milk, cream & condensed milk.

\*\* Includes butter oil products with > 85% fat (ie ghee, AMF).

SSG actions were applied to butter in 2001 & 2003 and to butter oil (ie ghee, AMF) in 2000 & 2002.

\*\*\* Rice was accorded "ST Annex 5" status in the AoA. Tariffication with SSG status was implemented in JFY 1999-00.

^ Beef is not subject to price based SSG actions. SSG allows for increased applied tariff rate - not included in AoA Schedule.

^^ Includes SMP, WMP & whey powder - excludes milk and cream and other processed dairy products.

^^^ Includes wheat, barley & rice.

Potentially there were 1,968 instances when an SSG action could have been triggered by the countries that were reviewed. About 6% of the safeguards were activated. The US and Japan have been active users of their SSG provisions (tables 7 and 8). The total number of US safeguards that were activated represented about 57% of what was potentially available. Japan utilised about 27% of the SSGs they had available for the major product categories:

- SSG usage rates by the US are very high for a trade measure that is based on the notion of managing exceptionally strong adjustment pressures from import competition;
- the SSG usage rate by Japan is also high for a trade safeguard measure;
- the relatively high usage rates will reflect factors such as the application of trigger formulas and the profitability of over-quota trade for the products involved – it also suggests the SSGs are operating more like an import protection measure than a safeguard.

## 9. SSGs activated by the EU on major products #

Year ended June	1996	1997	1998	1999	2000	2001	2002
<b>Price based SSG actions</b>							
Chicken meat	✓	✓	✓	✓	✓	✓	✓
Other meat products *				No price based SSGs were triggered.			
Dairy products **				No price based SSGs were triggered.			
Cereal products ***				No price based SSGs were triggered.			
Sugar	✓	✓	✓	✓	✓	✓	✓
<b>Quantity based SSG actions</b>							
Meat products				No quantity based SSGs were triggered.			
Dairy products				No quantity based SSGs were triggered.			
Cereal products				No quantity based SSGs were triggered.			
Sugar				No quantity based SSGs were triggered.			

# Actions triggered for the major product categories with SSG status (see table 5).

Source: WTO 2003.

WTO Notifications on SSGs after 2002 were not available.

\* Includes beef, pig meat, cured pig meat & sheep meat.

\*\* Includes fluid milk products, SMP, WMP, BMP, whey powder, butter, cheddar cheese & other cheeses.

\*\*\* Includes wheat, barley, maize, rice, wheat flour, barley flour, maize flour & rice flour.

The use of SSGs by the US has mostly involved price based actions on dairy products, beef and sugar (table 7). There were only two instance of quantity based SSGs being triggered. Sugar and dairy are highly protected industries in the United States. The regular triggering of price based SSGs for these products suggest the safeguards are not operating as they were intended. It indicates they are being used to limit competition from non-TQ imports rather than managing an import surge:

- the level of over-quota imports in sugar and dairy products is relatively small and unlikely to have any significant affect on market conditions for the domestic industries;
- the actions seem to be unnecessary in the context of industry adjustment pressures.

SSG actions by Japan have involved numerous price based actions on processed cereal products and to a lesser extent, dairy product (table 8). Cereals and dairy are highly protected industries in Japan. The regular triggering of price based SSGs on these products also suggests the safeguards are not being used as they were intended.

Japan's non-TQ imports for rice, butter and milk powders are very small and it indicates the SSGs are being used to limit import competition. Japan is also the largest user of quantity based SSGs. It has invoked quantity based SSGs on a range of dairy products, especially fluid milk products. There have also been a number of quantity based SSGs triggered for beef and pig meat:

- these quantity based SSG actions need to be examined to see if they relate to an unusually high rate of growth in imports that would cause a major disruption to the domestic industries.

The application of SSGs by the EU has involved regular price based actions on sugar and chicken meat (table 9). There were no instances of quantity based actions during the period that was reviewed. SSGs were not triggered for dairy products but this reflects the high tariff rates which limit the attractiveness of trade outside the dairy product TQs. Regular triggering of the sugar and chicken meat SSGs is not consistent with the principle of a safeguard to manage exceptional circumstances in the competitive pressures from increased imports.

It is not possible to determine the protective effect of the regular triggering of price based SSGs for these two products because there is insufficient information in the EU notifications. It may reflect single instances of an over-quota shipment breaching the price based SSG trigger levels. But it would reflect a misuse of the safeguard provisions if it involved the regular application of SSG duties on all imports in a 12 month period.

In some respects the regular annual triggering of price based safeguards is equivalent to operating a minimum (floor) price for over-quota imports with a variable import duty. The landed import price is continually breaching a fixed trigger point and extra import duties are imposed. This type of trade policy was supposed to be eliminated by the tariffication process in the AoA:

- the EU sugar and chicken meat SSG actions appear to be operating in this way;
- the application of price based SSGs in this way are not consistent with the original intention of introducing safeguards in the context of gradually expanding trade opportunities.

It raises the issue of how the use of a fixed reference period affects the calculation of the trigger price. Statistical anomalies and/or market conditions at the time of the reference period could create a highly restrictive trigger point. In this case a fixed reference period of 1986-88 import prices has no relevance to world price conditions in the period since the AoA was implemented.

By way of example the EU trigger price for sugar is 418 ECU/t. The price is based on the landed CIF import unit values for the reference period. This price is considerably higher than the world spot price for bulk raw sugar during the period since the AoA was introduced. Deficiencies such as this in the SSG formulas can lead to situations where the safeguard provisions do not operate as they were originally intended:

- during the period from 1994-95 to 2001-02 the FOB (Free On Board) world spot price of sugar at Caribbean ports ranged from 143 ECU/t to 252 ECU/t;
- even allowing for freight and insurance costs the landed CIF price would have been substantially lower than the trigger price of 418 ECU/t.

Concerns about the potential trade disrupting effects of retaining the SSGs and introducing SSMS through the Doha trade negotiations are understandable. There is evidence that the measures have been acting contrary to what was intended. Regular triggering of SSGs would suggest the safeguard is acting as an import protection measure instead of a safety mechanism for exceptionally strong import competition that may cause a major disruption to the domestic industry.

If safeguard provisions in the current form were extended to all products there will be more instances of misuse or unintended consequences. It will increase the instability in world trade. Deficiencies in the SSG provisions should not be transferred to the SSMS.

This review of the WTO special safeguard provisions suggests the Doha trade negotiations need to focus on ensuring:

- safeguard measures are only activated in exceptional circumstances where industry adjustment pressures in the importing country can be legitimately classed as excessive; and
- there are limits on the long term use of safeguards to prevent them acting like a new layer of permanent import protection.

### 3. Application of quantity based SSGs

Most agricultural commodity markets are cyclical. World prices fluctuate in response to changes in aggregate supply and demand in markets that are responsive to global trading conditions. There is nothing inherently unusual about this. Price fluctuations affect all goods and service in economies that allow market conditions to determine the allocation of resources.

The desire for import safeguards in the AoA came from concerns about the tariffication process. There was a perceived risk of large changes in landed import prices and/or the volume of imports as trade barriers were reformed. SSGs were seen as a safety valve to relieve excessive adjustment pressures on domestic industries should they arise. But the need for safeguards didn't give adequate recognition to the phased approach to trade liberalisation that was built into the agreement.

Phased tariff cuts over several years and special treatment for developing countries were features of the agreement designed to address concerns about adjustment pressures (Roberts, Buetre & Jotzo 2002). The size of the overall tariff reduction was modest, even for highly protected products. The initial process of tariffication was not especially onerous, a fact confirmed by the amount of 'water' in numerous over-quota tariffs that is evident in the Doha market access discussions.

The safeguards were seen to be a mechanism for handling exceptional or extreme circumstances. A temporary extra import duty has the appearance of an adjustment mechanism. But the availability of SSGs in perpetuity is not consistent with a transitional assistance measure. Regular triggering of SSG actions raises questions about the design and operational effect of the measures. It also highlights the risk of introducing safeguard measures without a sunset clause.

This is an important consideration for the Doha negotiations. There are likely to be provisions for special and sensitive products as well as phased changes in market access. There are no tariffication concerns and these provisions would seem to provide ample scope for facilitating adjustment.

Some importing countries justify the need for safeguard measures on the trade distorting effects of trade related policies in other countries that 'corrupt' the world market. Export subsidies, production subsidies, direct income support and the non-competitive behaviour of state trading enterprises are some of the measures that are raised to support this perspective.

These market distorting issues are being addressed in other areas of the Doha negotiations. It seems likely that export subsidies will be phased out if the negotiations are successful. The established mechanisms for WTO inquiries on unfair trading practices will continue. There are also long standing provisions for anti-dumping inquiries.

In some ways the SSGs are like an anti-dumping measure only much more accessible. Both measures have a similar outcome – a short term increase in import protection. The difference is that SSGs do not require an official investigation to prove injury to the domestic industry. There's also no time limit on the use of safeguard duties – currently they can be triggered every year.

In general the SSGs do not give sufficient consideration to the causes and extent of the pressures for change in the importing country. This is evident with the quantity based safeguard. Changes in trade volumes are a normal outcome reflecting changes in supply and demand. Import demand may grow because of lower, more competitive landed prices. It can also grow because of improved quality, distribution and promotion of imports and/or reduced supplies of the domestic product:

- quantity based SSGs can be triggered by market developments that simply reflect changes in consumer preferences and/or structural changes in the import competing industry.

## **The aim of quantity based SSGs**

The special safeguard provisions in the AoA are a new form of trade restriction. While anti-dumping provisions are available to correct for illegal trading behaviour, the SSGs are limitations on the commercial competitiveness of imports. So it is important to examine the conditions for triggering this new form of trade restrictions.

Unusually large, sudden changes in import competition during the implementation of trade reforms can be described as exceptional circumstances. Occasionally there may be a case for temporary relief to give the import competing industry time to adjust. There are domestic assistance measures that can be used in these situations. A temporary reduction in market access conditions is another option but it is a crude, non-targeted way of providing transitional assistance for industry adjustment.

It is to be expected that effective trade reforms will lead to increased import competition and industry adjustment pressures. Temporary border protection is a blunt instrument and the least preferred way of providing adjustment assistance (Harris 2005). There is also the risk that, if the conditions for taking action are too liberal, the SSGs can become another layer of permanent trade protection:

- regular quantity based SSG actions could not be described as exceptional circumstances especially if imports have a limited share of the market;
- safeguard provisions should not be designed to prevent or off-set the pressures for change as trade reforms are implemented.

The objective of the WTO market access negotiations is to provide a basis for liberalising agricultural trade. For many highly protected products there is concessionary TQ access for specified quantities. Trade outside the TQ will be liberalised through phased tariff reductions. As over-quota tariffs decline there will be greater opportunities for trade outside the TQs.

Where SSGs are in place the benefits of these market access gains could be stifled if safeguards are triggered on a regular basis. If there are deficiencies in the way the provisions operate trade flows can be unnecessarily disrupted. It is important the trigger mechanism is designed to address exceptional circumstances rather than the normal fluctuations in market developments.

The formula for setting quantity based SSG trigger levels is the key issue. In general it is a relatively crude mechanism for judging the extent of the impact of import competition on the domestic industry. It is vulnerable to statistical anomalies and misuse through the data used in the calculations. It can also trigger actions in situations where import growth is not causing industry adjustment pressures.

Concerns have been raised about the way quantity based SSGs have operated since the AoA was implemented. The triggering of safeguard actions has a distortion effect on global trade flows. If the trigger point is continually set too low the safeguard becomes a second tier of import restrictions. In effect the safeguards act like another level of tariff-quotas with a variable access level.

## **Some outcomes of the quantity based SSG trigger formula**

The Doha trade negotiations provide an opportunity to improve the design of safeguard mechanisms. It is important the benefits of market access gains are not frustrated by spurious SSG actions. A review of the way the trigger mechanism operates will highlight any unintended consequences.

Strong growth in imports may have very little effect on the demand for the domestic product if the absolute size of the trade is small. An issue that has been raised is that statistical anomalies are unduly restricting the opportunities for over-quota trade in some cases. There have been only a limited number of cases where quantity based SSGs have been triggered.

The small number of quantity based SSG actions suggests the growth in over-quota trade for SSG designated products has been limited. In some cases over-quota tariffs are set at rates that discouraged trade outside the TQs. There may also have been situations where the triggering of price based SSGs has constrained trade growth and reduced the risk of triggering quantity based SSGs.

When the quantity based SSGs have been triggered there are a number of examples where the level of imports are too small to have any significant impact on the domestic industry. This includes situations where imports were either zero or at very low levels relative to the size of the domestic output. The low trigger level means there is a high probability of quantity based SSG actions. In many of these situations that SSG action does not seem warranted (table 10).

The inclusion of very low or zero levels of imports in the 3 year moving average of the trigger formula has generated some unusual outcomes. They seem especially unusual in cases where imports have had a limited share of consumption in the importing country. The SSG actions do not seem to be necessary and they have unduly restricted the opportunities for trade:

- in most cases the trigger level is small relative to the likely size of domestic output.

One of the features of the activated SSGs is that the trigger level was often set below the level of imports in the previous year. This is an unusual and unexpected outcome for a safeguard measure that was aimed at managing the effects on a 'surge in imports'. It occurred despite the use of a 25% growth factor on the average level of historical imports.

Another feature of the use of these SSGs is the inclusion of zero levels of imports in the 3 year moving average of imports. This was evident in a number of the trigger level calculations. In a few cases the trigger level was zero. There were several cases where the trigger level was less than 10 tonnes:

- these sorts of trigger levels are highly restrictive and not consistent with the notion of exceptional circumstances;
- they were all associated with Japanese imports of dairy products.

It is worth highlighting some examples of the highly restrictive nature of the SSG trigger levels. Very low levels of imports can't be viewed as a surge in imports. Trigger levels set below imports in the previous year would not seem to match a reasonable definition of an import surge:

- the SSG trigger level for Japanese butter imports in 2004 was only 11 tonnes;
- the Japanese trigger levels for imports of milk and cream products was less than 5 tonnes for all but one of the quantity based actions;
- the SSG trigger level for US imports of American type cheese in 2002 was less than 20 kt;
- the trigger level for Taiwan imports of rice in 2002 was about 50kt; and
- in most years trigger levels for Taiwan imports of chicken meat products was less than 20 kt.

In many of the examples the small trigger levels partly reflect the lack of significant TQ access – TQ imports are included in the formula. This is especially the case with Japan's imports of dairy products that faced quantity based SSG actions. But the lack of any significant TQ access does not justify the triggering of SSG duties on very low levels of imports.

If safeguard provisions are to address concerns about substantial disruptions to the domestic industry these sorts of trigger levels are excessively restrictive. For example, Japanese milk production used for liquid beverages is in general in excess of 4,500 kt. The triggering of SSGs on very small quantities on imports is not warranted and is inconsistent with the intention of the safeguard provisions:

- in these sorts of situations the SSGs are acting as an extra level of import protection.

## 10. Trigger levels for quantity based SSGs #

<b>Product &amp; year of SSG action</b>	<b>Average import level *</b>	<b>Was a zero import volume included?</b>	<b>Import growth factor</b>	<b>Trigger level</b>	<b>Trigger below imports in previous year</b>	<b>SSG period</b>
	tonnes		%	tonnes		months
<b>SSG actions by the United States</b>						
Sheep meat, 1998	7 468	no	25%	9 335	✓	4.5
American cheese, 2002	13 223	no	25%	16 528	✓	1
<b>SSG actions by Japan **</b>						
Pigmeat, 1997	511 618	no	5%	537 199	✓	3
Milk & cream, 1-6% fat, 1997	0.0	yes	25%	0.0		6
Milk & cream, 1-6% fat, 2002	0.0	yes	25%	0.0		4
Milk & cream, 1-6% fat, 2005	0.5	yes	25%	0.6		5
Milk & cream, 1-6% fat, 2006	1.5	yes	25%	1.9	✓	9
Milk & cream, 1-6% fat, 2007	14.1	yes	25%	18.0	✓	6
Milk & cream, >6% fat, 1997	0.2	yes	25%	0.2		6
Milk & cream, >6% fat, 1998	1.3	yes	25%	1.6	✓	4
Milk & cream, >6% fat, 2002	3.5	no	25%	4.3		5
Evaporated milk, 1997	171.0	no	5%	179.6	✓	4
Condensed milk, 1998	4.7	yes	5%	4.9	✓	4
Condensed milk, 1999	8.8	no	5%	9.2	✓	10
Condensed milk, 2000	22.4	no	5%	23.5	✓	10
Yogurt, 2006	0.0	yes	25%	0.0		2
Yogurt, 2007	0.1	yes	25%	0.2	✓	5
BMP, 1997	0.2	yes	25%	0.2		5
BMP, 2001	9.7	no	25%	12.1		3
BMP, 2002	11.9	no	25%	15.0	✓	2
Butter, 2004	8.5	no	25%	10.7		3
<b>SSG actions by Taiwan</b>						
Chicken legs & wings, 2002	11 487	no	25%	14 080		6
Chicken legs & wings, 2003	11 898	no	5%	12 493		9.5
Chicken legs & wings, 2004	13 186	no	25%	16 483	✓	8.5
Chicken legs & wings, 2005	15 833	no	25%	19 791	✓	9.5
Chicken legs & wings, 2006	27 165	no	25%	33 956	✓	9.5
Other chicken cuts, 2005	4 671	no	5%	4 904		2
Other chicken cuts, 2006	2 274	no	25%	2 842		4.5
Fresh milk, 2004	569	yes	25%	711	✓	9
Fresh milk, 2006	2 665	no	5%	2 798	✓	0.5
Other liquid milk, 2004	566	yes	25%	707	✓	9
Other liquid milk, 2006	2 537	no	5%	2 664	✓	3.5
Sugar, 2003	337 742	no	5%	354 629	✓	4
Sugar, 2004	376 608	no	5%	395 439		9
Rice, 2004	40 509	no	25%	50 636	✓	8.5

# Review of quantity based SSG actions by countries examined in the study.

Sources: WTO 2007b & d, 2004.

