

EU Trade Defense Measures

- 1. Why is so important for the EU to possess Trade Defense Instruments (TDI) even in the present time of trade liberalization?**
- 2. Which kinds of TDI does the EU use?**
 - A. GATT safeguard measure**
 - B. Special measure on imports from some non-GATT countries**
 - C. Anti-dumping measure**
 - D. Anti-subsidy measure**
 - E. Measure against unfair practices of non EU-countries hindering EU exports**

1. Why is it so important to have Trade Defense Instruments?

Import duties are losing their importance. **60% of EU imports of non-agricultural products are duty-free.** Weighted average tariff for non-ag. products imported in the EU is only **2.3%**

Part A 1		Tariffs and imports: Summary and duty ranges								
Summary		Total	Ag	Non-Ag	WTO member since					1995
Simple average final bound		5,0	12,5	3,9	Binding coverage:				Total	100
Simple average MFN applied	2014	5,3	12,2	4,2					Non-Ag	100
Trade weighted average	2013	3,6	22,3	2,3	Ag: Tariff quotas (in %)					11.3
Imports in billion US\$	2013	1 996,5	128,7	1 867,8	Ag: Special safeguards (in %)					23.9
Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV in %
Tariff lines and import values (in %)										
Agricultural products										
Final bound		32.3	10.2	16.3	12.7	11.7	9.7	3.7	0.6	32.0
MFN applied	2014	31.7	10.1	17.5	13.5	11.4	8.7	3.4	0.8	31.2
Imports	2013	46.1	11.9	13.3	7.3	7.3	3.1	4.9	6.0	24.6
Non-agricultural products										
Final bound		28.4	37.1	26.6	6.9	0.9	0.0	0	0	0.6
MFN applied	2014	26.5	37.5	27.1	7.3	1.5	0.1	0	0	0.6
Imports	2013	60.7	22.1	10.6	5.5	1.0	0.0	0	0	0.5

But there are a number of possible dangers due to unfair international competition:

❖ **International Dumping**

Brussels, 12 February 2016, The EU now has 37 trade defense measures in place on imports of steel products, while nine investigations are still ongoing.

❖ **Export Subsidies**

The European Union imposed anti-subsidy measures on imports of solar cells and solar panels from China on 5 December 2013, for a period of two years.

❖ **Non-Tariff Barriers to Trade**

WT/DS114 case - Patent protection of pharmaceutical products. Complaint by the EU, against Canada.

Canada allows for start of commercial manufacture of patented medicines 6 months before the expiry of the patent and the manufacturing of the product for the purpose of securing the approval of generic medicines ("regulatory exception"). This violates the interests of European pharmaceutical companies, exporting drugs to Canada.

❖ **International Cartels (for example OPEC), etc.**

Therefore EU companies need to be defended !

2. Which are the EU TDI?

A. GATT safeguard measure

Article XIX of the General Agreement on Tariffs and Trade (GATT 1994) allows GATT members to take a “safeguard” action to protect a specific domestic industry from an unforeseen increase of imports of any product which is causing, or which is likely to cause, serious injury to the local industry.

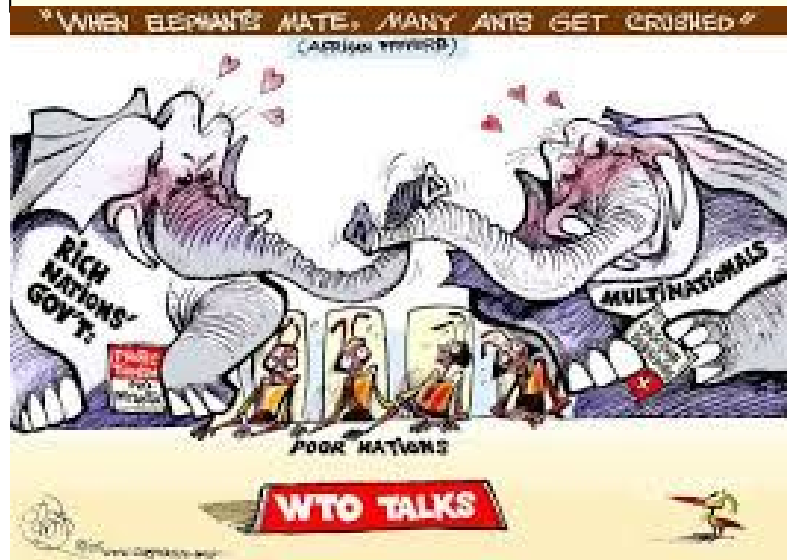
COUNCIL REGULATION (EC) No 260/2009

of 26 February 2009

on the common rules for imports

✓ Safeguard measures under GATT have to follow certain rules:

- Before introducing any restriction an investigation should be carried out.
- The restriction should be applied irrespective of source of imports (supplying country).
- Generally, the duration of a measure should not exceed four years .
- Where quantitative restrictions are imposed (quotas), they should not reduce the quantities of imports below the annual average for the last three representative years.
- **Safeguard measures would not be applicable to a product from a developing country, if the share of the developing country in the imports of the product concerned does not exceed 3 per cent.**



Initiative for the start of an investigation has to come from some Member State. In that, this measure differs from all other trade defense measures which are usually initiated by the interested companies or by the Commission itself. The investigation should be carried out by the European Commission and the restrictive measure has to be introduced by the EU Council.

