

Elaboration of Japan's Negotiating Proposal:
A new safeguard mechanism

(Proposal in December 2000 [G/AG/NG/W/91])

14. Regarding seasonal and perishable agricultural products, a new safeguard mechanism with special conditions should be introduced, in order to apply safeguard measures in a timely and effective manner in a case where a rapid increase of imports were to occur. This would also enhance transparency for administering safeguard measures.

1. Background

Seasonal and perishable agricultural products have difficulty in inventory adjustments, since they cannot be stored for a long period of time. They have to be put on the market immediately after harvest and shipping, and their sales cannot be delayed until the prices recover. In addition, since the peak of harvest and shipping of these products are relatively short, the high season for their sales is concentrated into a short period within a year. Unlike industrial goods, producers of agricultural products are more likely to suffer from severe financial damage within a short period of time, as these products are more susceptible to a sharp fall in prices caused by a rise in imports. This is due to their low price elasticity of demand.

The safeguard measure stipulated in the Agreement on Safeguards is meant to address serious injury to domestic industries incurred by a surge of imports. However, a Member may apply this measure only after the process of investigation and determination by the competent authorities on a number of points, including increase of imports and injury to domestic industry. As a consequence, it takes a certain period of time before a measure is actually applied.

Therefore, with regard to certain agricultural products whose surge of imports would severely damage producers within a short period of time, a new safeguard mechanism, different from those based on the current Agreement on Safeguards and the Special Safeguards, should be established, in order to address a sharp increase of imports in a prompt and effective manner.

2. How the mechanism works

The new safeguard mechanism will be applied automatically based on a pre-set trigger level for quantity and/or price of imports. It will not require a process of investigation and determination by the authority on increase of imports and injury to domestic production. The additional duties will be automatically imposed thereafter.

2.1 Products covered

The new safeguard mechanism will cover all unprocessed agricultural products, including frozen products intended to preserve their market as well as slightly processed products such as cut products. Dried products, however, will not be covered by this new safeguard.

2.2 Trigger levels and additional duties

The following three formulas may be considered as examples of possible mechanism of the new safeguard.

Type I: A model in response to import surge or price decrease (A mechanism similar to the current Special Safeguard (SSG))

Either of the following two may be invoked, but not concurrently:

- (i) A trigger level is set equal to the average import volume in the three preceding years multiplied by a coefficient based on the share of imports in domestic consumption. Additional duty (a certain percentage of the ordinary duty) is imposed where the accumulated volume of imports exceeds the trigger level, and maintained until the end of the year in which it has been imposed.
- (ii) Additional duty (based on the difference between the trigger standard price and the import price plus the ordinary duty) is imposed on the shipment whose import price plus the ordinary duty falls below a certain percentage (for example, 90 %) of the trigger standard price. This trigger standard price is equal to the average import price plus ordinary duty of certain preceding years.

Type II: A model in response to import surge and price decrease

Additional duty is imposed when both of the following two conditions are met:

- (i) Imports during any quarter of the year exceed the trigger level, which equals to

the average import volume during the same quarter of the three preceding years multiplied by a coefficient based on the share of imports in domestic consumption.

- (ii) The import price plus the ordinary duty falls below (X % of) the trigger standard price which equals to the average domestic market price during the preceding years.

Once requirement (i) is met, the additional duty may be imposed on the shipments which also meet requirement (ii). The duration of the measure would last a certain period of time (two years, for example). A longer period will be considered for developing countries.

The amount of additional duty is based on the difference between (X% of) the trigger standard price and the import price plus the ordinary duty.

Type III: A model in response to import surge

Additional duty is imposed when:

- The imports during any quarter of the year exceed the trigger level, which equals to the average import volume during the same quarter of the three preceding years multiplied by a coefficient based on the share of imports in domestic consumption.

The additional duty is imposed where the accumulated volume of imports exceeds the trigger level, and may be maintained for example two years. A longer period will be considered for developing countries.

The amount of additional duty is based on the ordinary duty. However, the “minimum additional duty” is applied when the “additional duty” falls below it.

3. Expected effect of the new safeguard mechanism

For products which are prone to the negative effects of import surge, the new safeguard mechanism will effectively mitigate such effects with prompt application, and without jeopardising the usual flow of trade. It will also enhance the development of smooth trade and consequently contribute to proper distribution of resources.

Since the trigger level will be defined as clear as that of the SSG, it will enhance the transparency of the safeguard measures and such clarity will prevent their abuse.

4. Difference between the new safeguard mechanism and the Special Safeguard (SSG)

The current Special Safeguard (SSG) and the proposed new safeguard should be treated as two independent mechanisms, since they have different background and objectives. The SSG aims to mitigate the drastic adverse effects of tariffication, whereas the new safeguard intends to mitigate the negative impact caused by the surge of imports of agricultural products with low price elasticity and not suited for long-term storage. The two mechanisms also differ regarding the products they encompass as well as the countries which may apply the measures. In addition, trigger levels as well as details of both safeguard measures are not necessarily identical for the two systems.