Includes SSG actions for key products in the major commodities. See appendix C for details of trigger level calculations.

\* Three year moving average of imports used in trigger level calculations.

\*\* SSG actions for the JFY year ended March.

This study examined all the triggered actions for the major products in the major developed economies and the key Asian developing countries. The lack of widespread use of quantity based SSGs could suggest the measures are acting as they were intended. But there is ample evidence that the trigger mechanism is not suitable for all situations:

- changes need to be made to design of the trigger formula to take account of situations where the level of trade is very small in relation to the size of domestic output;
- zero trade levels should be excluded from the application of quantity based safeguards;
- trigger levels have to make allowances for situations where there is no TQ access;
- a definition of an ‘import surge’ needs to be developed that has due regard for different levels of market penetration in the importing country.

If the trigger formula is not modified there is a high probability that many more spurious outcomes will emerge when a new Doha AoA is implemented. The SSG actions will perpetrate the high levels of protection that currently exist for products like beef, sugar and dairy products in the major developed economies. There is currently no restriction on the frequency of application for the same product and there is no sun-set clause on the availability of SSGs.

SSMs for developing countries need to take account of the unintended consequences that are evident in the quantity based SSGs. The same sorts of anomalies will arise more often if safeguard provisions are extended to highly protected products without TQ access. Developing countries trade with each other and will be affected just as much as the developed countries by the widespread use of SSMs:

- SSM trigger mechanisms should be designed to address exceptional circumstances rather than normal market developments;
- a quantity based SSM based on the SSG formula will be just as vulnerable to statistical anomalies and misuse through the data used in the trigger calculations;
- the benefits of market access gains for developing countries will be stifled if safeguards are triggered on a regular basis.

## **Potential misuse of quantity based SSGs**

The restrictive nature of several quantity based SSGs that have been triggered highlights a deficiency in the way the SSG provisions are operating. In many cases it reflects the application of the trigger formula. But there appears to be some outcomes that may have been manipulated to take advantage of the wording of the safeguard provisions.

Importing countries have the right to fully utilise the safeguard provisions for quantity based SSGs even if it produces some unusual outcomes in terms of trigger levels. An examination of the trigger level calculations for the countries reviewed reveals some interesting outcomes (table 11).

In almost all cases the maximum trigger level growth factor of 25% was applicable. The formula includes a market growth factor which is calculated as the annual change in consumption in the year preceding the trigger level calculation. But the agreement on safeguards has a footnote that allows this factor to be ignored.

If the importing country chooses not to take account of the change in consumption a trigger level based on the maximum import growth factor of 25% automatically applies. In most cases the market growth factor was not considered in the formula. This may have been because of difficulties in obtaining data on consumption for some specialised product categories:

- consumption estimates rely on the timely availability of data on output, trade and stocks.

## 11. Calculating the trigger levels for quantity based SSGs #

<b>Product &amp; year of SSG action</b>	<b>Average import level *</b>	<b>Import growth factor</b>	<b>Market growth factor</b>	<b>Calculation below minimum growth rate **</b>	<b>Import growth factor in trigger level</b>
	<i>tonnes</i>	<i>%</i>			<i>%</i>
<b>SSG actions by the United States</b>					
Sheep meat, 1998	7 468	25%	not considered	..	25%
American cheese, 2002	13 223	25%	not considered	..	25%
<b>SSG actions by Japan ***</b>					
Pigmeat, 1997	511 618	5%	negative	yes	5%
Milk & cream, 1-6% fat, 1997	0.0	25%	not considered	..	25%
Milk & cream, 1-6% fat, 2002	0.0	25%	not considered	..	25%
Milk & cream, 1-6% fat, 2005	0.5	25%	not considered	..	25%
Milk & cream, 1-6% fat, 2006	1.5	25%	not considered	..	25%
Milk & cream, 1-6% fat, 2007	14.1	25%	not considered	..	25%
Milk & cream, >6% fat, 1997	0.2	25%	not considered	..	25%
Milk & cream, >6% fat, 1998	1.3	25%	not considered	..	25%
Milk & cream, >6% fat, 2002	3.5	25%	not considered	..	25%
Evaporated milk, 1997	171.0	25%	negative	yes	5%
Condensed milk, 1998	4.7	25%	negative	yes	5%
Condensed milk, 1999	8.8	25%	negative	yes	5%
Condensed milk, 2000	22.4	25%	negative	yes	5%
Yogurt, 2006	0.0	25%	not considered	..	25%
Yogurt, 2007	0.1	25%	not considered	..	25%
BMP, 1997	0.2	25%	not considered	..	25%
BMP, 2001	9.7	25%	not considered	..	25%
BMP, 2002	11.9	25%	not considered	..	25%
Butter, 2004	8.5	25%	not considered	..	25%
<b>SSG actions by Taiwan</b>					
Chicken legs & wings, 2002	11 487	25%	negative	no	25%
Chicken legs & wings, 2003	11 898	25%	negative	yes	5%
Chicken legs & wings, 2004	13 186	25%	not considered	..	25%
Chicken legs & wings, 2005	15 833	25%	not considered	..	25%
Chicken legs & wings, 2006	27 165	25%	not considered	..	25%
Other chicken cuts, 2005	4 671	25%	negative	yes	5%
Other chicken cuts, 2006	2 274	25%	not considered	..	25%
Fresh milk, 2004	569	25%	not considered	..	25%
Fresh milk, 2006	2 665	25%	negative	yes	5%
Other liquid milk, 2004	566	25%	not considered	..	25%
Other liquid milk, 2006	2 537	25%	negative	yes	5%
Sugar, 2003	337 742	5%	negative	yes	5%
Sugar, 2004	376 608	5%	negative	yes	5%
Rice, 2004	40 509	25%	not considered	..	25%

# Review of quantity based SSG actions by countries examined in the study.

Sources: WTO 2007b & d, 2004.

Includes SSG actions for key products in the major commodities. See appendix C for details of trigger level calculations.

\* Three year moving average of imports used in trigger level calculations.

\*\* Trigger level = (average imports \* import growth factor) + (consumption growth factor). Cannot be less than the minimum amount of 5% growth on the average level of imports.

\*\*\* SSG actions for the JFY year ended March.

Calculating consumption estimates in the year preceding the trigger level is not a straight forward exercise. Authorities in the importing countries may have to react to rapid growth in imports early in the year. They may have to apply the trigger formula before the necessary data is available.

The difficulties in obtaining the data to make a consumption estimate should not be underestimated. It is likely to be an issue for developing countries and should be considered in the development of formulas for SSMs. They may not have the data collection systems in place to calculate consumption data on a timely basis. Even developed countries can have difficulties in gaining a robust estimate of consumption in the year preceding the trigger level:

- most SSG trigger level calculations were prepared less than six months after the end of the preceding year;
- consumption estimates derived at that time are often revised – there is a high risk the trigger level could be significantly under or over estimated.

This highlights another issue where statistical anomalies can affect the trigger level. There does not appear to be any provision to account for discrepancies in calculating the market growth factor. The calculation is open to misuse if an importing country wished to do so:

- this deficiency can mean the trigger level does not gain the benefit of market growth;
- an alternative approach to estimating the market growth factor should be defined – a proxy measure of production plus net trade could be specified;
- consideration should be given to making provision for an adjustment in the following year for data revisions that reveal an under-estimate of the market growth factor.

It is also important to note that the consumption growth factor works both ways – it can raise or lower the trigger level. There will be situations where this factor is negative. Consumption in year t-1 is less than consumption in year t-2. If it is included in the trigger level calculation it dilutes the effect of the import growth factor and makes the quantity based safeguard more restrictive.

This creates an incentive for importing countries to include a negative market growth factor in the trigger level calculations. It is worth noting that in all situations where the market growth factor was considered it was negative (table 11). This highlights a deficiency in the footnote that was included in the SSG provisions:

- export suppliers are precluded from gaining the benefit of consumption growth if this aspect of the formula is ignored;
- there is no incentive for the importing country to derive the change in consumption if the market is growing – it can only lead to a higher trigger level;
- if market penetration is below 30% there is an incentive to include a negative consumption growth factor – it dilutes the effect of the import growth factor in the trigger level.

The evidence in table 11 suggests the footnote has been used to treat the market growth factor as an optional inclusion in the trigger level calculations – it can be included or ignored if it achieves a lower trigger level. This is a highly relevant issue where imports are small and have a low level of market penetration. By ignoring the consumption factor an artificial maximum growth of 25% in the trigger level can be established.

There were 12 cases where the market growth factor was considered – about a third of the quantity based SSGs that were triggered in the period reviewed. In each case it involved a negative amount. In eight of those cases the trigger point reverted to the minimum growth factor of 5%. This occurred with several SSG actions taken by Japan on evaporated and condensed milk. It also occurred with SSG actions taken by Taiwan on chicken and milk products.

## 12. SSG trigger levels with no market growth factor #

<b>Product &amp; year of SSG action</b>	<b>Trigger level</b>	<b>Import growth factor in trigger level</b>	<b>Market growth in previous year?</b>	<b>Product *</b>	<b>Market growth **</b>
	<i>tonnes</i>	<i>%</i>			<i>tonnes</i>
<b>SSG actions by the United States</b>					
Sheep meat, 1998	9 335	25%	no	Sheep meat production	-3 175
American cheese, 2002	16 528	25%	no	American cheese output	-44 198
<b>SSG actions by Japan ***</b>					
Milk & cream, 1-6% fat, 1997	0.0	25%	yes	Fluid milk consumption	275 000
Milk & cream, 1-6% fat, 2002	0.0	25%	no	"	-197 000
Milk & cream, 1-6% fat, 2005	0.5	25%	no	"	-71 000
Milk & cream, 1-6% fat, 2006	1.5	25%	no	"	-44 000
Milk & cream, 1-6% fat, 2007	14.1	25%	no	"	-151 000
Milk & cream, >6% fat, 1997	0.2	25%	yes	"	275 000
Milk & cream, >6% fat, 1998	1.3	25%	no	"	-15 000
Milk & cream, >6% fat, 2002	3.5	25%	no	"	-197 000
Yogurt, 2006	0.0	25%	..	na	..
Yogurt, 2007	0.1	25%	..	na	..
BMP, 1997	0.2	25%	..	na	..
BMP, 2001	9.7	25%	..	na	..
BMP, 2002	11.9	25%	..	na	..
Butter, 2004	8.5	25%	yes	Butter production	1 968
<b>SSG actions by Taiwan</b>					
Chicken legs & wings, 2004	13 186	25%	no	Broiler meat consumption	-2 000
Chicken legs & wings, 2005	15 833	25%	yes	"	19 000
Chicken legs & wings, 2006	27 165	25%	no	"	-19 000
Other chicken cuts, 2006	2 274	25%	no	"	-19 000
Fresh milk, 2004	569	25%	yes	Fluid Milk consumption	19 000
Other liquid milk, 2004	566	25%	yes	"	19 000
Rice, 2004	40 509	25%	no	Milled rice consumption	0

# Review of quantity based SSG trigger levels where

Source: ALIC 2007; USDA 2007e; WTO 2007b & d, 2004.

the change in domestic consumption in the preceding year was not considered.

\* A proxy of market growth for a primary product category was used as an indicator of the change in the size of the market.

\*\* Annual change in domestic output for the year preceding the trigger level year. For example the change

in output between 2005 and 2004 would apply to a 2006 trigger level

\*\*\* SSG actions for the JFY year ended March.

Strategic use of the footnote has no benefit when imports have a large market share. For example, the SSG action taken by Japan on pig meat in fiscal year (JFY) 1997 remained based on a 5% import growth despite a negative consumption growth factor. The market penetration for imported pig meat in Japan exceeded 30%. Similarly SSG actions by Taiwan on sugar imports remained based on the minimum trigger level growth condition of 5%:

- there was only one case where inclusion of a negative consumption growth factor did not yield a trigger point based on the 5% minimum growth condition – Taiwan's SSG action on imports of chicken legs and wings in 2002.

The inclusion or exclusion of the consumption growth factor in the trigger formula could reflect issues with data availability. But it seems more likely the footnote is being used strategically where it will increase the protective effect of the safeguard.

For example, it is interesting to examine some of the SSG actions taken by Taiwan. A market growth factor was included in trigger level calculations for chicken legs and wings in 2002 and 2003. It was a negative amount. In the subsequent trigger level calculations for 2004 and 2005 a market growth factor was not used.

The size of the market growth factors is often quite large relative to the size of the import growth factors. This is especially the case for imported products with limited market penetration. It means the effect can dominate the trigger point calculation. Given the way the provisions are being used some changes to the formula would provide a more balanced outcome:

- the footnote on the market growth factor should be removed from the SSG provisions;
- the minimum growth in the trigger level should not be limited to 5% when a negative market growth factor is used – it should at least revert to the original import growth factor.

An issue worth investigating is considering how including the market growth factor may have affected the trigger levels in those cases where it was ignored. Estimates of consumption growth or a proxy for the effect were examined to see if it would have a positive or negative effect on the trigger point. In many cases the factor was negative (table 12).

If the market growth factor had been incorporated in these cases the trigger level calculation would have been reduced from 25% of average imports to 5%. In most cases the calculated trigger level was very small, especially for several of the Japanese dairy product actions. A further reduction in the size of these trigger level highlights how restrictive the SSG provisions can be:

- in general the highly protected products in the developed economies (eg dairy and sugar) have limited market penetration and small volumes of trade;
- the 5% minimum growth condition for the trigger level is highly restrictive for a safeguard measure dealing with exceptional circumstances;
- these sorts of situations will arise more often in the future if the SSG provisions remain in place and the Doha negotiations achieves significant tariff reductions.

A 25% import growth factor may appear to be a generous threshold for setting a trigger level for safeguard actions. But in situations where imports are small and have a limited market penetration this is not the case. The review of quantity based SSG actions has shown that SSG actions can be easily triggered for a relatively small rise in imports. In most cases there would be no discernable disruption to the domestic industry.

There is a strong case for revising the thresholds that apply for different levels of market penetration of imports. They do not reflect the notion of exceptional circumstances when imports are limited. They do not take account of the size of the threat posed by different levels of imports. By way of example the first tier of trigger level calculations generate the following outcomes:

- a 25% growth factor on 100 tonnes of imports gives a trigger level of 125 tonnes;
- for imports of 1,000 tonnes the trigger point would be 1,250 tonnes; and
- for 10,000 tonnes the trigger level would be 12,500 tonnes.

It is highly unlikely that import growth of 25 tonnes, 250 tonnes or even 2,500 tonnes would pose a threat to the domestic industry in an importing country under any circumstances. The price impacts in large markets such as the US or EU dairy and sugar markets would be insignificant:

- a larger range of thresholds for the triggering actions should be developed;
- an import growth factor of 50-100% would be more appropriate for products with an import penetration of 5% or less.

An expansion in the number of thresholds is worth considering in conjunction with more realistic import growth factors that reflect exceptional circumstances in the threat posed to local industry. A more balanced approach would require a progressive widening in the thresholds for import market penetration. For example, 0-5%, 5-10%; 10-20%, 20-40% and more than 40% market share.

The import growth factors that apply to these thresholds should be considerably larger. For example, the corresponding factors would be 100%, 90%, 70%, 50% and 25%. There should also be no allowance for the trigger point to drop below these levels of import growth. These sorts of thresholds would seem to be more in line with the notion of a safeguard provisions as a short term adjustment measure for handling exceptional circumstances.

## **Protective effect of quantity based SSGs**

SSGs are a trade restriction that allows for temporary increase in import protection. The restrictiveness of the trigger level for quantity based SSGs is an important consideration. If a safeguard is continually triggered on an annual basis it is effectively operating as another trade barrier providing a higher rate of protection until the end of the year.

The extra protective effect of safeguard measures is determined by the size of the extra import duty. Importing countries have discretion in specifying the size of the extra duty. The WTO agreement on safeguards sets a maximum rate for the SSG duty.

It was not possible to establish the size of the duty that was imposed in each of the quantity based actions that were reviewed. WTO notifications do not require this information to be specified for the quantity based safeguards. This is surprising as the safeguards agreement states the operation of SSGs should be carried out in a transparent manner:

- the SSG agreement should be revised to include a requirement that notifications include the size of the extra duty that is imposed;
- it should also require the importing country to specify the ordinary customs duty that was in effect at the time the SSG duty is imposed.

These changes to the notification requirements would allow WTO members to monitor the protective effect of SSGs. This will become important if the Doha negotiations allow SSGs to continue to operate. They should also apply to SSMs. The application of safeguards will be more transparent. It will also highlight the change in the overall protective effect of the trade barrier:

- in general the SSG duties will exceed the annual tariff reductions embodied in the Doha formula used in a new market access agreement;
- the implementation period will allow for a gradual cut in tariff rates – triggering an SSG could mean the protective effect rises above the tariff rate at the start of implementation.

The quantity based SSG import duty can be up to 33% of the ordinary customs duty that applied at the time it is imposed. If the current tariff is at the WTO bound rate, the SSG duty is likely to raise import protection above the maximum level that was intended under a new AoA. If the applied tariff is below the WTO bound rate, the SSG duty may still generate the same outcome. It will depend on:

- the size of the SSG duty;
- the difference between the applied tariff and the bound rate.

For the highly protected products in the major developed economies the application of the maximum SSG duty could result in very high tariffs applying to over-quota trade. In many cases (eg dairy and sugar products) it could ensure the revised non-TQ tariffs are applied at prohibitive levels.

This could become a new source of friction in international trade relationships if a new AoA includes SSGs and SSMs and achieves tariff reductions that stimulate over-quota trade. For example:

- the current bound rate on EU imports of sugar is 339 Euros/tonne – the SSG adjusted tariff could be lifted to an applied rate of up to 451 Euros/tonne;
- the bound rate on US imports of SMP is US\$865/tonne – the maximum SSG adjusted tariff would lift the applied rate to US\$1,150/tonne;
- the bound rate on Japanese imports of SMP is equivalent to US\$853/tonne – the maximum SSG adjusted tariff would lift the applied rate to US\$1,138/tonne; and
- the bound rate on Canadian imports of SMP is C\$2,006/tonne – the maximum SSG adjusted tariff would lift the applied rate to C\$2,668/tonne.