The EU does not use the GATT safeguard measure because:

- **Initiation of investigation and implementation of sanctions are too slow.**
- **The procedure is not selective in nature and affects too many countries.**
- **In many cases it is necessary to give some compensations to the affected countries.**
- **There are often disputes about the meaning of the definition “serious injury to the local industry”.**
- **It is not appropriate for a developed economy as the EU to apply a measure designed primarily for emerging economies.**

B. Special measure on imports from some non-GATT countries

COUNCIL REGULATION (EC) No 625/2009

of 7 July 2009

on common rules for imports from certain third countries

Armenia
Azerbaijan
Belarus
Kazakhstan
North Korea
Russia
Tajikistan
Turkmenistan
Uzbekistan
Vietnam

(China)

In the Cold War years these countries were called "State-trading countries". EEC has introduced quantitative restrictions (quotas) on the imports of various goods from these countries, in particular on the imports of textiles, clothing, steel products, fertilizers, etc.

At that time the list included all member countries of CMEA and China. An exception was Cuba.

Today this special arrangement is explained by the increased risk of dumping of imports from those countries. Therefore the main EU defense instrument is the enhanced **surveillance** of the imports.

Procedure to initiate surveillance is, however, too complex

- The Commission shall be **informed by the Member States** if trends in imports appear to call for surveillance.
- Consultations may be held either at the request of a Member State or on the initiative of the Commission. **Consultations shall take place within an advisory committee**, made up of representatives of each Member State with a representative of the Commission as chairman.
- Where it is apparent to the Commission that there is sufficient evidence to justify an investigation, the **Commission shall initiate an investigation**.
- At the end of the investigation, the Commission shall submit a report on the results to the **advisory committee**.
- If the Commission considers that Community surveillance measure is necessary, it shall take the necessary decision.
- **Products under prior Community surveillance may be put into free circulation only with a surveillance document.**

C. Anti-dumping measure



Stages in the EU anti-dumping proceeding

❖ **Initiation of proceedings**

Requirements to start proceedings:

- Written complaint, representing at least 25% of EU industry
- Establishing a link between the dumped imports and EU industry injury
- Estimated dumping margin (M) greater than 2%

$$M = \frac{V_n - P_x}{P_x}$$

V_n = Normal value

P_x = Export price

- Dumped imports not less than 3% of the total EU imports of the same goods
- Dumped imports not less than 1% of domestic consumption of the same goods

COUNCIL REGULATION (EC) No 1225/2009

of 30 November 2009

on protection against dumped imports from countries not members of the European Community

Simultaneously with the beginning of the procedure a preliminary duty is imposed, which is equal to expected dumping margin. Duty is charged on a special account of the European Commission.

Preliminary antidumping duties are imposed by the Commission. Their effect is up to 15 months.