The maximum size of the SSG duty seems large in the context of the tariffs that currently apply to highly protected products. A more balanced approach to setting the duty would take account of the size of the current tariff rates and be more reflective of an adjustment mechanism. The aim should be to slow the rate of import growth to give import competing industries time to adjust. It should not be a mechanism to make imports prohibitively expensive:

- a graduated range of maximum duties should be used – currently the SSG duty for a product with tariff protection of 200% would be 67%;
- for highly protected products a maximum safeguard duty should be around 5% of the ordinary customs duty that applies at the safeguard is triggered;
- for products with a medium level of protection a maximum safeguard duty should be limited to 10% of the existing customs duty; and
- for products with a relatively low level of protection the maximum safeguard duty should be limited to 15% of the existing customs duty.

This sort of revision to the determination of maximum SSG duties should be considered for the development of SSM provisions in a Doha agreement. Assessing the overall protective effect of quantity based SSGs that have been triggered in the past is limited by the lack of notification data. The best example of a significant quantity based safeguard action on a major product is beef imports by Japan.

In the Uruguay Round negotiations Japan obtained agreement for safeguards on beef imports. It is not part of the AoA schedule because at the time of the negotiations tariffication had already been applied to Japan's beef quotas. Japan had agreed to a bound tariff rate of 50% and negotiated an agreement to gradually reduce the applied rate to 38.5%.

The safeguard arrangement allows for quarterly assessments of the growth in beef imports of a JFY basis. The applied tariff rate snaps back to the bound rate of 50% if imports exceed a specified trigger point. The trigger level is set at a 17% growth rate on imports in the previous year. The quarterly assessments of import growth are cumulative.

The Japanese beef safeguard is similar to the provisions for WTO quantity based safeguards. A key difference is that the reference point for the applying the growth factor is imports in the previous year rather than a three year moving average. In some respects this seems more appropriate than the WTO SSG provisions in assessing an import surge in a growing market:

- the disruptive effect would be better judged against imports in the previous year;

- a three year moving average of imports will lower the allowable growth in imports in an expanding trade in comparison to imports in the previous year;
- Japanese beef access would have experienced more safeguard actions if the 17% trigger factor had been applied to a moving average of historical imports.

It is also worth noting that the Japanese beef safeguard uses a 17% growth factor. This is considerably higher than the 5% import growth factor used by the SSG provisions for a situation where market access opportunities exceed 30% of domestic consumption. To some extent this off-sets the lack of a consumption growth factor in the Japanese beef safeguard.

There is no price based safeguard on Japanese beef imports. There is also a significant difference in the approach used to set the safeguard duty. The safeguard is a snap back to the bound tariff rate. It means the protective effect cannot rise above the bound rate which is possible under the SSG provisions – import protection can rise above the levels set by a trade liberalisation agreement:

- a similar cap on the size of the WTO safeguard duties in situations where the applied rate is less than the bound rate would be a useful reform;
- it would be consistent with the spirit on negotiated improvements in market access; and
- it could be especially important for the proposed SSM provisions as developing countries often have applied rates that are lower than bound rates.

The safeguard applies separately to chilled and frozen imports which is a worthwhile distinction in meat trade because of differences in the nature of the competitive effect on the domestic beef industry. But there are some aspects of the Japanese beef safeguard that are not consistent with the concept of an adjustment mechanism for exceptional circumstances. Calculation of the trigger point should use an import growth factor that is higher than the 17% factor that is currently used:

- Japan has a similar safeguard arrangement of pig meat imports – the trigger level is set at a 19% growth rate on imports in the previous year.

In JFY 2003 Japan's beef safeguard was triggered after an assessment of trade growth in the first quarter of the year. The safeguard was applied to chilled imports – frozen beef imports were not affected. The safeguard action of a snap-back to the bound tariff rate involved an extra tariff of 11.5%. The safeguard had been triggered previously in JFY 1995. That action involved an extra tariff of 1.1% of frozen beef imports.

To assess the protective effect of the Japanese beef safeguard ABARE conducted some model based simulation experiments. The aim of the quantitative analysis was to evaluate the effect of applying the JFY 2003 safeguard across all beef imports. To simplify the exercise from an interpretation perspective it was assumed the safeguard was applied for a full 12 months. It provided an assessment of the annual protective effect of the Japanese beef safeguard.

ABARE's beef model is a dynamic partial equilibrium simulation model of world trade in beef. The model replicates the segregated nature of global beef trade by differentiating between different types of beef according to their source. The model also captures bilateral trade in beef. It is able to assess the impact of a change in the trade policy of one country on its trading partners:

- a brief description of the model is provided in appendix D.

The simulation experiment involved increasing the applied tariff on Japanese beef imports, as would happen under the snapback mechanism. To carry out the experiment the tariff on beef imports in Japan was increased from 38.5% to the bound tariff rate of 50%. The model was allowed to solve for new set of trade conditions:

- the results of policy experiment were compared with a base case situation of trade under a 38.5% tariff rate;
- although there are beef safeguard available to other countries, such as Canada, the US and the EU, they were assumed to be inactive in the simulation experiment.

### 13. Protective effect of Japan's beef safeguard #

		<i>Market conditions in 2000-01</i>	<i>Simulated market conditions</i>	<i>change</i>	<i>% change</i>
<b>Trade</b>					
<i>World trade</i>	<i>'000 tonnes</i>	4 551	4 516	- 35	-0.8
	<i>US\$ million</i>	6 543	6 411	- 131	-2.0
<i>Japanese imports</i>	<i>'000 tonnes</i>	805	768	- 37	-4.6
<i>US imports</i>	<i>'000 tonnes</i>	1 029	1 029	0	0.0
<i>Imports by other key markets *</i>	<i>'000 tonnes</i>	1 027	1 030	3	0.3
<i>US exports</i>	<i>'000 tonnes</i>	683	663	- 20	-2.9
<i>Australian exports</i>	<i>'000 tonnes</i>	1 184	1 179	- 5	-0.5
<i>Exports by other key suppliers **</i>	<i>US\$/tonne</i>	2 563	2 560	- 4	-0.1
<b>Market prices</b>					
<i>US beef price</i>	<i>US\$/tonne</i>	2 610	2 601	- 9	-0.4
<i>Australian beef price</i>	<i>\$/tonne</i>	2 500	2 447	- 53	-2.1
<i>Japanese beef price ***</i>	<i>'000 Yen/tonne</i>	1 848	1 885	37	2.0

# Estimates based on increasing Japan's beef tariff from 38.5% to 50%.

Source: ABARE private communication 2008.

\* Aggregate effect for imports by Canada, Korea & Russia

\*\* Aggregate effect for exports by New Zealand, Brazil, Argentina, Uruguay, the EU & India.

\*\*\* Price of dairy steers.

Market conditions for 2003 were used as the baseline for the analysis as it provided a representative example of the Japanese beef trade. The discovery of Bovine Spongiform Encephalopathy (BSE) in the US resulted in negligible or zero imports of US beef by Japan after 2003. This led to a substantial increase in imports of Australian beef:

- the current restrictions on US beef imports are expected to ease over the medium term – Japanese imports could return to levels similar to the 2003 pre-BSE volumes.

The model results are summarised in table 13. It shows that increasing the applied tariff on beef to 50% caused world beef trade to initially fall by 35,000 tonnes. This is a reduction of almost 1%. In the longer term the trade impact is slightly bigger with a trade reduction of around 44,000 tonnes.

The value of world trade declines by around US\$130 million, a reduction of 2%. This reflects a lower volume of trade and a fall in world prices. The longer term impact is a little smaller as suppliers respond to the initial change in prices and reduce their output. This has an off-setting effect on the scale on the price impacts over time.

These results confirm that the beef safeguard can have a significant impact on world trade. There is also a significant protective effect in Japan. An increase in the applied tariff rate raises the price of imported beef in the Japanese market. The reduced demand for imports causes trade to decline. Japanese imports initially fall by 37,000 tonnes, a reduction of 4.6%:

- the temporary increase in protection raises the demand for domestic beef; and Japanese beef prices initially increase by 2%.

It is worth noting the trade diversion effects that are generated by the safeguard. US exports fall by 20,000 tonnes and Australian exports fall by around 5,000 tonnes. Japan is a key market for both countries. The product diverted away from Japan is distributed across other export markets and the domestic markets of Australia and the US. There is a small rise in imports by other markets but it is mostly consumed domestically in Australia and the US.

The scale of the price effects in the major supplying countries reflects the relative magnitude of the trade impacts. The largest price impact is in Australia because Japan is a large market for Australian beef. Prices initially decline by about 2%. The price impact in the US is more diluted because their domestic market is able to absorb the additional supplies without too much difficulty.

The results highlight the potential for trade disruptions that safeguard measures can have on exporting countries. The intention of the WTO safeguard provisions is to address concerns about the disruptive effects of a surge in imports on the domestic industry of the importing country. In effect the safeguards force greater adjustment pressures onto the industries of the exporting countries.

The external disruption caused by a triggering of safeguards is not solely focused on the industry of the supplying country. Trade is diverted elsewhere. In certain circumstances this could increase the prospects of safeguards being triggered in other importing countries. This can occur with either price or quantity based safeguards.

In the case of Japanese beef imports, Australian beef sales may be diverted to markets such as Korea, the US, Canada and possibly the EU. Beef has SSG status in the US, Canada and the EU. The US also has a separate beef safeguard agreement with Australia under the conditions of their FTA:

- the risk of greater trade disruptions from the use of safeguard measures will rise if the Doha negotiations successfully achieve significant reductions in tariffs;
- continued availability of SSGs and limiting access to SSMs will be important questions for the negotiations.

## 4. Application of price based SSGs

Price based SSGs are a second form of protection notionally based on the price competitiveness of imports. The concern is that unusually low import prices will cause the prices of domestic output to weaken and create excessive adjustment pressures. In economic terms a fall in the import price is a demand shifter for the domestic product. The severity of the adjustment pressures will depend on the extent of the change in the price of imports and the responsiveness of demand for the domestic product to that change.

Trade liberalisation will inevitably mean import competing industries face more competitive pressure from imports. World prices for agricultural products fluctuate in response to changes in aggregate supply and demand for markets that are responsive to global trading conditions. There is nothing inherently unusual about this. The market price movements provide the signals for output adjustments to importing and exporting industries.

The use of import prices as an indicator of domestic industry adjustment pressures is impractical and conceptually difficult to implement. The price based SSG is based on a fixed reference point that uses average CIF import prices. If trade was limited the reference point may have been biased by particular shipments or short periods of abnormal trading conditions. Limited trade volumes were not unusual for the highly protected commodities subjected to tariffication in the AoA.

This is a significant practical difficulty in implementing the price based SSGs. The trigger mechanism can be distorted by data measurement issues. A three year average helps to smooth the distortions. But using a fixed reference period (1986-88) doesn't allow for the dynamics of market behaviour and the corresponding price changes for imports and domestic output.

The trigger point where a change in the import price may justify a need for extra import duties will vary over time. The concept is about the competitive pricing pressures from imports that may lead to highly disruptive adjustment pressures on the domestic industry. This means the trigger point should be set at a level that reflects a substantial differential relative to the prevailing domestic price.

This highlights a fundamental deficiency in the design of the price based SSG. There is no connection between the trigger point and the adjustment pressures faced by the import competing industry. The domestic price is not part of the SSG formula. It seems strange that an SSG action can be triggered by a change in the price of imports with no reference to pricing conditions in the importing country:

- by itself a low import price does not automatically mean it will be disruptive to an import competing industry – it has to be assessed in relative terms to judge the implications for competition and domestic adjustment pressures.

The position of the reference price (trigger point) relative to the market price in the importing country is the critical issue for developing a mechanism that balances the interests of importing and exporting countries. It determines if the import price could potentially have a disruptive effect on the domestic market. Yet the approach is to assess the competitive pressures from import pricing in isolation from market conditions in the importing country.

Currently the price based SSG effectively draws an arbitrary line that has been fixed for more than 10 years. Implicitly it assumes that if import prices fall below the line they will have a disruptive effect on the domestic market. It is difficult to reconcile this type of mechanism with a concern about managing exceptional circumstances in the strength of import competition. The trigger for extra import duties is arbitrary and there is no certainty it can be justified by the scale of the potential adjustment pressures on the domestic industry.

This emphasises the conceptual deficiency and practical difficulties with the price based SSG. There is no certainty the fixed 3 year average CIF price was a representative period of the competitive pricing pressures from imports. Global product markets were probably at different points in the production and pricing cycles that typify agricultural commodity markets. It is also worth noting that:

- some individual importing markets may have had an average CIF price that did not relate to the world price for that commodity – limited trade, differences in product quality are some of the factors that can distort the trigger price; and
- for some products imports may not be a homogenous replacement for domestic output which dilutes the impact of a low import price on the domestic industry.

Changing the derivation of the trigger point to a moving average would be an improvement but the fundamental deficiencies in the design of the safeguard will remain. A mechanism based on assessing import prices in isolation from domestic pricing conditions has no connection with the concept of a safeguard against severe adjustment pressures. Operationally the price based SSG seems to be an extra layer of trade barriers that are more aligned to a minimum (floor) price for over-quota imports.

Price based SSGs apply to individual shipments. This treatment is different to the way other trade barriers operate including the quantity based SSG. It discriminates against particular shipments. It is not possible to judge if the actions taken are discriminatory against particular countries or suppliers because there is insufficient data. But this is a possible outcome especially in situations where trade is limited and a market development (eg an exchange rate shift) causes a price change for a particular supplier.

This approach does not seem to be consistent with the notion of a safeguard. Adjustment pressures will emerge if, on average, the price of all imports decline to a level that substantially improves their price competitiveness. If the import quantities are small relative to total consumption, an exceptionally low price for a single or several shipments of imports is unlikely to have a material effect on prices of domestic output.

In these situations it is unlikely that imposing extra duties on single or several shipments of low priced imports will have any effect on the returns for domestic output. It also raises questions about the need for this type of action if quantity based SSGs are available. Limitations in using prices as a basis for safeguards is an important consideration for the design of SSMs and it worthwhile examining some of the issues in more detail.

## **Exchange rates and price based SSGs**

SSGs are justified on an apparent need to help domestic industries adjust to a sudden, exceptionally strong increase in import competition. But the mechanism for price based SSGs means extra import duties can be imposed for circumstances that will have no significant impact on the domestic industry. Landed import prices fluctuate for various reasons and SSG actions can be taken for innocuous price developments if the trigger point happens to be close to the prevailing world market price.

It seems excessive to have a safeguard that can be triggered by developments other than changes in the comparative advantage of competing products. Landed price of imports will vary with movements in product prices in export supplying countries. They will also fluctuate with exchange rate movements. This is often a major source of fluctuations in the landed price of imports:

- price based SSGs are vulnerable to being triggered by macro economic developments that have nothing to do with the competitive pressures in specific product markets;
- it can result in higher rates of protection that will distort market outcomes.

## 14. Monthly percent variability in US-Japan exchange rate #

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	3.4	4.3	-0.2	2.3	-5.1	-4.1	1.0	2.2	2.5	0.1	3.6	3.5
1998	-0.1	-2.9	2.6	2.1	2.4	4.0	0.3	2.8	-7.1	-10.0	-0.6	-2.7
1999	-3.2	3.0	2.4	0.3	1.9	-1.0	-1.2	-5.1	-5.6	-0.9	-1.2	-2.0
2000	2.7	3.9	-2.8	-0.6	2.5	-2.0	2.0	-0.1	-1.1	1.5	0.5	2.9
2001	4.0	-0.4	4.5	1.9	-1.6	0.5	1.8	-2.5	-2.3	2.4	0.8	4.2
2002	4.0	0.7	-1.9	-0.2	-3.4	-2.4	-4.4	0.9	1.8	2.3	-1.9	0.2
2003	-2.5	0.4	-0.5	1.0	-2.1	0.8	0.3	0.0	-3.3	-4.6	-0.3	-1.3
2004	-1.4	0.4	1.7	-0.8	4.2	-2.5	0.1	0.7	-0.1	-1.2	-3.8	-0.9
2005	-0.5	1.5	0.3	1.8	-0.6	2.0	2.9	-1.2	0.6	3.3	3.1	0.0
2006	-2.5	2.1	-0.5	-0.2	-4.6	2.6	1.0	0.1	1.1	1.2	-1.1	0.0

# Percent change in exchange rate for yen per US\$1.

Source: US Federal Reserve Bank, 2007.

Exchange rate changes affect all products in the traded goods sector of an economy. In some cases a sustained shift in the exchange rate can contribute to adjustments in resource use across different sectors of the economy. A sustained depreciation of the local currency is equivalent to an increase in import protection. It costs more to purchase a unit of imports and yet border measures do not incorporate a mechanism to automatically adjust the rate of protection.

An appreciation has the opposite effect. It lowers the landed price of imports which is equivalent to reduced protection. A price based SSG triggered by this event is a compensating increase in import protection to off-set a macro economic development. This type of extra import protection has not been available for import competing industries exposed to world market conditions in the past:

- an appreciation can erode the value of import protection across the board – products without SSG status have to adjust to exchange rate developments;
- a price based safeguard implicitly assumes an adverse exchange rate movement will lead to stronger competitive pressures from imports that will be excessive;
- the price based SSG could potentially increase market instability in the importing country for relatively benign shifts in exchange rates.

A short term adverse exchange rate movement could potentially lead to ad hoc price based actions across a number of imported products. If the actions are triggered regularly it will reinforce the distortion in resource allocations that already exists from other import protection measures. The ‘on-off’ nature of the SSG duties can also create uncertainty and market instability in reacting to the variability in exchange rates that is typically evident in the world’s economies.

This is an important issue for the design of SSMs in the Doha negotiations. If trigger points are set to close to the world price it could lead to market instability in the importing country. Duties imposed for exchange rate variability is not consistent with the notion of a safeguard for exceptional circumstances in the strength of import competition. Price based SSGs on individual shipments also involves extra administration costs which can be an issue for some developing countries.

An example of the short term variability in exchange rates that can typically occur is evident in the \$US-Yen exchange rate (table 14). There are periods of exchange rate variability which is a common occurrence with floating exchange rates. This type of variability could potentially lead to spurious SSG actions on individual shipments if the trigger point is close to the world price level.

Monthly variability in exchange rates can be significant. It can lead to SSG actions being taken for innocuous shifts in exchange rates. In these circumstances increasing the import duties on selected shipments will have no particular advantage for the import competing industry. This sort of safeguard action is not consistent with original intention of the safeguard provisions and is not warranted given the availability of quantity based safeguards.

Fluctuations in landed prices caused by exchange rate changes are not an exceptional circumstance that requires safeguard action. Protected domestic industries in the importing country have to adjust to this sort of development as do other industries that have no import protection. Price based SSG actions on selected shipments provides no significant assistance for domestic producers and it increases the complexity of market access conditions.

## **Product prices and price based SSGs**

Price based SSG actions may also be triggered by fluctuations in world product prices which are reflective of product prices in export supplying countries. As with exchange rates there is often considerable monthly variability in the prices of products traded on the world market. A review of world prices for some of the major agricultural products shows the extent of the within year variability (table 15). Further examples of the extent of the monthly variability in product prices are provided in appendix E.

The extent of the within year variations is significant. The implications for potential triggering of price based SSGs depend on the positioning of the trigger price. It also depends on the transmission of world price movements to the CIF unit value of imports which is the basis for price based SSGs. The CIF value includes the effects of exchange rates and marketing costs such as transport and insurance.

WTO notifications on price based SSG indicates that actions were generally taken on individual shipments at a point in time. There have been cases where actions have been taken more than once in a single year. For the major developed economies price based SSGs that have been invoked have focused on particular products:

- the US had invoked SSGs on beef, sugar and a range of dairy products – the SSGs were regularly imposed on cheese and milk powders;
- Japan has invoked on a range of dairy products and flours made from cereal products;
- the EU has take SSG actions on chicken meat and sugar in every year of the review period;
- there has been no price based SSG actions taken by Canada.

It was not possible to determine if price based actions taken by the US and EU were imposed on all over quota imports in the years they were triggered. This information was not included in their respective WTO notifications on special safeguards. There was also no information on the size of the SSG duty that was imposed.

The SSG provisions for price based actions specify the duty that may be imposed. It is possible that importing countries could use some discretion and impose a smaller SSG duty. Information on the size of the SSG duty is important for assessing the protective effect of the safeguards.

The lack of a requirement to specify the SSG duty in notifications of price based actions is surprising. The SSG agreement states the actions should be carried out in a transparent manner:

- the SSG agreement should be revised to include a requirement that notifications include the size of the extra duty that is imposed in price based actions;
- it should also require the importing country to specify the ordinary customs duty that was in effect at the time the SSG duty is imposed.

## 15. Variability in world prices for selected products #

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
<b>World sugar price, US\$/tonne</b>												
1997	-5.5	-1.5	2.4	7.3	0.9	10.6	2.4	9.0	2.4	4.6	7.3	-6.4
1998	-26.2	-14.3	-8.8	-8.6	-2.2	-18.5	8.2	-4.4	-28.4	0.7	10.8	-3.1
1999	-4.2	-29.8	-20.7	-14.8	8.6	18.5	-12.3	6.2	13.0	-1.8	-7.9	-11.9
2000	-7.9	-2.9	0.7	20.7	18.7	30.6	32.2	21.2	-17.4	13.4	-20.7	4.6
2001	8.8	-8.2	-13.7	-8.2	15.2	-3.5	-7.1	-15.7	-3.7	-32.0	14.3	4.9
2002	-1.3	-25.4	10.1	-3.3	4.6	-5.7	20.9	-3.5	15.0	6.6	0.7	-1.3
2003	-5.5	12.8	-14.1	-12.8	-11.2	-12.3	7.3	2.6	-13.2	0.9	2.0	2.6
2004	-11.7	13.0	26.9	-0.4	-2.9	7.3	17.2	-4.4	2.4	16.3	-4.2	11.9
2005	3.1	4.0	1.3	-8.4	0.9	4.9	9.7	4.4	11.0	17.9	10.1	49.2
2006	48.1	36.6	-20.3	4.4	-8.4	-36.2	9.3	-66.8	-25.6	-7.3	6.4	2.0
<b>World SMP price, US\$/tonne</b>												
1997	0.0	-75.0	-25.0	-37.5	-12.5	-50.0	-62.5	-12.5	87.5	25.0	-100.0	0.0
1998	-50.0	-50.0	-12.5	-37.5	-20.0	-17.5	-50.0	7.5	-7.5	-75.0	0.0	50.0
1999	12.5	-150.0	-25.0	0.0	-12.5	0.0	12.5	47.5	40.0	75.0	40.0	35.0
2000	25.0	50.0	-12.5	25.0	62.5	250.0	212.5	62.5	37.5	25.0	-12.5	25.0
2001	-12.5	-37.5	-62.5	-62.5	12.5	50.0	-37.5	-12.5	-12.5	-87.5	-175.0	-150.0
2002	-62.5	-100.0	-212.5	-50.0	12.5	0.0	-25.0	-25.0	125.0	12.5	125.0	220.0
2003	80.0	-37.5	12.5	-50.0	25.0	-12.5	0.0	25.0	50.0	37.5	25.0	50.0
2004	-37.5	-25.0	62.5	50.0	100.0	50.0	100.0	-25.0	-12.5	25.0	62.5	100.0
2005	-75.0	-50.0	25.0	-12.5	-37.5	112.5	75.0	-12.5	-25.0	-37.5	-112.5	37.5
2006	-37.5	37.5	0.0	0.0	12.5	50.0						
<b>World cheddar cheese price, US\$/tonne</b>												
1997	50.0	37.5	12.5	25.0	-12.5	-62.5	-25.0	-25.0	-25.0	50.0	0.0	0.0
1998	-50.0	-25.0	-25.0	0.0	-100.0	25.0	0.0	0.0	12.5	-100.0	-50.0	125.0
1999	-212.5	-37.5	-12.5	-25.0	0.0	0.0	-25.0	-12.5	0.0	0.0	-25.0	-50.0
2000	-12.5	-50.0	0.0	37.5	12.5	25.0	50.0	0.0	12.5	75.0	0.0	12.5
2001	25.0	25.0	100.0	0.0	0.0	87.5	37.5	0.0	75.0	-25.0	-75.0	-125.0
2002	-25.0	-75.0	-175.0	-50.0	-75.0	0.0	0.0	-100.0	0.0	0.0	0.0	100.0
2003	25.0	0.0	50.0	0.0	25.0	25.0	-25.0	50.0	50.0	100.0	100.0	225.0
2004	75.0	0.0	100.0	175.0	25.0	0.0	100.0	0.0	100.0	25.0	0.0	75.0
2005	0.0	25.0	50.0	0.0	0.0	25.0	0.0	0.0	0.0	-100.0	-25.0	-100.0
2006	-125.0	0.0	-50.0	-50.0	37.5	12.5						
<b>World wheat price, US\$/tonne</b>												
1997	1.0	-11.0	9.0	9.0	-14.0	-17.0	-4.0	15.0	1.0	1.0	-6.0	-2.0
1998	-6.0	-3.0	-1.0	-9.0	-5.0	-6.0	-8.0	-5.0	5.0	12.0	2.0	-8.0
1999	0.0	-8.0	4.0	-1.0	-1.0	-3.0	-6.0	5.0	0.0	5.0	-1.0	-8.0
2000	6.0	2.0	-3.0	-1.0	7.0	-4.0	-8.0	-1.0	8.0	6.0	-1.0	2.0
2001	5.0	-3.0	-2.0	-5.0	2.0	-4.0	9.0	-2.0	2.0	8.0	2.0	1.0
2002	4.0	-8.0	2.0	-3.0	-1.0	2.0	9.0	8.0	23.0	3.0	2.0	-12.0
2003	-9.0	3.0	-13.0	-1.0	3.0	-5.0	0.0	12.0	2.0	2.0	0.0	20.0
2004	-4.0	0.0	0.0	1.0	-9.0	-11.0	-5.0	-4.0	10.0	0.0	1.0	-1.0
2005	22.0	-18.0	0.0	9.0	-20.0	2.0	-2.0	-2.0	0.0	-1.0	5.0	3.0
2006	6.0	6.0	-6.0	-2.0	9.0	-11.0	6.0	1.0	19.0	33.0	-6.0	-1.0

# World price indicators are defined in appendix E.

Sources: USDA 2007a, f, g & h.

In general the monthly variability in world prices can be significant. It suggests that price based SSG actions could easily be invoked on an ad hoc basis if the trigger point has a high threshold. Raising the tariff on selected shipments would have no particular advantage for the import competing industry. This type of safeguard action is not consistent with original aim of the measures which was to provide some insurance against excessive disruptions to the domestic industry.

The reality of world trade is that monthly fluctuations in landed price of imports occur on a regular basis. The size of the fluctuations often exceeds the effect of small, phased reductions in over-quota tariffs that are typically included in trade agreements. Import unit values should broadly move in line with movements in world market prices. If the trigger point is based on CIF values with a relatively high threshold value that is close to the world market price it can lead to spurious SSG actions:

- there is a high risk that price based SSGs will be activated by the month-to-month ‘noise’ that is a normal feature of commodity markets;
- it disrupts commercial trading activities with little benefit for the domestic industry.

Typical fluctuations in landed prices are not an exceptional circumstance that warrants a safeguard action. Adjusting to this sort of price development is unlikely to be highly disruptive for import competing industries – it is not unusual for internal price fluctuations to be similar in magnitude. Price based SSG actions on selected shipments increases the complexity of import administration and increase transactions costs.

This deficiency in the operation of price based safeguards has focused on situations where actions are randomly triggered on individual shipments when land prices are fluctuating around the trigger level. For the relatively small volumes of trade that are associated with the highly protected products in the major developed economies the effort appears to have little value.

There may be situations where landed prices are below the trigger point on a continual or regular basis. But if a price based SSGs is invoked regularly, the mechanism will be operating like a new layer of import protection. Imposing extra duties before significant volumes of imports enter the market reorients the measures away from a safeguard action to a mainstream trade restriction:

- imposing the extra duties is based on an arbitrary reference point of a ‘low’ price which is implicitly assumed to be disruptive to the domestic industry.

There is a strong case for abolishing price based SSGs as they are incompatible with the concept of being an indicator for the disruptive effect on the import competing industry. The case is strengthened by the availability of quantity based SSGs. The Doha discussions on SSMs could result in safeguards spreading across more countries and more products. The triggering of ad hoc price based measures could be highly disruptive to world trade and SSMs should be limited to quantity based actions.

## **Trigger points for price based SSGs**

A key issue in discussing the design of price based SSGs is the derivation of the trigger point. The AoA specified the trigger point would be a trade weighted average of the CIF import values for trade in the 1986 to 1988 period. This reference point is fixed and it still applies for SSG actions today.

Some countries made up-front declarations of trigger prices when the AoA was implemented in 1995. Most did not. The US and EU were two notable examples of WTO members making up-front declarations. This was a valuable exercise as it made the triggering of SSG actions a more transparent process. Japan and Canada did not provide this information at the start of the AoA.

## 16. SSG trigger prices notified by major developed economies #

	Tariff Line	US	Japan	EU
		US\$/tonne	US\$/tonne	US\$/tonne
<b>Beef *</b>	0202.30.80	1 970	..	3 741
<b>SMP</b>	0402.10.50	1 020	1 579	887
<b>WMP</b>	0402.21.50	950	2 388	1 833
<b>Butter</b>	0405.00.40	2 780	1 751	3 119
<b>Cheddar cheese</b>	0406.90.12	2 180	..	6 224
<b>Wheat</b>	1001.90.00	..	na	186
<b>Barley</b>	1003.00.50	..	na	139
<b>Rice</b>	1006.30.09	..	347	720
<b>Sugar</b>	1701.12.50	330	..	525

# Trigger prices based on trade weighted average of cif prices for 1986-88 period.

Sources: WTO 2007d, 2004, 2003.

Prices converted to US\$ based on the 2006 exchange rates of 116.4 yen/US\$1, 0.796 Euros/US\$1 & \$C1.134/US\$1.

Up-front notification of trigger prices was not available for Canada.

\* Selected category is frozen boneless beef.

If the price based SSG provisions are to continue all WTO member countries should be required to provide an up-front notification of all SSG trigger prices. This would improve the transparency of the operation of price based safeguards. If price based measures are allowed under the SSM provisions this requirement should be imposed on developing countries.

The relevance of the nominated reference period is a key issue for the price based SSGs. The concept of a fixed reference price establishing the point where the price competitiveness of imports causes serious disruption to the domestic industry is not plausible in a dynamic market environment. Apart from this conceptual deficiency, average prices in the 1986-88 period are not relevant to current trading conditions. It reflects market outcomes and pricing conditions from 20 years ago.

There is a fundamental deficiency in the concept of a price based safeguard. It is difficult to establish a reasonable, common measure of the threshold trigger point across all agricultural industries. It is also difficult to relate the reference period to the competitiveness of the domestic industry. If price based SSGs and SSMs are available under a new AoA it may be more appropriate to use a rolling average similar to the quantity based measures:

- but annual average CIF values will fluctuate over time and any reference period will have deficiencies from time to time – statistical anomalies will be an issue;
- unusual changes in world market conditions or the market conditions in major supplying country can bias the reference price.

This is a further reason for abolishing the use of price based safeguards. Wide disparities in the SSG trigger prices for the same product lines are evident across different countries. Using the limited information available a comparison of trigger prices in US\$ terms for the major developed economies demonstrates this point (table 16). Some notable examples include:

- the EU trigger price for sugar is 59% above than the US trigger price;
- Japan's trigger price for SMP is 55% above the US price and 78% above the EU price;
- the EU trigger price for frozen boneless beef is 90% above the US trigger price;
- the EU trigger price for butter is 12% above the US price and 78% above Japan's price.

Even allowing for differences in the competitiveness of the domestic industries such wide disparities in the trigger prices are difficult to accept as a safeguard measure. This comparison reflects exchange rates for 2006 and the scale of the disparity will vary in other years. But this is how price based SSG measures are applied – CIF values adjusted for exchange rates are compared with a trigger point derived as a fixed reference price adjusted for exchange rates.

The higher the trigger price the more likely a price based action will be invoked. Import unit values on a CIF basis should reflect movements in the world product prices – some allowance needs to be made for transport and insurance costs. It highlights how price based actions could be invoked at different times in different countries for the same movements in world pricing conditions.

## **Misuse of price based SSGs**

The wide disparity in reference prices partly reflects the difference in exchange rates that applied in the reference period. It emphasises the point that CIF unit value from 20 years ago are not appropriate for current trading conditions. Domestic industries in the importing countries are developing and adjusting to longer term changes in market conditions. The reference prices can trigger SSG actions that are simply not warranted from a safeguards perspective.

The triggering of price based actions since the AoA was implemented is not a misuse of the safeguard provisions. The price based measures are highly prescriptive. Some countries have applied the rules by incorporating the conditions in their customs monitoring procedures. In some cases they have taken advantage of the provisions to impose substantial extra import duties on specific products.

However, in general the price based SSGs appear to be operating more like an extra layer of import restrictions rather than a safeguard measure for exceptional circumstances. They do not achieve a balanced outcome in accommodating the original intention of the safeguard provisions. The aim was to provide some temporary assistance for the disruptive effects of excessive import competition as the industry adjusted to the phased trade liberalising aspects of the AoA.

Concerns have been raised about the future operation of the price based safeguard provisions in a post Doha trading environment. In many cases they have been an extra impediment that has disrupted trade for no apparent benefit to the import competing industry. In other cases they have operated like a new layer of permanent trade barriers. An indication of the potential for future trade disruptions in a more liberalised trading environment can be seen by comparing world prices with SSG trigger prices.

Several imported products that have SSG status in the US have trigger prices that have been close to world prices (table 17). This would suggest import unit values may have been near the trigger point at certain times over the past five years. These circumstances were evident for some dairy products, sugar and cotton. The fact that some price based SSGs have not been triggered could reflect differences between CIF unit values and world prices:

- but in some cases there may have been no over-quota trade because the existing tariff rates made commercial trade unviable.

A similar story is evident for many of the SSG designated products in Japan and the EU. In Japan rice and dairy products were the most at risk of triggering price based SSGs over the past five years (table 18). For some products the difference between the world price and the trigger price was small and the inclusion of marketing expenses would have limited the prospects of action being taken.

Some price based actions were taken by Japan for the products shown to be at risk. But for many products the existing over-quota tariffs are very high and commercial trade outside the TQs is not viable. This especially applies to imports of dairy products.

## 17. The risk of price based SSG duties on US imports #

Year ended December	tariff line	Trigger price *	Price of imports **				
		\$US/tonne	2002	2003	2004	2005	2006
<b>Beef ***</b>	0202.30.80	1 970	2 347	2 283	2 919	2 963	2 912
<b>SMP</b>	0402.10.50	1 020	1 326	1 718	2 035	2 230	2 194
<b>WMP</b>	0402.21.50	950	1 391	1 764	2 126	2 288	2 202
<b>Butter</b>	0405.00.40	2 780	1 740	1 883	2 727	3 042	2 706
<b>Cheddar cheese</b>	0406.90.12	2 180	1 151	1 406	1 872	2 027	1 898
<b>Sugar ^</b>	1701.11.50	330	174	165	190	250	342
<b>Cotton</b>	5201.00.18	1 600	1 021	1 400	1 365	1 218	1 291

# Comparison of trigger prices & import prices.

Source: WTO 2004; USDA 2007a & f, 2006a; MLA 2007.

\* Trigger for SSG duties - simple average of cif import unit values for 1986 -1988 reference period.

\*\* Indicator prices for products typically traded on world markets for the year ended December (series defined in appendix E).

Shading indicates the potential for triggering price based SSGs if an import transaction had been initiated. As these prices are not cif import values they may understate the landed price by a small amount. In some cases an adjustment that raised the import price may be sufficient to prevent the triggering of SSG duties.