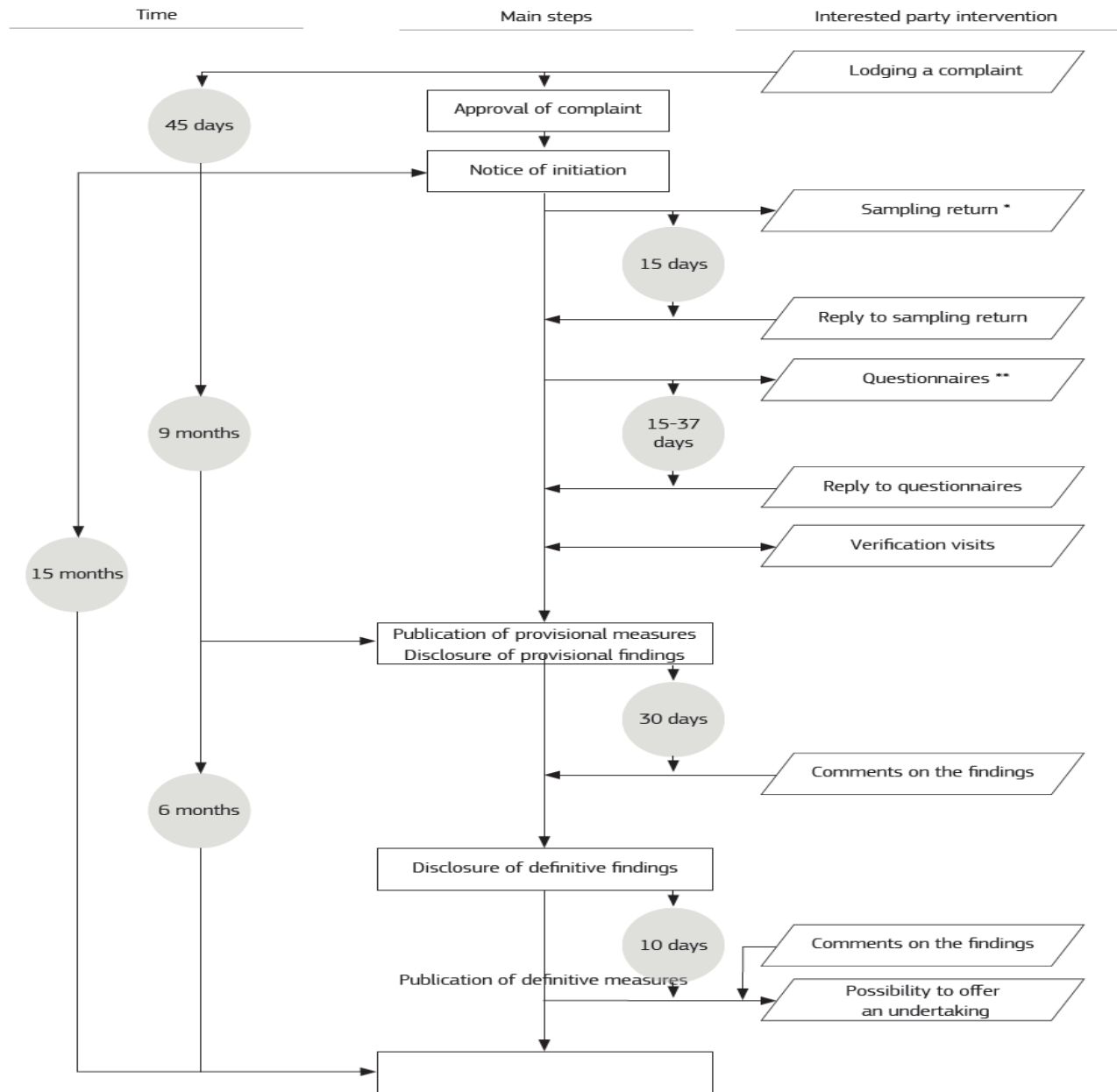
Definitive antidumping duties are imposed by the Council of the EU. Their effect is up to 5 years.

❖ Investigation

- **The investigation takes from 6 m to 15 m.**
- **Most important is determination of the normal value. Investigated companies cooperate and complete a special questionnaire. If not then the Commission determines the normal value by analogy. Usually this is not good for the investigated company.**

The main task of the investigation is to clarify if a **definitive anti-dumping duty is necessary.**

Anti-dumping Article 5 Investigation



❖ Investigation

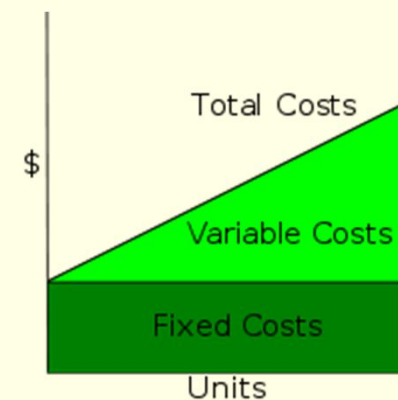
If the domestic price can not be used as a normal value, the normal value should be estimated by the staff of the European Commission using statistical data collected from similar enterprises. The formula is as follows:

$$V_n = C_v + \frac{C_f}{n} + P_n$$

where C_v are the variable costs per unit of output, C_f are the fixed costs for all units produced, n is the number of units produced, and P_n is the average profit per unit (normal profit).

Important: Most important fixed costs are:

Fixed costs often include costs for rent, buildings, machinery, but also R&D, advertisement, distribution channels, etc.



❖ Completion of investigation

This is done with the consent of the Advisory Committee comprising representatives of the Member States.

They are 5 possible outcomes:

- ✓ Voluntary undertaking by the exporter to revise its prices and to cease exports at dumped prices. This is the most used outcome, which obliges the exporter not to drop the export price under some limit!
- ✓ Imposition of definitive duty equivalent to preliminary duty;
- ✓ Imposition of definitive duty lower than preliminary duty (overpayment to be returned);
- ✓ Imposition of definitive duty higher than preliminary duty (the difference shall not be collected);
- ✓ Termination of proceedings without measures (almost never happens).

The maximum duration of definitive anti-dumping duty is 5 years. Decision must be taken by the EU Council. It is possible to appeal to the Court of Justice.