\*\*\* Frozen, boneless product, 90% CL.

^ Raw cane sugar.

## 18. The risk of price based SSG duties on Japanese imports #

	tariff line	Trigger price *	Price of imports **				
		'000 yen/tonne	2002	2003	2004	2005	2006
<b>SMP</b>	0402.10.129	184	229	170	197	229	252
<b>WMP</b>	0402.21.119	278	228	177	204	238	257
<b>Butter</b>	0405.10.129	204	162	146	167	212	228
<b>Wheat ***</b>	1001.90.	na	16	19	17	17	18
<b>Rice</b>	1006.30.090	40	23	24	24	28	33

# Comparison of trigger prices & import prices.

Source: WTO 2007d; USDA 2007a & g, 2006b.

\* Trigger for SSG duties - simple average of cif import unit values for 1986 -1988 reference period.

\*\* Indicator prices for products typically traded on world markets for the year ended March (series defined in appendix E).

Shading indicates the potential for triggering price based SSGs if an import transaction had been initiated. As these prices are not cif import values they may understate the landed price by a small amount. In some cases an adjustment that raised the import price may be sufficient to prevent the triggering of SSG duties.

\*\*\* No price based SSG actions were triggered for wheat during the JFY 1995-2006 period.

For the EU many of the major products with SSG status appeared to be at risk of price based actions (table 19). In several cases there was a relatively large gap between the world price and the trigger price. Price based actions were only invoked on chicken meat and sugar. For other products either the CIF values for imports did not breach the trigger or there was no over-quota trade.

The extra duties that may be applied for price based actions are set down in the AoA safeguards agreement. The size of the duties escalates for higher differences between the landed CIF values and the trigger price.

## 19. The risk of price based SSG duties on EU imports #

Year ended June	tariff line	Trigger	Price of imports **				
		price *	2002	2003	2004	2005	2006
		ECU/tonne	ECU/tonne				
<b>Beef ***</b>	0202.30.90	2 978	2 751	2 077	2 181	2 369	2 394
<b>Pig meat ***</b>	0203.29.57	2 202	2 630	2 058	2 040	2 008	1 940
<b>Chicken meat ***</b>	0207.41.10	3 335	1 425	1 208	1 295	1 249	1 189
<b>SMP</b>	0402.10.19	706	1 805	1 439	1 530	1 717	1 830
<b>WMP</b>	0402.21.15	1 459	1 840	1 480	1 585	1 790	1 846
<b>Butter</b>	0405.00.10	2 483	1 376	1 194	1 343	1 593	1 622
<b>Cheddar cheese</b>	0406.90.14	4 954	2 282	1 623	1 910	2 338	2 355
<b>Wheat</b>	1001.90.95	148	140	152	132	118	142
<b>Maize</b>	1005.90.00	114	106	101	97	77	89
<b>Rice</b>	1006.30.00	573	211	190	183	217	245
<b>Sugar</b>	1701.11.10	418	192	174	136	172	272

# Comparison of trigger prices & import prices.

Source: WTO 2003; USDA 2007a, b, d, f & g, 2006b; MLA 2007.

\* Trigger for SSG duties - simple average of cif import unit values for 1986 -1988 reference period.

\*\* Indicator prices for products typically traded on world markets for the year ended June (series defined in appendix E).

Shading indicates the potential for triggering price based SSGs if an import transaction had been initiated. As these prices are not cif import values they may understate the landed price by a small amount. In some cases an adjustment that raised the import price may be sufficient to prevent the triggering of SSG duties.

\*\*\* Frozen, boneless product.

It is reasonable to have a graduated response in the size of SSG duty. But the scale of the response is substantial as the price gap moves to higher levels:

- no extra duties are imposed if the price gap is less than 10%;
- this may have been a factor in the lack of SSG actions for some of the example noted above.

It is not possible to assess the protective effect of the price based SSGs that were invoked because the WTO notifications do not provide the necessary information. Given the risk of actions being taken over the past five years, the price based SSGs for the major developed economies are vulnerable to being triggered for relatively small movements in exchange rates and product prices.

Some SSG designated products in the major developed economies have trigger prices that seem relatively high in relation to recent world product prices. There is some potential for the triggering of SSG duties in one of the higher thresholds. When applied the larger size of the duty can become a significant trade restriction:

- the addition of the SSG duty to the existing ordinary customs duty can lead to a tariff-equivalent effect that is commercially prohibitive;
- it can lead to situations where the SSG is regularly triggered;
- it is in these situations that the price based safeguard measure acts more like a additional trade barrier than a measure for addressing exceptional strong import competition.

An example of how a price based SSG can operate like a permanent trade barrier is EU sugar imports. The EU triggered sugar safeguards in each of the years that were reviewed. A demonstration of the extra duties that may have applied is provided in table 20. It is based on the estimated price gap with SSG duties calculated using the formulas specified in the AoA.

## 20. SSG duties and price variability for EU sugar imports #

Year ended June	World price of sugar *		Euro exchange rate		Import price		Difference from SSG trigger **		SSG duty level	
	US\$/t	% change	per US\$1	% change	Euro/t	% change	Euro/t	%	Euro/t	
1995	299	..	0.79	..	237	..	- 173	- 41	level (c)	39.0
1996	279	-6.8	0.79	-0.9	219	-7.6	- 191	- 46	level (c)	49.2
1997	257	-7.9	0.83	5.4	213	-3.0	- 197	- 47	level (c)	51.3
1998	256	-0.2	0.91	9.6	233	9.4	- 177	- 42	level (c)	41.0
1999	170	-33.7	0.89	-1.8	152	-34.9	- 258	- 62	level (d)	83.6
2000	144	-15.5	1.00	11.8	143	-5.5	- 267	- 64	level (d)	89.4
2001	225	56.7	1.12	12.3	252	76.0	- 158	- 38	level (b)	34.4
2002	172	-23.7	1.12	-0.4	192	-24.0	- 218	- 52	level (c)	61.5
2003	182	6.4	0.95	-14.6	174	-9.2	- 236	- 56	level (c)	69.7
2004	162	-11.3	0.84	-12.1	136	-22.1	- 274	- 66	level (d)	95.1
2005	219	35.4	0.79	-6.2	172	27.0	- 238	- 57	level (c)	71.8
2006	331	51.3	0.82	4.6	272	58.2	- 138	- 33	level (b)	28.3
2007	270	-18.4	0.77	-6.8	207	-24.0	- 203	- 49	level (c)	55.4

# A demonstration of SSG duties that may have applied on sugar imports.

Source: WTO 2002; USDA 2007f.

\* Contract No. 11 fob spot price of bulk raw sugar, stowed Caribbean port - includes freight to Far East.

\*\* The trigger price for SSG duties is 410 Euro/tonne.

This example shows the SSG duty probably varied between threshold levels (c) and (d). The price gap varied between a 40-60% difference and a 60-75% difference. It highlights how a fixed reference price can be irrelevant to current world market conditions and assessing the competitive pressures on the local industry. The price based SSG effectively became another trade restriction:

- the SSG duty varied between around 30 and 95 Euros/tonne;
- the ordinary customs duty on EU sugar imports is 339 Euros/tonnes;
- if an SSG duty of 95 Euros/tonne was implemented the overall customs duty would be 434 Euros/tonne, an increase of 28%.

The EU sugar example highlights the weakness in the price based safeguard provisions in relation to the reference price. Updating the reference period or using a rolling average may help to improve the relevance of the trigger price to current market conditions. But anomalies are likely to emerge for other products in other countries and the deficiencies in the design of the price based SSG will remain.

Experiences with price based SSGs demonstrate the conceptual and practical difficulties in using import prices as an indicator of the need for safeguard actions. The current approach has no connection between the trigger point and the adjustment pressures faced by the import competing industry. It assesses the competitive pressures from import pricing in isolation from market conditions in the importing country. There is a strong case for immediately abolishing price based SSGs and limiting SSMs to quantity based measures in a new AoA.

## 5. Other safeguard measures

In recent times some Free Trade Agreements have included safeguard provisions for products that are considered sensitive to the effects of trade liberalisation. The most recent example is the Australian-US FTA which includes safeguards for beef and horticultural products. FTA negotiations on safeguard measures have seen the development of alternative mechanisms from those established by the AoA. The Doha negotiations are considering alternative designs for the proposed SSMs.

There are numerous proposals and negotiations for FTAs currently being considered by a range of countries. From an Australian perspective there are existing initiatives for developing FTAs with China and Japan. There is also a proposal to investigate the merits of an FTA with Korea. In each case the discussions on market access will be a sensitive issue for certain agricultural products.

Safeguard measures for selected agricultural products may be a feature of these and future FTA negotiations. The previous discussion on the design and application of WTO SSGs may be useful in those considerations. Past experiences with FTA based safeguards could also be a useful contribution. Alternative trigger mechanisms and formulas for setting safeguard duties have been established. It is beyond the scope of this study to examine these FTA alternatives in detail. But some observations about the design of some notable examples may be worthwhile.

### Japanese safeguards on beef

Japan has a safeguard mechanism on beef imports. It was negotiated as part of bilateral discussions on access conditions for beef imports. The reason for developing a safeguard mechanism was to address concerns about the effects of a surge in trade on the domestic industry. It differs from the WTO safeguards in that it relates to an agreement to maintain an applied tariff below the bound rate. The safeguard allows for a snap back to the bound tariff rate. This type of situation could be relevant to the proposed SSMs for developing countries in the Doha round.

It is worth noting that Japan's beef safeguard is a quantity based measure. There is no price based safeguard. Given the earlier observations in this study this would seem to be the preferable approach to take when developing a safeguard mechanism. Price based measures have a number of deficiencies and are less transparent than the quantity based measures:

- the Japanese approach is for quarterly assessments of the cumulative growth in imports;
- it is a transparent exercise that can be readily communicated to exporting countries.

It is important that market participants have full information on the trade restrictions that could affect their business. The way the Japanese beef safeguard assessment operates provides some forewarning of the potential for triggering the snap-back to the bound tariff rate. This can introduce an element of strategic behaviour as imports may be accelerated if the safeguard looks like being triggered:

- in some situations this may contribute to the trigger point being breached;
- it can also lead to higher inventories of imported product if there is a high risk of the safeguard action being triggered.

It is also worth noting the trigger point is based on imports in the previous year rather than a moving average of historical trade. In a growing import market this seems a more appropriate approach as a rolling two or three year average would increase the restrictiveness of the safeguard. Even if the import trade is not growing, trade in the previous year seems a better reference point for assessing adjustment pressures on the domestic industry as some change can be expected to occur over time.

A final point of difference is the lack of a market growth factor in the trigger calculation. Inclusion of this factor can lead to situations where the safeguard becomes more restrictive than was intended. The aim of a safeguard is to address exceptional circumstances in the rate of growth in imports. It also opens up the possibility of misuse of the safeguard provisions:

- reliable data on market consumption is often difficult to obtain at short notice;
- using estimates of the change in consumption opens up the possibility of manipulation of the trigger mechanism.

Providing opportunities for imports to share in market expansion can be accommodated by setting the import expansion factor at a sufficiently high level. If the overall market size is contracting this is likely to be reflected in the demand for imports. It seems unnecessary to complicate the trigger mechanism by including this factor.

The issue that requires careful consideration is the import growth factor that sets the trigger level. The beef safeguard in Japan uses a factor of 17%. It is a subjective judgement to determine the size of this factor if it is a single, fixed rate. Conditions that allow some variation in the factor are one way of reducing the subjective assessment.

The notion of a safeguard is to address concerns about serious disruptions to the domestic industry from import competition. If the factor is set too low the safeguard effectively becomes an import restriction rather than a temporary measure to relieve severe industry adjustment pressures.

Given the size of the Japanese beef trade relative to total consumption a higher import growth factor may have been more appropriate for a safeguard measure. As discussed earlier in the report a 25% minimum growth factor for situations where imports have a relatively large market penetration would seem more in line with a safeguard for exceptional circumstances.

In designing safeguards for situations where imports have a relatively small share of the market a significantly higher import growth factor should be used to set the trigger level. Where imports have a share of the domestic market of less than 5% a growth factor of 25% would be out of balance with the prospects for a substantial disruption to the domestic industry. A factor in the order of 100% would seem more appropriate.

There is a need for safeguards to have some flexibility in the application of the trigger mechanism. If the trigger level is solely based on import growth there can be situations where trade disruptions affect the trigger level in subsequent years. These circumstances arose recently in Japan with the ban on US beef imports because of the BSE issue in the United States (USDA 2007c).

Japan adjusted the beef safeguard mechanism to take account of the disruption to trade caused by the BSE issue. A clause in any safeguard provisions that allows a review of the trigger point for unusual events in consultation with supplying countries would seem a reasonable inclusion. There may be other circumstances where unusual events affecting the domestic industry could raise the demand for imports. It could cause a triggering of safeguards which may not be warranted.

For example a drought or a disease outbreak could reduce domestic supplies. Larger imports may be considered necessary to prevent price inflation. Safeguards need to be able to accommodate these sorts of events to ensure they do not become an unnecessary trade restriction.

An FTA between Australia and Japan will have to address market access conditions for other imports such as dairy products. For products such as milk powders and butter the market penetration of Australian imports is limited. If safeguard measures are proposed as part of more liberalised access conditions they should be based of trigger level growth factors that are much higher than the 17% factor used in the beef safeguard.

A final point worth noting about Japan's beef safeguard is the lack of a sunset clause. As with the SSG provisions there is no requirement for the safeguard measure to end at some point in the future. The need for safeguards should recede over time as the domestic industry adjusts to the competitive pressures from imports. A specified end point would strengthen the signal to the domestic industry that change is necessary to compete in a more liberalised trading environment.

## The US-Australia FTA safeguards

FTA negotiations are not bound by the precedent set through the establishment of the WTO safeguard provisions. Different types of safeguard mechanisms have been developed for FTAs. The formulas for establishing trigger points and the provisions for calculating safeguard duties will be different. The most recent notable example from an Australian perspective is the US-Australian FTA.

The AUSFTA includes safeguard provisions for beef and horticulture products:

- there is a price based safeguard on horticulture imports; and
- there is a price and quantity based safeguard on beef imports.

The horticulture safeguard applies to a limited number of products. The trigger price for extra import duties is based on a two year average of import prices on a US\$ FOB basis. The data used in the calculation is based on customs valuations. Apart from using FOB valuations the key difference with the SSG price based measures is the reference price is not fixed:

- the trigger price for horticulture safeguards uses the lowest two years of prices from the previous years;
- it is a moving average and it uses the least restrictive reference point (ie the higher the trigger price the more restrictive is the safeguard).

This approach to designing a price based safeguard is an improvement on the SSG trigger mechanism. It has a closer link between the safeguard actions and recent import trading conditions. In the AoA the fixed SSG trigger price is based on market conditions from 20 years ago. This safeguard is applied on a shipment basis and the extra duties are based on the size of the price gap between the trigger point and the FOB import price.

But the deficiencies and practical difficulties noted for the price based SSG in the AoA are relevant to the AUSFTA safeguard on horticulture imports. The approach has no connection between the trigger point and the adjustment pressures faced by the US horticultural industries. It assesses the competitive pressures from import pricing in isolation from market conditions in the US.

An important feature of the horticulture safeguard is the inclusion of a sunset clause. The safeguards only apply for the period that the FTA market access improvements are being implemented. The FTA has an 18 year tariff elimination period for selected horticulture products. At the end of that period the safeguard provisions will be removed and the relevant products will have tariff free access:

- this is more consistent with the principle of providing some insurance against the potential disruptive effects of a sudden change in the price competitiveness of imports;
- it is tied to industry adjustment pressures that may arise in the implementation period;
- it is consistent with the notion of giving the US domestic industry time to adjust to the effects of stronger import competition – the safeguard is not a permanent assistance measure.

The AUSFTA beef safeguard is a quantity based measure that only applies in the transition phase for eliminating import tariffs. There is an 18 year period for the tariff to be phased out. The quantity based safeguard is triggered if imports exceed the preferential quota amounts during this period.

The trigger point is set at 10% of the quota volume. An extra tariff is payable on imports that exceed this threshold. For example, a tariff-free TQ access level of 400,000 tonnes would have a trigger point for the application of safeguard duties of 440,000 tonnes. The safeguard actions would be in addition to the prevailing over-quota tariff rate.

The 10% trigger mechanism appears to be unduly restrictive when compared with Japan's beef safeguard. But the trigger point is not fixed. It rises in line with the growth in the TQ access level. The annual quota expansion ranges from 20,000 tonnes in year 3 of the agreement to 70,000 tonnes in year 18. During this time the over-quota tariff of 26.4% will be phased out.

The beef safeguard is eliminated when the 18 year transition phase is completed. This is consistent with the principle of providing some insurance against the disruptive effects of a surge in imports. A sunset clause should be a required aspect of all safeguard measures. Japan's beef safeguard would be more consistent with the objective of safeguard measures if a similar approach was adopted.

The US beef safeguard duty is based on the existing over-quota tariff rate. The extra duty is calculated as 75 % of the difference between the original over-quota tariff (26.4%) and the FTA preferential tariff rate. This means the size of the safeguard duty increases in each year of the transition period. For example in year 17 of the agreement the safeguard duty would be around 17%. This compares with a duty of about 12% in year 15 of the agreement.

An increase in the size of the safeguard duty as trade is liberalised is an unusual feature of the US beef safeguard. A more balanced approach would require the 75% calculation factor to decline over time. Alternatively the fixed calculation factor could be smaller than 75%. A factor of 25% may be more appropriate for this approach to calculating extra import duties:

- it is worth noting the safeguard duty does not raise the overall tariff on over-quota imports;
- for example, in year 17 of the agreement the total tariff effect (inclusive of safeguard duties) would be 20.68% as opposed to 22.44% in year 15 of the agreement.

The AUSFTA price based safeguard on beef does not apply until the end of the transition period (ie year 19 of the agreement). At this point all tariffs and quota arrangements on Australian imports will have been eliminated. The trigger price is based on changes in the price of beef in the US. This is a key point of difference with the price based SSGs in the AoA.

Price based safeguard duties will only apply to imports above the final TQ access level in year 18 of the agreement expanded annually by 420 tonnes (eg 488,634 tonnes in year 19). Imports below the threshold will retain tariff free access. However, it is important to note there is no sunset clause and the safeguard is potentially highly restrictive.

The safeguard is triggered if the reference price falls by more than 6.5 % of the average price in the previous two years. This assessment is based on two months of prices in a single quarter so it appears it will be assessed on a quarterly basis. The safeguard duty will equal 65% of the prevailing tariff on US imports from other suppliers. Based on the current tariff rate of 26.4% the duty on imports from Australia would be 17.16%:

- the small trigger point (ie a price fall of 6.5%) makes the trade vulnerable to safeguard actions for random price fluctuations in the US domestic market.

The duty is substantial when compared with the tariff free status that will prevail from year 19 of the agreement. It highlights the deficiency of price based safeguards. In this case actions are tied to pricing conditions in the US market. They are assessed in isolation from world market conditions – there is no connection between domestic adjustment pressures and the price competitiveness of imports. In fact the safeguard will transfer US domestic adjustment pressures onto exporting countries.

## 6. Concluding comments

The WTO Agreement on Agriculture was an important outcome of the Uruguay Round of multilateral trade negotiations. In the area of market access one of the major benefits of the AoA was the commitment to convert non-tariff border protection measures to ordinary customs duties. This was expected to create new opportunities for trade.

The process of tariffication included the introduction of special safeguards. They were introduced because of concerns by importing countries about the potential disruptive effects of tariffication on their domestic industries as the AoA tariff cuts were implemented.

The SSGs could be reasonably described as a short term adjustment measure for dealing with extreme or exceptional circumstances. The notion was to address situations where competitive pressures from imports were deemed excessive and causing severe adjustment pressures on the domestic industry. But rather than acting as a safety valve for unusual circumstances the SSGs have operated more like a new layer of trade barriers.

The triggering of SSG duties is a trade restriction because it adds to the import protection already provided by the prevailing over-quota tariffs. The SSG provisions remained in place after the AoA implementation period finished and concerns have been raised about the way they can affect trade. Concerns have also been raised about the future availability of SSMs for developing countries and the implications for agricultural trade liberalisation.

As an extra transitional mechanism for adjusting to the effects of tariffication the need for SSGs has passed. Industries subjected to tariffication of import restrictions have adjusted to the AoA some time ago and most still benefit from high levels of tariff protection. There is no need or justification for retaining the SSGs in a new AoA. There is also no justification for using the safeguards as an extra transitional mechanism for the effects of future tariff cuts.

Doha proposals to allow self-designation of sensitive and special products will limit the extent of the tariff reductions on highly protected products (FAO 2003b). This reinforces the case for eliminating the SSGs. There are no tariffication issues to contend with. Phased tariff cuts along with the sensitive and special product provisions provide ample scope for facilitating industry adjustment.

The continued availability of SSGs and widespread use of SSMs could significantly reduce the trade liberalisation gains from a new AoA. In this situation special safeguard actions would become a prominent aspect of world trade. The complexity of market access conditions will rise and trade will become increasingly subject to ad hoc disruptions from safeguard actions. The SSGs could easily become a regular import protection measure for a number of dairy, meat and sugar products if they are allowed to co-exist with the proposed SSMs.

The justification for developing country SSMs in a new AoA is weak given the availability of other transitional features. But provision has been made for them in the negotiating modalities (FAO 2005c & d). A weakness of the current AoA was the failure to include a sunset clause in the availability of SSGs. This should be addressed in the Doha negotiations with the inclusion of a sunset clause on the availability of SSMs. Limits on the use of SSMs will also be an important consideration.

The design of a safeguard is critical because of the risk of it turning into a new trade barrier. Several anomalies and deficiencies are evident in the SSG trigger mechanisms. There are conceptual and practical difficulties associated with implementing price based safeguards. These issues need to be addressed in the design of safeguards under a new AoA and in FTAs. Safeguard mechanisms should incorporate a realistic perspective of what constitutes severe adjustment pressures on the import competing industry.

## The availability and use of SSGs

The current availability of SSGs in world trade for the major agricultural products is perhaps greater than people realise. There is considerable potential for SSGs to become a more prominent feature of individual market access conditions. The major developed economies have about two thirds of the SSG designated products – meat, dairy, cereal and sugar products feature prominently:

- the EU has SSG status on the major meat, dairy, cereal and sugar products;
- Japan has SSG status on a range of meat, dairy and cereal products;
- the US has SSG status on the major dairy and sugar products and various cereal and meat products; and
- Canada has SSG status on the major dairy products and some cereal and meat products.

In the period since the AoA was implemented a significant number of SSG actions have been taken. SSG actions have been particularly evident for dairy product imports. Other products that have been affected include imports of sugar and selected meat products. In some cases SSGs have been regularly activated and been operating more like a permanent trade restriction.

The US and Japan have been the most active users of their SSG provisions for the major product categories. The US had a safeguards usage rate of about 57% and Japan had a usage rate of about 27% for the period that was reviewed. These usage rates are very high for a trade measure that is based on the notion of managing exceptionally strong adjustment pressures from import competition. It suggests the SSGs are operating more like an import protection measure than a safeguard.

The use of SSGs by the US has mostly involved price based actions on dairy products, beef and sugar. There were only two instance of quantity based SSGs being triggered by the United States. SSG actions by Japan have involved numerous price based actions on processed cereal products and, to a lesser extent, dairy products. Japan is also the largest user of quantity based SSGs in world trade and has invoked SSG duties on a range of dairy products as well as beef and pig meat:

- the regular triggering of price based SSGs and, in the case of Japan, the extensive use of quantity based SSGs indicates the safeguards are not operating as they were intended;
- they are being used to restrict competition from non-TQ imports rather than managing highly disruptive industry adjustment pressures from import competition.

The application of SSGs by the EU has involved regular price based actions on imports of sugar and chicken meat – there were no instances of quantity based actions. Regular triggering of the sugar and chicken meat SSGs is not consistent with the intention of a safeguard measure. In some respects it is operating more like a minimum (floor) price for over-quota imports with a variable import duty:

- the continual triggering of SSG duties highlights one of the deficiencies with using a 1986-88 fixed reference period in calculating the trigger price;
- the EU trigger price for sugar of 418 ECU/t is highly restrictive – it is much higher than the world price for raw sugar which was 143-252 ECU/t over the 1995-2002 period.

Many products with SSG status have not been subjected to safeguard duties because over-quota tariffs are too high to encourage significant amounts of commercial trade. The Doha trade negotiations are expected to reduce the amount of ‘water’ in the tariffs that apply to many highly protected products. As non-TQ imports become more commercially viable, the growth in imports is likely to increase the prospects of SSG duties being triggered should they be retained in a new AoA.

- the trade liberalisation benefits from a new AoA could be stifled by safeguard actions if they are widely available and the conditions are highly restrictive.

## The design of safeguard mechanisms

Several aspects of the design of SSGs should be considered in the future development of safeguard mechanisms. The approach has a number of deficiencies and the formulas are vulnerable to statistical anomalies in situations where trade is limited. The critical issue is the link between a safeguard action and the severity of the adjustment pressures facing the domestic industry:

- if safeguard conditions are highly restrictive they will operate like a regular trade barrier;
- action is only warranted if strong import competition is established as the direct cause of a severe disruption in the domestic industry.

The formula for setting trigger levels has affected the operational effect of the quantity based SSG. In general it's a relatively crude indicator of the effect of import competition on the domestic industry. It is vulnerable to statistical anomalies and misuse through the data used in the calculations. It can also trigger actions in situations where import growth is not causing adjustment pressures in the domestic industry.

The quantity based SSG formula compares current imports against a trigger point based on a moving average of historical imports and a market growth factor. Inclusion of the market growth factor allows for an expansion in the annual trigger level if domestic consumption is rising. But a footnote in Article 5 of the AoA allows importing countries to ignore this factor. If this approach is taken the trigger level is set by applying the maximum 25% growth factor to historical imports:

- irrespective of the outcome of the formula, there is a minimum trigger level growth condition of 5% of the historical import level.

Consumption levels are generally much larger in absolute terms than the level of imports. Therefore the market growth factor can negate a trigger level growth factor if consumption has declined. There is an incentive to include the market growth factor if consumption is declining. The discretion allowed by the footnote creates an anomaly where the formula can be manipulated to generate lower trigger levels:

- the formula can be manipulated to limit annual growth in the trigger level to 25%;
- by including a fall in consumption the annual growth in the trigger level can be reduced to between 5% and 25%.

The quantity based SSG formula is biased towards lower trigger levels and import protection because of the discretion allowed by the footnote in the AoA. Removal of the footnote could create difficulties when there are legitimate issues with data availability. A more balanced outcome would be achieved by using the trigger level growth factor for each tier of market access opportunities as the minimum expansion condition. In other words:

- if consumption cannot be measured the 25% growth factor would set the trigger level;
- if consumption is negative, ignored or unavailable the minimum trigger level would be set by the level of market access opportunities – either 105%, 110% or 125% of average imports for the respective tiers of import market shares.

In general the trigger level growth factors seem to be highly restrictive. A trigger level based on the minimum growth condition of 5% of average imports is weighted towards the interests of import competing industries. This is especially the case if import penetration is less than 30% and substantial SSG import duties are imposed. In most situations a 5% growth in imports is unlikely to have a disruptive effect on the domestic industry.

Even if imports accounted for half of total market sales the effect of a 5% growth in imports on market returns is not especially onerous. Total product availability in the importing country increases by half this amount in percentage terms. Changes of this magnitude are unlikely to cause a major disruption on the domestic industry. Variations in domestic output of this magnitude are far from abnormal:

- the quantity based SSG provisions are not reflective of exceptional circumstances;
- much higher trigger level growth factors would give a more balanced outcome in line with the notion of 'insurance' against an import surge.

The design of the trigger mechanism can produce some unintended anomalies in the protective effect of the quantity based safeguards. Situations can arise where the trigger level is less than the level of imports in the immediate preceding year. This is inconsistent with the concept of a safeguard that is concerned about an import 'surge' causing adjustment pressures on the domestic industry.

This can occur if imports in earlier years are small relative to the immediate preceding year. It can occur if the annual change in consumption is negative. There may even be situations of zero imports in the earlier years of the formula. In the most extreme case the trigger level would be zero if there were no over-quota imports in the any of the three years used in the formula:

- this would create an anomaly where extra SSG duties are imposed on top of the standard over-quota tariff as soon as any imports are landed in the importing country;
- there would be no 'SSG-free access' level outside the TQ;
- the 5% minimum growth condition on the trigger level would have no effect.

Importing countries have discretion in the size of quantity based SSG duty that can be imposed. The AoA safeguard provisions allow for a maximum duty of 33% of the current applied tariff rate. This applies for each of the three tiers of the trigger level calculations. In other words imports with a consumption share of 1-2% could face a large SSG duty that is out of proportion with its competitive effect on domestic output.

Imposing the maximum allowable duty on small import volumes with limited market penetration is not consistent with the notion of a safeguard. Reduced discretion through a graduated maximum duty linked to import penetration would be a more balanced approach. A proportional response in setting the SSG duty that takes account of the prevailing applied and bound tariff rates is required.

The use of import prices as an indicator of domestic industry adjustment pressures is impractical and conceptually difficult to implement. The price based SSG compares landed CIF prices to a fixed trigger point based on average prices in 1986-1988. Under this approach the trigger price can be biased by particular shipments or short periods of abnormal trading conditions if imports are limited.

This is a significant practical difficulty in implementing a price based SSG. A three year average helps to smooth any data distortions. But using a fixed reference period doesn't allow for the dynamics of market behaviour and the relative movements in prices for imports and domestic output. The trigger point where a change in the import price may justify an SSG action will vary over time.

The concern is about the competitive pricing pressures from imports that may lead to adjustment pressures on the domestic industry. Therefore the trigger point should be set at a level that reflects a differential relative to the prevailing domestic price. The deficiency in the price based SSG is the lack of a connection between the trigger point and the adjustment pressures faced by the import competing industry. Price based SSGs can be triggered by a change in the import price with no consideration of pricing conditions in the importing country:

- by itself a low import price is not necessarily disruptive to the domestic industry – it has to be assessed in relative terms to judge the implications for industry adjustment pressures.

The positioning of the trigger price relative to the market price in the importing country is the critical issue. It determines if the import price could potentially be disruptive for the domestic industry. Yet the approach is to assess the competitive pressures from import pricing in isolation from market conditions in the importing country.

Currently the price based SSG implicitly assumes that if import prices fall below an arbitrary line they will have a disruptive effect on the domestic market. It is difficult to reconcile this type of mechanism with the notion of a safeguard for exceptional circumstances. The trigger for SSG duties is arbitrary and there is no certainty it can be justified by the scale of potential industry adjustment pressures.

In some cases the average CIF price may not have been aligned to the world price. In other cases imports may not be a homogenous replacement for domestic output which would dilute the impact of a low import price on the domestic industry. Changing the derivation of the trigger point to a moving average would be an improvement but the fundamental deficiency remains – there is no connection with the concept of a safeguard against severe adjustment pressures.

Price based SSGs apply to individual shipments which is inconsistent with the notion of a safeguard. Adjustment pressures may emerge if, on average, the price of imports declines substantially relative to the domestic price. If imports are limited relative to total consumption, an exceptionally low price for selected shipments is unlikely to have a material effect on the domestic industry.

The mechanism for price based SSGs means actions can be triggered for circumstances that will have no significant impact on the domestic industry. Landed import prices fluctuate for a variety of reasons including exchange rate movements. This means SSG actions can be taken for occasional shifts in exchange rates if the trigger point happens to be close to the prevailing world market price.

Price based actions may also be triggered by relatively benign fluctuations in product prices. Monthly fluctuations in the landed price of imports are not an unusual occurrence. If the trigger point has a relatively high threshold that is close to the world market price it can lead to spurious SSG actions.

Day-to-day fluctuations in landed prices are not an exceptional circumstance that warrants a safeguard action. The threshold before a price based SSG is activated should be much higher than the current 10% allowance. This would at least provide some capacity for the safeguard to avoid being triggered for spurious, short term changes in exchange rates and world product prices.

The use of price based safeguards in trade agreements should be discontinued – they should not be used in future trade agreements including the proposed SSMs. They are unsuitable as an indicator of industry adjustment pressures and are vulnerable to data measurement issues. Wide disparities in SSG trigger prices for the same products are evident across different countries:

- the EU trigger price for sugar is 59% above than the US trigger price;
- Japan's trigger price for SMP is 55% above the US price and 78% above the EU price;
- the EU trigger price for frozen boneless beef is 90% above the US trigger price; and
- the EU trigger price for butter is 12% above the US price and 78% above Japan's price.

Such disparities are difficult to reconcile with the concept of a safeguard for changes in the price competitiveness of imports. Import unit values should be broadly equivalent with world product prices. It highlights how price based actions could be invoked at different times in different countries for the same movements in world pricing conditions.

The wide disparity in reference prices also emphasises the point that CIF unit value from 20 years ago are not appropriate for current trading conditions. Domestic industries in the importing countries have been adjusting to longer term changes in market conditions. Yet the reference prices could trigger SSG actions that are simply not warranted from a safeguards perspective.

The triggering of price based actions since the AoA was implemented is not a misuse of the safeguard provisions – it is an unintended consequence. However, in general the price based SSGs are operating more like an extra layer of import restrictions rather than a safeguard for exceptional circumstances. They are not operating as they were intended.

Concerns have been raised about the future operation of price based SSGs if they are retained in a new Doha Round AoA. A comparison of world prices with SSG trigger prices shows there is considerable potential for trade disruptions in a more liberalised trading environment. In recent times a number of commodities have experienced unusually high prices which have reduced the risk of SSG actions. But in time prices are likely to weaken and the risk will re-emerge.

Several SSG designated products in the US have trigger prices that were close to world prices at various times over the past five years. This was the case for some dairy products, sugar and cotton. A similar story is evident for many of the SSG designated products in Japan and the EU. In Japan rice and dairy products were the most at risk of triggering price based SSGs. For the EU many of the major products with SSG status appeared to be at risk of price based actions.

The SSG provisions for price based actions specify the maximum duty that may be imposed. But it is not possible to assess the protective effect of the safeguard. Information on the SSG duty rate is not a requirement of the WTO notification procedures. This is surprising as the AoA states the operation of SSGs should be carried out in a transparent manner:

- the WTO provisions for safeguards should include a requirement for notification of the size of safeguard duties imposed for all SSM and SSG actions;
- it should also require notification of the customs duty at the time a safeguard is triggered;
- a similar requirement should be imposed on safeguards used in FTAs.

## **Recommendations on safeguard measures**

Key recommendations for the future development and use of special safeguards are as follows:

- SSGs should be eliminated in a new Doha Agreement on Agriculture – they were a transitional measure for the effects of tariffication and the need has passed some time ago;
- the use of price based safeguards in trade agreements should be discontinued – there are conceptual and practical difficulties that make them unsuitable as an indicator of adjustment pressures on import competing industries;
- a sunset clause must be imposed on the availability of safeguards in trade agreements – they should not continue beyond the implementation period for market access improvements;
- safeguards must not be allowed to operate on a regular basis to ensure they do not become a new layer of trade barriers – safeguards should be automatically eliminated if actions are taken twice in a rolling 5 year period;
- thresholds for triggering quantity based safeguards must be set at levels consistent with the concept of short term assistance for exceptional circumstances in domestic industry adjustment pressures – trigger levels should be based on an import growth factor of 50-100% depending on the market share held by imports;
- trigger level calculations for quantity based safeguards must have conditions to remove data distortions that artificially restrict the access level – formulas should be suspended for a 50% import growth factor if issues such as zero or limited imports and falls in consumption distort the formula calculations.