❖ Reviews and Reinvestigations

An interim review can be initiated by the European Commission if there is sufficient evidence that the continued imposition of the measure is no longer necessary. Such a review is possible **at least one year after the introduction of the definitive duty.**

D. Anti-subsidy measure

WTO Agreement on Subsidies and Countervailing Measures

COUNCIL REGULATION (EC) No 597/2009

of 11 June 2009

on protection against subsidised imports from countries not members of the European Community

A subsidy may take different forms:

- ❖ a direct or potential transfer of funds (grants, equity injections, guarantees);
- ❖ government revenues (which are otherwise due) foregone or not collected (e.g. tax credits);
- ❖ government provision of goods and services (other than general infrastructure);
- ❖ government purchase of goods without tender
- ❖ any of the above functions performed by a private body (e.g. a bank) on the instruction of the government.

A) PROHIBITED SUBSIDIES (WTO “Red basket”)

- Any subsidy aimed at increasing exports by reducing costs and increasing competitiveness of exports (so called Export subsidies)
- Any specific subsidy which is limited to certain enterprise or enterprises of an industry.

Country	ADM	ASM	Voluntary commitments
Argentina	1		
Armenia	1		
Belarus	1		
Bosnia and Herzegovina	1		1
Brasilia	1		1
Canada	1	1	
China	57	2	3
India		5	2
Indonesia	8		
Iran	1		
Laos	1		
Malaysia	6		
Moldova	1		
Morocco	1		
UAE		1	
Pakistan		1	
Philippine	2		
Russia	5		5
South Africa	1		
Shri Lanka	2		
Taiwan	4		
Thailand	6		
Turkey	1		
Ukraine	3		
USA	2	1	
Vietnam	1		

The table shows the EU definitive ADM and ASM in force and the Voluntary commitments in force on the 1.1.2015

ADM – Anti-dumping measures

ASM – Anti-subsidy measures

Voluntary commitment – obligation to keep a minimum export price, which is not less than the normal value.

http://trade.ec.europa.eu/doclib/docs/2014/december/tradoc_152994.pdf

E. Measure against unfair practices of non EU-countries hindering EU exports

- ❖ **The important difference between the above mentioned three defense measures (WTO safeguard, anti-dumping and anti-subsidiary) and this one is that the above mentioned measures are oriented on the regulation of the EU imports but this one is oriented on the support of EU exports. Nevertheless, all four measures are aimed at helping EU companies.**

Example: Provisions in the Patent Law of Taiwan have allowed a Taiwanese company to be granted a compulsory license for the production of recordable compact discs (CDRs), a technology developed by the European company Philips. In this case the European Commission should start WTO proceedings if Taiwan does not take concrete steps to amend its Patent Law and reverse the compulsory license decisions against Philips.

- ❖ **A country that restricts access to its internal market for goods from the EU has to bear sanctions, resulting in cancellation of tariff preferences or in introduction of additional customs duties or quantitative restrictions on imports of its goods in the EU.**
- ❖ **The negative economic impact of sanctions on the imports in the EU must equal the negative economic impact on the EU exports.**
- ❖ **After the establishment of WTO sanctions against third countries are introduced only after corresponding decision of the WTO Dispute Settlement Body (DSB)**

COUNCIL REGULATION (EC) No 3286/94

of 22 December 1994

laying down Community procedures in the field of the common commercial policy in order to ensure the exercise of the Community's rights under international trade rules, in particular those established under the auspices of the World Trade Organization

The EU is among the most active participants in the mechanism for solving trade disputes to the WTO. Since the establishment of WTO (1995) the EU has participated in about 175 cases stated in the WTO Dispute Settlement Body (DSB). In 66% of the cases the EU was complainant and in 45% defendant.

Examples:

- ✓ Case against Canada. The EU complains of discrimination in taxation because the domestic Canadian wines were excluded of paying excise duty on wine (hidden duty on the wine imports from the EU).
- ✓ Case against Indonesia for introducing the obligation in the assembly of cars to use a certain share of local components.

But most of the cases are about anti-dumping, anti-subsidy defense measures against the EU.



The EU is mainly a defendant in cases involving its CAP, its special relations with the ACP Countries and some specific measures to protect European consumers, leading to restrictions on imports.

Examples:

- ❑ **The Banana dispute** - Central American countries and the USA accused the EU of trade discrimination as banana imports from the ACP Countries are treated more favourably than banana imports from Central America. The EU has to abolish the special treatment concerning imports from the ACP countries.
- ❑ **The Growth Hormones dispute** – The USA accused the EU that it has banned imports into the USA of meat from animals (calves) which have received growth hormones. The EU was unsuccessful in the WTO arbitration.
- ❑ **The GMO dispute** – Same result as in Growth Hormones dispute. The EU abolished the prohibition of imports of products with GMO.