# Appendix A: Imports with SSG status in selected developing economies

## 21. Imports with SSG status in the South-East Asian economies #

	Tariff Line	Thailand	Philippines	Malaysia	Indonesia
<b>Meat products</b>					
Beef	201.10 to 201.30; 202.10 to 202.30	..	yes	..	..
Pig meat	203.11 to 203.19; 203.21 to 203.29	..	yes	yes	..
Cured pig meat	210.11	..	yes	yes	..
Sheep meat	204.21 to 204.23; 204.41 to 204.43	..	yes	..	..
Chicken meat	207.10; 207.39; 207.21; 207.41	..	yes	yes	..
<b>Dairy products</b>					
Fluid milk products *	401.10 to 410.30; 402.99	yes	..	yes	..
SMP	402.10	yes	..	..	yes
WMP	402.21 to 402.91	yes	..	..	yes
BMP	403.10; 403.9	..	..	..	..
Whey powder	404.10	..	..	..	..
Butter **	405.00.10; 405.00.90	..	..	..	yes ***
Cheddar cheese	406.90	..	..	..	..
Other cheeses	406.10 to 406.40	..	..	..	..
<b>Cereal products</b>					
Wheat	1001	..	yes ^	..	..
Barley	1003	..	yes	..	..
Maize	1005	yes	yes	..	..
Rice	1006	yes	ST Annex 5 ^^	..	..
Wheat flour	1101	..	..	yes	..
Barley flour	1102.90	..	..	..	..
Maize flour	1102.20	..	..	..	..
Rice flour	1102.30	..	..	..	..
<b>Other products</b>					
Sugar	1701.11; 1701.12	yes	yes	..	..
Cotton	5201	..	..	..	..
Wool	5101	..	..	..	..
Soya beans	1201	yes	..	..	..
Canola	1205	..	..	..	..
Soya bean meal	1208.10	..	..	..	..
Canola meal	1208.90	..	..	..	..
Soya bean oil	1507	yes	..	..	..
Canola oil	1514	..	..	..	..

# Review of major product categories - other products may have SSG status.  
Singapore has no SSGs on imports of these products.

Source: USDA 2007i.

\* Includes fluid milk, cream & condensed milk - SSG for Thailand and Malaysia does not apply to condensed milk.

\*\* Includes butter oil products with > 85% fat (ie ghee, AMF).

\*\*\* Applies only to butter (405.00.1) - does not apply to butter oil products (405.00.90).

^ SSG applies to feed wheat.

^^ Special Treatment clause (Annex 5 of the AoA) allowed maintenance of non-tariff border measures under certain conditions.

## 22. Imports with SSG status in the North Asian economies #

	Tariff Line	Sth Korea	China	Taiwan	India
<b>Meat products</b>					
Beef	201.10 to 201.30; 202.10 to 202.30	..	..	..	..
Pig meat	203.11 to 203.19; 203.21 to 203.29	..	..	yes	..
Cured pig meat	210.11	..	..	..	..
Sheep meat	204.21 to 204.23; 204.41 to 204.43	..	..	..	..
Chicken meat	207.10; 207.39; 207.21; 207.41	..	..	yes	..
<b>Dairy products</b>					
Fluid milk products *	401.10 to 410.30; 402.99	..	..	yes	..
SMP	402.10	..	..	..	..
WMP	402.21 to 402.91	..	..	..	..
BMP	403.10; 403.9	..	..	..	..
Whey powder	404.10	..	..	..	..
Butter **	405.00.10; 405.00.90	..	..	..	..
Cheddar cheese	406.90	..	..	..	..
Other cheeses	406.10 to 406.40	..	..	..	..
<b>Cereal products</b>					
Wheat	1001	..	yes	..	..
Barley	1003	yes	yes	..	..
Maize	1005	yes	yes	..	..
Rice	1006	ST Annex 5 **	yes	yes	..
Wheat flour	1101	..	..	..	..
Barley flour	1102.90	yes	..	..	..
Maize flour	1102.20	..	..	..	..
Rice flour	1102.30	ST Annex 5 **	..	..	..
<b>Other products</b>					
Sugar	1701.11; 1701.12	..	..	yes	..
Cotton	5201	..	yes	..	..
Wool	5101	..	yes	..	..
Soya beans	1201	yes	yes	..	..
Canola	1205	..	..	..	..
Soya bean meal	1208.10	..	..	..	..
Canola meal	1208.90	..	..	..	..
Soya bean oil	1507	..	yes	..	..
Canola oil	1514	..	..	..	..

# Review of major product categories - other products may have SSG status.

Source: USDA 2007i.

\* Includes fluid milk, cream & condensed milk.

\*\* Includes butter oil products with > 85% fat (ie ghee, AMF).

\*\* Special Treatment clause (Annex 5 of the AoA) allowed maintenance of non-tariff border measures under certain conditions.

## 23. Imports with SSG status in other selected economies #

Tariff Line	Mexico	Venezuela	Colombia	Sth Africa	
<b>Meat products</b>					
Beef	201.10 to 201.30; 202.10 to 202.30	..	..	yes	yes
Pig meat	203.11 to 203.19; 203.21 to 203.29	yes	yes	yes	yes
Cured pig meat	210.11	yes	yes	yes	..
Sheep meat	204.21 to 204.23; 204.41 to 204.43	yes	..	..	yes
Chicken meat	207.10; 207.39; 207.21; 207.41	yes	yes	yes	yes
<b>Dairy products</b>					
Fluid milk products *	401.10 to 410.30; 402.99	yes	yes	yes	yes
SMP	402.10	yes	yes	yes	yes
WMP	402.21 to 402.91	yes	yes	yes	yes
BMP	403.10; 403.9	yes	yes	..	yes
Whey powder	404.10	yes	yes	yes	yes
Butter **	405.00.10; 405.00.90	yes	yes	yes	yes
Cheddar cheese	406.90	yes	yes	yes	yes
Other cheeses	406.10 to 406.40	yes	yes	yes	yes
<b>Cereal products</b>					
Wheat	1001	yes	yes	yes	yes
Barley	1003	yes	yes	yes	yes
Maize	1005	yes	yes	yes	yes
Rice	1006	yes	yes	yes	..
Wheat flour	1101	yes	yes	yes	yes
Barley flour	1102.90	yes	yes	yes	yes
Maize flour	1102.20	yes	yes	yes	yes
Rice flour	1102.30	yes	yes	yes	..
<b>Other products</b>					
Sugar	1701.11; 1701.12	yes	yes	yes	yes
Cotton	5201	..	..	yes	yes
Wool	5101	..	..	..	..
Soya beans	1201	..	yes	yes	yes
Canola	1205	yes	yes	yes	..
Soya bean meal	1208.10	..	yes	yes	yes
Canola meal	1208.90	..	yes	yes	yes
Soya bean oil	1507	..	yes	yes	yes
Canola oil	1514	yes	yes	yes	yes

# Review of major product categories - other products may have SSG status.

Source: USDA 2007i.

\* Includes fluid milk, cream & condensed milk.

\*\* Includes butter oil products with > 85% fat (ie ghee, AMF).

## Appendix B: Use of SSGs by selected countries

WTO notifications on the use of SSGs were reviewed for a range of countries during the period since the AoA was implemented. The review period varied according to the availability of notifications. For recent years some countries have not provided notifications to the WTO. For example, the most recent notification available for the US and EU was 2002 at the time the study was completed. Notifications for China and Taiwan began in 2002 after they joined the WTO.

SSGs activated by the US, EU and Japan on imports of the major agricultural products were noted in chapter 2. Canada did not activate any SSGs during the 1996-2006 period. For the other countries that were reviewed most did not use the safeguard provisions that were available on imports of the major products. A listing of products with SSG status in these countries is provided in appendix A.

The following countries did not activate any SSGs:

- Thailand over the 1995-2005 period;
- Malaysia over the 1995-2004 period;
- Indonesia over the 1995-2000 period;
- China over the 2002-2006 period;
- Mexico over the 1995-2005 period;
- Venezuela over the 1995-2004 period;
- Colombia over the 1995-2004 period; and
- South Africa over the 1995-2004 period.

The exceptions were the Philippines, South Korea and Taiwan. SSGs that were activated by these countries are summarised in the following tables.

### 24. SSGs activated by the Philippines for major products #

<i>Year ended December</i>	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Price based SSG actions</b>										
<i>Chicken meat</i>								✓		✓
<i>Other meat products *</i>					No price based SSGs were triggered.					
<i>Cereal products **</i>					No price based SSGs were triggered.					
<i>Sugar</i>					No price based SSGs were triggered.					
<b>Quantity based SSG actions</b>										
<i>Meat products ***</i>								✓		
<i>Cereal products</i>					No quantity based SSGs were triggered.					
<i>Sugar</i>					No quantity based SSGs were triggered.					

# Actions triggered for major product categories with SSG status (see table 21 in appendix A).

Source: WTO 2005.

\* Includes beef, pig meat, cured pig meat & sheep meat.

\*\* Includes wheat, barley & maize.

\*\*\* A quantity based SSG was invoked for preserved chicken meat in 2002.

## 25. SSGs activated by South Korea for major products #

Year ended December	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Price based SSG actions</b>										
Cereal products *										No price based SSGs were triggered.
Soya beans						✓	✓	✓	✓	✓
<b>Quantity based SSG actions</b>										
Cereal products										No quantity based SSGs were triggered.
Soya beans										No quantity based SSGs were triggered.

# Actions triggered for major product categories with SSG status (see table 22 in appendix A).

Source: WTO 2007c.

\* Includes barley, maize & barley flour.

## 26. SSGs activated by Taiwan for major products #

Year ended December	2002	2003	2004	2005	2006
<b>Price based SSG actions</b>					
Fluid milk products *	✓		✓	✓	✓
Chicken meat	✓	✓	✓	✓	✓
Pig meat				✓	✓
Rice			✓		✓
Sugar	✓		✓		
<b>Quantity based SSG actions</b>					
Fluid milk products *		✓	✓	✓	✓
Chicken meat	✓	✓	✓	✓	✓
Pig meat					No quantity based SSGs were triggered.
Rice		✓	✓		
Sugar		✓	✓		

# Actions triggered for major product categories with SSG status (see table 22 in appendix A).

Source: WTO 2007b.

WTO Notifications on SSGs commenced in 2002 after Taiwan joined the WTO.

\* Includes fluid milk, cream & condensed milk.

# Appendix C: Trigger level calculations for activated quantity based SSGs

## 27. Trigger levels for Japan's quantity based SSGs #

<i>Product and year of SSG action</i>	<i>Three year average of imports</i>			<i>Growth factor</i>	<i>Trigger level</i>	<i>Application period</i>
	<i>year</i>	<i>tonnes</i>	<i>3 year av</i>			
Pigmeat, live, fresh & cured JFY 1996-97	1993	457 963				
	1994	494 800				
	1995	582 091	511 618	5%	537 199	3
Milk & cream, 1-6% fat JFY 1996-97	1993	0.0				
	1994	0.0				
	1995	0.0	0.0	25%	0.0	6
Milk & cream, 1-6% fat JFY 2001-02	2000	0.0				
	2001	0.0				
	2002	0.0	0.0	25%	0.0	4
Milk & cream, 1-6% fat JFY 2004-05	2001	1.5				
	2002	0.0				
	2003	0.0	0.5	25%	0.6	5
Milk & cream, 1-6% fat JFY 2005-06	2002	0.0				
	2003	0.0				
	2004	4.4	1.5	25%	1.9	9
Milk & cream, 1-6% fat JFY 2006-07	2003	0.0				
	2004	4.4				
	2005	37.8	14.1	25%	18.0	6
Milk & cream, >6% fat JFY 1996-97	1993	0.5				
	1994	0.0				
	1995	0.0	0.2	25%	0.2	6
Milk & cream, >6% fat JFY 1997-98	1994	0.0				
	1995	0.0				
	1996	3.8	1.3	25%	1.6	4
Milk & cream, >6% fat JFY 2001-02	1998	4.6				
	1999	2.2				
	2000	3.6	3.5	25%	4.3	5
Evaporated milk JFY 1996-97	1993	171.0				
	1994	157.0				
	1995	185.0	171.0	5%	179.6	4

Continued....

## 27. Trigger levels for Japan's quantity based SSGs (cont.) #

<i>Product and year of SSG action</i>	<i>Three year average of imports</i>			<i>Growth factor</i>	<i>Trigger level</i>	<i>Application period</i>
	<i>year</i>	<i>tonnes</i>	<i>3 year av</i>			
Condensed milk JFY 1997-98	1994	0.0				
	1995	3.2				
	1996	10.9	4.7	5%	4.9	4
Condensed milk JFY 1998-99	1995	3.2				
	1996	10.9				
	1997	12.3	8.8	5%	9.2	10
Condensed milk JFY 1999-00	1996	10.9				
	1997	12.3				
	1998	43.9	22.4	5%	23.5	10
Yogurt JFY 2005-06	2002	0.0				
	2003	0.0				
	2004	0.0	0.0	25%	0.0	2
Yogurt JFY 2006-07	2003	0.0				
	2004	0.0				
	2005	0.4	0.1	25%	0.2	5
Butter milk powder JFY 1996-97	1993	0.5				
	1994	0.0				
	1995	0.0	0.2	25%	0.2	5
Butter milk powder JFY 2000-01	1997	14.9				
	1998	4.1				
	1999	10.0	9.7	25%	12.1	3
Butter milk powder JFY 2001-02	1998	4.1				
	1999	10.0				
	2000	21.6	11.9	25%	15.0	2
Butter JFY 2003-04	2000	17.8				
	2001	3.6				
	2002	4.3	8.5	25%	10.7	3

# Calculations for activated quantity based SSGs.

Source: WTO 2007d.

## 28. Trigger levels for US quantity based SSGs #

<b>Product and year of SSG action</b>	<b>Three year average of imports</b>			<b>Growth factor</b>	<b>Trigger level</b>	<b>Application period</b>
	<i>year</i>	<i>tonnes</i>	<i>3 year av</i>			
Sheep meat 1998	1995	2 826				
	1996	9 787				
	1997	9 792	7 468	25%	9 335	4.5
American cheese 2002	1999	12 637				
	2000	8 503				
	2001	18 528	13 223	25%	16 528	1

# Calculations for activated quantity based SSGs.

Source: WTO 2004.

## 29. Trigger levels for Taiwan's quantity based SSGs #

<i>Product and year of SSG action</i>	<i>Three year average of imports</i>			<i>Growth factor</i>	<i>Trigger level</i>	<i>Application period</i>
	<i>year</i>	<i>tonnes</i>	<i>3 year av</i>			
Chicken legs & wings 2002	1998	8 054				
	1999	14 128				
	2000	12 279	11 487	25%	14 080	6
Chicken legs & wings 2003	2001	14 128				
	2002	12 278				
	2003	9 287	11 898	5%	12 493	9.5
Chicken legs & wings 2004	2000	12 278				
	2001	9 398				
	2002	17 883	13 186	25%	16 483	8.5
Chicken legs & wings 2005	2001	9 398				
	2002	17 883				
	2003	20 218	15 833	25%	19 791	9.5
Chicken legs & wings 2006	2002	17 883				
	2003	20 218				
	2004	43 394	27 165	25%	33 956	9.5
Other chicken cuts 2005	2001	9 398				
	2002	1 813				
	2003	2 801	4 671	5%	4 904	2
Other chicken cuts 2006	2002	1 813				
	2003	2 801				
	2004	2 207	2 274	25%	2 842	4.5
Fresh milk 2004	2000	0				
	2001	0				
	2002	1 707	569	25%	711	9
Fresh milk 2006	2002	1 707				
	2003	2 741				
	2004	3 547	2 665	5%	2 798	0.5
Other liquid milk 2004	2000	0				
	2001	0				
	2002	1 697	566	25%	707	9
Other liquid milk 2006	2002	1 697				
	2003	2 652				
	2004	3 261	2 537	5%	2 664	3.5
Sugar 2003	2001	253 322				
	2002	368 684				
	2003	391 220	337 742	5%	354 629	4
Sugar 2004	2000	368 686				
	2001	391 221				
	2002	369 918	376 608	5%	395 439	9
Rice 2004	2000	6 934				
	2001	5 983				
	2002	108 609	40 509	25%	50 636	8.5

# Calculations for activated quantity based SSGs.

Source: WTO 2007b.

# Appendix D: Simulating the effects of Japan's beef safeguard

ABARE's beef model is a dynamic partial equilibrium representation of world trade. It was developed to assess the impact of market access liberalisation on global beef trade and prices. The model is based on the beef component of the OECD's AGLINK model. It has been enhanced to capture the differentiated nature of world trade in beef. It incorporates tariff and tariff quota arrangements for all countries that import beef. Modifications were made to the beef supply representation for Japan to incorporate the domestic policy instruments which influence beef production.

The country and regional representations account for more than 90% of world beef production, consumption and trade (table 30). There are individual representations for 22 countries or regions with bilateral trade flows linking each of the countries and regions. For the 13 largest beef trading countries, the model has annual determinations of production, consumption, trade and market clearing price formation. The representation of trade for these countries can include both import and export demands. The other nine countries have small domestic beef industries and are only represented by import demand equations.

The model predominantly uses OECD's AGLINK supply representation and elasticities for all the major beef trading countries and regions. Supply representations capture the dynamic behaviour of beef production that is a consequence of the long lag time it takes to produce calves and grow them out for slaughter. As a result, in response to a change in the price, the change in beef production is small initially and becomes larger after a number of years as the herd expands and slaughtering increases.

The representation of Japanese beef supply has been significantly enhanced with the inclusion of separate representations for Wagyu and the dairy and cross-bred beef production systems. It also incorporates feeder calf deficiency payments for beef producers. The incorporation of calf deficiency payments is important to accurately represent the domestic support policies and to capture the impact of tariff policy changes on the domestic Japanese beef industry.

The model captures the differentiated nature of the global beef trade. It reflects differences in the quality of beef demanded by consumers in various markets. It also reflects the constraints imposed on beef trade by the sanitary requirements of importing countries and the disease status of exporters. The model utilises a simple structure to incorporate some of these features. Different types of imported or traded beef are identified according to their origin of production. In the present model there are five different sources for imported beef:

- Australia and New Zealand (ANZ);
- the United States, Canada and Mexico (NAFTA);
- Brazil, Argentina, Uruguay and Paraguay (Mercosur);
- the European Union; and
- India.

While the beef originating from each region or country is assumed to be different, the beef exported by individual countries within each of the ANZ, NAFTA and Mercosur groupings, is effectively homogeneous from an importing country's perspective. Import flows are determined simultaneously within a system of demand equations which includes the demand for domestically produced beef and beef imported from any or all five of the different sources:

- it is assumed domestic and imported beef from the different sources are gross substitutes.

### 30. Country and policy coverage of ABARE's beef model

	<i>Production</i>	<i>Consumption</i>	<i>Imports</i>	<i>Exports</i>	<i>Price</i>	<i>Tariff-quotas</i>
<i>Argentina</i>	✓	✓		✓	✓	
<i>Brazil</i>	✓	✓		✓		
<i>Uruguay</i>	✓	✓		✓		
<i>Australia</i>	✓	✓		✓	✓	
<i>New Zealand</i>	✓	✓		✓		
<i>US</i>	✓	✓	✓	✓	✓	✓
<i>Canada</i>	✓	✓	✓	✓		✓
<i>Mexico</i>	✓	✓		✓		
<i>Japan</i>	✓	✓	✓		✓	
<i>Korea</i>	✓	✓	✓		✓	
<i>EU25</i>	✓	✓	✓		✓	✓
<i>Russia</i>	✓	✓	✓		✓	✓
<i>India</i>	✓	✓			✓	
<i>Taiwan</i>			✓			
<i>Singapore</i>			✓			
<i>Hong Kong</i>			✓			
<i>Malaysia</i>			✓			
<i>Philippines</i>			✓			
<i>Egypt</i>			✓			
<i>Israel</i>			✓			
<i>Saudi Arabia</i>			✓			
<i>Iran</i>			✓			
<i>Algeria</i>			✓			
<i>Rest of World</i>			✓			

Source: ABARE private communication 2008.

The model therefore has a stylised representation of bilateral trade in beef. Bilateral trade are sourced from the United Nations Comtrade database. For the regional trading blocs such as Mercusor and NAFTA, only the trade of the bloc with third countries is considered as bilateral trade. That is, intra-regional trade is treated as part of the beef use in the regional trading bloc.

The demand for beef in Japan is separated into two types of domestically produced beef – Waygu and the dairy and cross-bred beef – and beef imported from the different sources. However, there is a distinction in the demand for Australian and New Zealand beef which are represented separately rather than as the aggregate ANZ. Nearly half the beef imported by Japan from Australia is high quality grain-fed beef. So it is important to consider it as a different product from the predominantly grass fed product that is imported from New Zealand.

Data on bound tariff rates, applied tariff rates and quotas are sourced from the WTOs Integrated Data Base. The model utilises this information in the specification of beef import demand in the countries represented in the model. A clear distinction in import demand specifications is made between the markets protected by tariffs and those protected by tariff rate quotas (TQs).

In the beef markets that are protected by tariff quotas (ie the EU, the US, Canada and Russia) the volume of beef imported from each country or region is determined simultaneously by a set of conditional statements and the import demand equations.

For a given level of import demand, the volume of imports initially is calculated at both the within-quota tariff rate and the above-quota tariff rate. Then a number of conditional statements determine whether the final volume of imports is under quota, constrained to the quota or above the quota level of imports. The rigorous treatment of TQs is essential to enable accurate estimation of potential impacts from changes in market access conditions in world beef markets.

# Appendix E: Variability in world prices

## 31. World price changes for selected products #

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
<b>World WMP price, US\$/tonne</b>												
1997	17.5	-67.5	-50.0	-25.0	-37.5	-25.0	-62.5	12.5	37.5	62.5	62.5	-25.0
1998	-62.5	-25.0	-25.0	-25.0	25.0	12.5	37.5	12.5	-25.0	-12.5	-52.5	-10.0
1999	0.0	-37.5	-125.0	-100.0	-37.5	-12.5	-25.0	37.5	87.5	62.5	-50.0	25.0
2000	12.5	37.5	-37.5	87.5	0.0	262.5	75.0	50.0	-25.0	87.5	0.0	25.0
2001	0.0	0.0	-75.0	-25.0	-12.5	25.0	0.0	0.0	-12.5	-100.0	-125.0	-175.0
2002	-37.5	-100.0	-75.0	-50.0	-50.0	0.0	-25.0	-25.0	0.0	175.0	25.0	187.5
2003	112.5	0.0	-25.0	-12.5	25.0	-75.0	-12.5	25.0	100.0	100.0	25.0	50.0
2004	-12.5	-25.0	0.0	37.5	62.5	137.5	25.0	25.0	0.0	100.0	62.5	37.5
2005	-87.5	-62.5	12.5	37.5	-37.5	50.0	12.5	25.0	-50.0	-25.0	-25.0	0.0
2006	-50.0	-12.5	12.5	12.5	0.0	-12.5						
<b>World butter price, US\$/tonne</b>												
1997	-75.0	-100.0	-12.5	-12.5	25.0	25.0	25.0	50.0	0.0	-12.5	-87.5	-87.5
1998	0.0	-37.5	-212.5	-87.5	-12.5	-37.5	-12.5	25.0	-25.0	37.5	0.0	0.0
1999	-25.0	-50.0	-12.5	-12.5	-75.0	25.0	50.0	112.5	12.5	12.5	0.0	-37.5
2000	-75.0	-37.5	-12.5	25.0	50.0	100.0	12.5	-12.5	0.0	-50.0	-50.0	-125.0
2001	-25.0	-75.0	-50.0	50.0	-50.0	75.0	37.5	-37.5	25.0	75.0	50.0	0.0
2002	0.0	25.0	0.0	-12.5	25.0	25.0	87.5	25.0	12.5	112.5	12.5	-25.0
2003	12.5	0.0	62.5	87.5	25.0	150.0	75.0	25.0	25.0	25.0	75.0	0.0
2004	-125.0	25.0	-50.0	-37.5	37.5	137.5	37.5	-12.5	-62.5	-50.0	-25.0	-87.5
2005	37.5	-25.0	-12.5	-12.5	-25.0	-50.0	-1825.0	0.0	0.0	0.0	0.0	0.0
2006	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>World maize price, US\$/tonne</b>												
1997	2.0	2.4	6.7	-3.1	-6.3	-5.9	-6.7	6.7	0.8	6.7	-2.8	-3.5
1998	0.4	-0.8	0.4	-7.1	-0.8	-2.0	-3.5	-12.2	-2.4	9.8	1.6	-2.0
1999	2.4	-3.1	2.0	-2.4	-1.6	0.4	-9.4	3.1	0.4	-1.6	0.0	1.6
2000	5.9	2.4	0.0	0.0	0.4	-11.8	-8.7	0.0	4.7	4.7	4.3	7.5
2001	-2.0	-2.0	-1.2	-3.9	-3.1	-9.1	15.4	2.4	-3.5	-3.1	3.5	2.8
2002	-0.4	-1.6	-0.8	-2.8	3.1	3.1	6.3	10.2	3.9	-3.9	-0.8	-2.4
2003	-0.8	0.0	-0.8	0.4	2.4	-0.8	-9.4	3.1	2.8	0.8	3.9	3.9
2004	3.9	6.7	5.9	4.7	-3.9	-6.3	-18.5	-0.8	-5.9	-4.7	0.8	1.6
2005	0.4	-1.6	5.5	-3.5	-1.2	2.8	7.9	-3.9	-4.7	4.3	-5.5	6.7
2006	0.0	4.3	-2.0	2.8	2.8	-1.2	4.7	0.8	5.1	30.3	13.8	-3.5

Continued...

### 31. World price changes for selected products (cont.) #

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
<b>World rice price, US\$/tonne</b>												
1997	36.8	-8.0	-17.8	-22.3	16.0	-0.2	-2.8	-36.0	-15.8	-5.4	-14.1	13.7
1998	24.9	7.8	-1.6	20.6	1.8	9.8	-0.8	-3.1	-1.4	-26.0	-28.3	4.0
1999	25.5	-20.5	-23.6	-21.9	10.8	9.4	-3.1	-5.9	-18.1	-11.5	12.6	3.9
2000	8.7	3.5	-16.9	-9.8	-14.2	-1.1	-11.0	-5.6	-8.7	7.9	-1.4	-1.3
2001	0.5	-0.5	-8.3	-11.7	1.9	4.8	0.5	-2.8	3.5	-3.3	4.9	5.0
2002	12.7	4.0	-3.5	-1.8	11.3	0.8	-2.6	-8.7	-4.9	0.2	0.9	-2.2
2003	15.3	-1.5	-3.3	-1.0	3.5	4.9	-3.7	-4.8	2.4	-1.2	-3.0	4.8
2004	17.0	0.0	24.0	3.0	-8.0	-5.0	2.0	8.0	-4.0	20.0	6.0	17.0
2005	11.0	2.0	2.0	4.0	-2.0	-9.0	-9.0	7.0	2.0	1.0	-9.0	3.0
2006	12.0	9.0	1.0	1.0	5.0	5.0	2.0	-2.0	-1.0	-11.0	-13.0	-294.0
<b>World cotton price, US\$/tonne</b>												
1997	19.0	9.7	-4.2	-31.1	11.7	32.2	13.9	-7.5	-35.3	-43.4	-9.3	-54.2
1998	-80.2	-52.0	-6.0	-73.4	-10.4	76.1	28.7	-27.1	-43.4	-111.1	-101.2	-11.2
1999	-5.3	10.6	10.6	24.7	43.9	-25.8	-90.8	-78.9	-37.9	-41.9	-27.1	-41.7
2000	78.5	128.5	84.2	32.0	35.9	-21.4	-25.6	55.8	13.7	-14.3	69.9	40.3
2001	-37.7	-74.7	-133.4	-77.4	-32.6	-53.6	-39.2	-49.4	-48.1	-83.3	17.2	104.1
2002	11.9	-17.6	-12.8	-8.8	-35.3	75.4	73.2	59.7	-8.4	15.0	60.6	55.3
2003	36.6	44.8	52.2	-3.1	-70.1	22.5	25.8	13.4	83.6	187.6	84.7	-61.9
2004	45.6	-52.0	-37.7	-53.8	8.4	-118.8	-157.0	-80.7	68.8	-94.8	-72.8	-13.0
2005	64.2	13.2	96.3	9.3	-18.5	-43.2	9.7	-8.8	20.7	77.6	-38.8	-6.8
2006	53.4	39.0	-47.0	-30.4	-40.6	22.7	11.5	89.3	-33.5	-40.6	28.0	63.3
<b>World pig meat price, US\$/tonne</b>												
1997	-175.3	-66.1	-64.4	233.2	187.8	-207.2	137.8	-71.7	-159.0	-273.2	-301.8	-144.4
1998	543.2	-23.1	33.7	-45.2	620.2	-386.0	-145.9	-13.4	-191.1	52.9	-435.0	-163.4
1999	734.8	-297.0	-195.8	350.1	178.4	-216.5	178.6	128.5	-144.6	-132.5	-95.7	174.8
2000	-72.3	250.7	-13.2	384.0	-266.8	378.1	-17.6	-248.7	-27.1	15.0	-346.3	231.3
2001	-85.5	77.6	313.3	-232.6	280.9	35.5	-130.5	-114.4	-110.5	-165.8	-238.5	13.9
2002	186.3	-26.9	-124.6	-131.2	167.1	68.1	84.7	-237.9	-235.5	129.4	-230.2	229.9
2003	-26.5	86.4	-73.2	98.5	265.2	387.6	-529.3	51.8	144.0	-301.4	-190.7	102.7
2004	402.6	117.3	-160.9	120.8	554.9	-228.2	-197.1	-97.7	50.5	-203.3	-156.1	145.1
2005	145.1	-27.6	23.1	-18.7	406.1	-393.1	-13.0	105.6	-187.6	-166.0	-155.6	97.0
2006	-134.9	26.7	112.4	131.0	121.7	261.0	-213.0	-123.5	-215.4	-6.8	-159.8	201.3
<b>World chicken meat price, US\$/tonne</b>												
1997	2.9	-81.4	-22.0	37.5	125.7	84.0	-20.7	-11.2	-1.3	-30.2	38.1	-19.2
1998	-33.3	-54.2	-24.7	30.0	-27.3	11.5	88.0	4.6	-74.7	-98.5	-17.0	-52.2
1999	53.1	38.4	37.5	15.9	27.8	92.2	94.1	79.4	-35.3	-54.9	-86.2	-81.1
2000	-24.7	-24.3	-31.7	-37.7	108.9	6.8	-19.2	-39.9	-11.0	-50.3	102.5	-24.3
2001	-65.9	-35.1	14.1	20.1	7.1	6.6	13.2	-25.1	63.5	-24.9	22.0	-21.8
2002	-7.9	13.2	32.6	-10.8	20.7	10.6	12.1	10.4	22.7	-38.8	-28.2	-64.2
2003	19.4	-20.9	-16.3	-37.5	65.0	44.5	-26.2	-33.7	3.5	-64.2	9.9	29.1
2004	126.1	0.7	-10.4	-49.4	36.6	46.7	27.3	8.8	19.4	-10.8	19.0	27.8
2005	65.0	138.9	21.6	10.1	69.2	54.2	-9.0	-135.6	-118.4	-28.2	-15.7	-1.5
2006	74.7	0.0	30.9	8.8	-15.4	-6.6	6.6	-22.0	22.0	-77.2	-44.1	-66.1

# World price indicators are defined below.

Sources: USDA 2007a, b, d, f, g & h, 2006a & b.

The definitions of price series used as indicators of world price variability are as follows:

- sugar, contract No. 11 FOB export price for bulk sugar, stowed Caribbean port, includes freight to Far East;
- SMP, Average of high and low FOB price, Nth Europe;
- WMP, Average of high and low FOB price, Nth Europe;
- cheddar cheese, Average of high and low FOB price, Nth Europe;
- butter, Average of high and low FOB price, Nth Europe;
- wheat, US Gulf ports FOB price, No. 2 soft red winter wheat;
- maize, US Gulf ports FOB price, No. 2 yellow corn;
- rice, export price of Thai milled white rice, 100% B Grade, FOB Bangkok;
- cotton, A' Index price of US SM 1 and 3/32" staple cotton, CIF Nth Europe;
- beef, Australian export price of 90% cl frozen boneless beef to the United States;
- pig meat, US wholesale price of pork loins 14-18lbs, US central Markets;
- chicken meat, US wholesale price of broilers, 12 City composite price, rtc weight.

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# Special Safeguards and Agricultural Trade Liberalisation

by David Harris & Associates  
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In the Uruguay round of multilateral trade negotiations provision was made for the introduction of special safeguards (SSGs) on imported products that were subjected to the tariffication process. The safeguards are designed to add extra import duties to the existing ordinary customs duties if a specified trigger level is breached. The aim of the measures was address concerns of importing countries about the potential for major disruptions to their domestic market from a surge in imports.

The WTO special safeguards are an import restriction. Market access for a range of products in the major developed economies is potentially subject to SSGs. There are two types of safeguards based on price and quantity based formulas. In some cases SSGs have been invoked on a regular basis. There are concerns about the measures operating as an additional layer of permanent import protection that is not consistent with the notion of a safeguard.

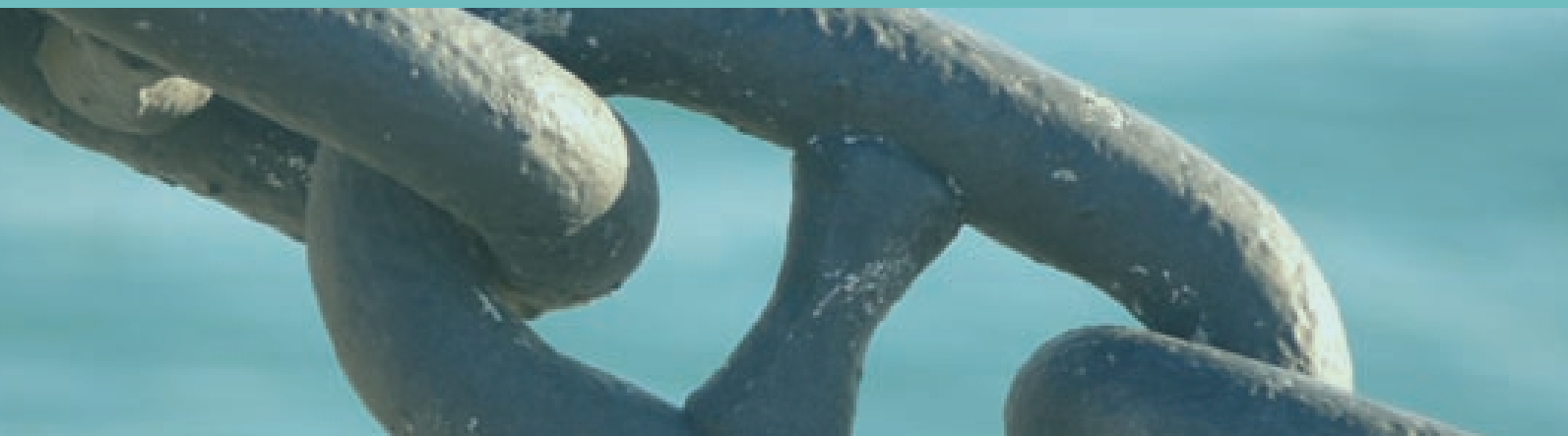
The current Doha round of trade negotiations has some prospects for an improvement in market access conditions through reduced tariff rates. If this is achieved there is the potential for a greater incidence of SSG actions if the existing provisions are retained. The trade disruptions could stifle opportunities for longer term trade growth from negotiated improvements in market access conditions.

This study was undertaken to evaluate the design and operational effects of the WTO safeguard provisions. It considers the role of SSGs as a transitional measure for market access reforms like tariffication. The study should be a useful contribution to the design of *Special Safeguard Mechanisms* (SSMs) for developing countries in the Doha trade negotiations and the possible use of safeguards in free trade agreements.

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