Likewise, the existing safeguard mechanism, under the Agreement on Safeguards, and the new safeguard should also be treated as two independent mechanisms, since the necessary conditions and the forms for applying safeguard measures differ.

Illustrative explanation of how the trigger levels and additional duties are determined

Type I

1. Volume based SG

(1) Trigger level

$$\text{Trigger level (Volume trigger)} = \left[\text{Average import volume in the 3 preceding years} \right] * \left[\text{A coefficient based on the share of imports in domestic consumption} \right] + \left[\text{Changes in domestic consumption} \right]$$



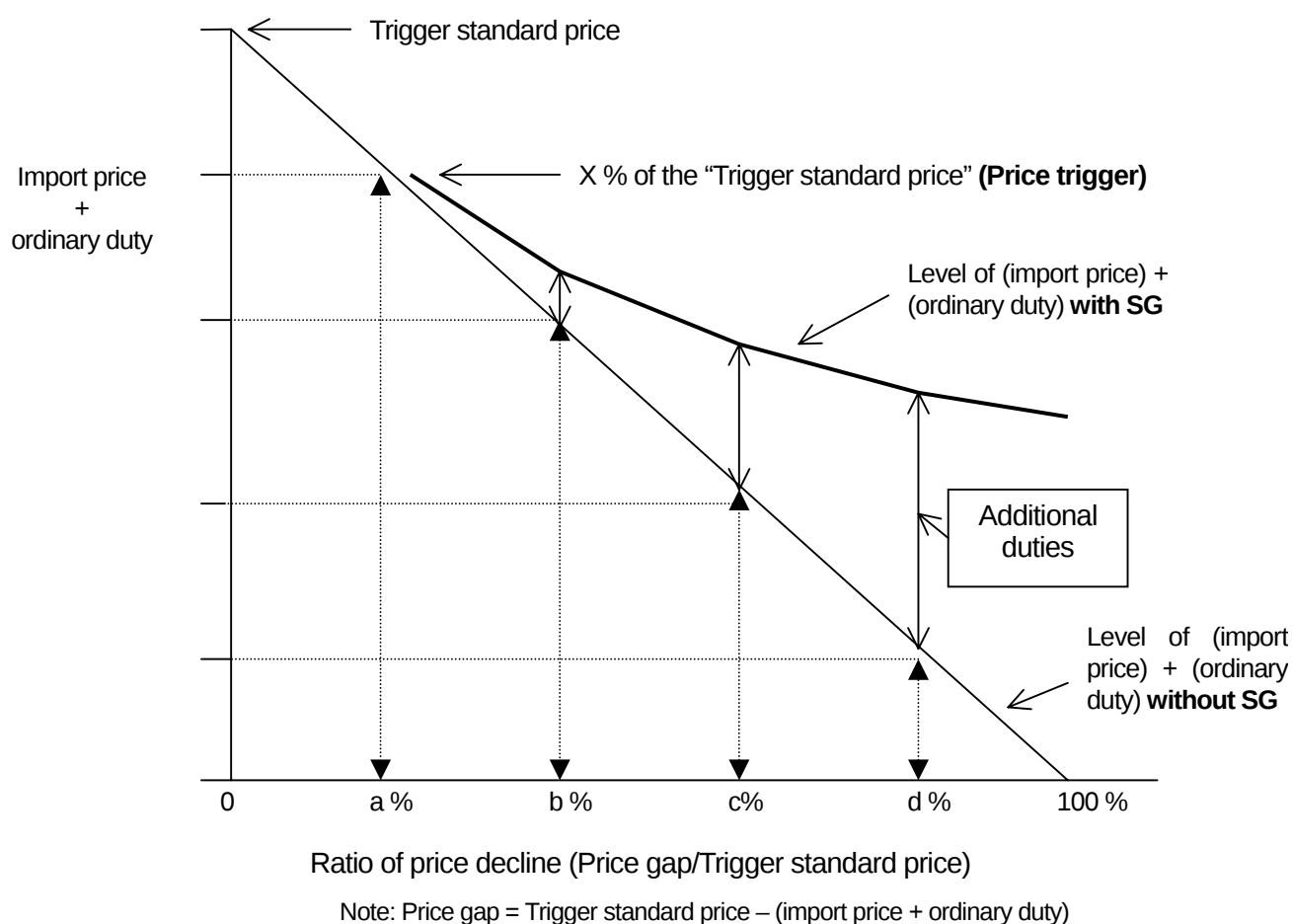
Share of imports (imports/domestic consumption)	Coefficient
less than A %	X %
more than A %, less than B %	Y %
more than B %	Z %

(2) Additional duties

$$\text{Additional duty} = (\text{ordinary duty}) * (\text{fixed percentage})$$

2. Price based SG

(1) Trigger level



Trigger standard price = Average of (import price + ordinary duty) during given preceding years

(2) Additional duties

$$\text{Additional duty} = \left\{ \text{Trigger standard price} - (\text{import price} + \text{ordinary duty}) \right\} * (\text{given coefficient})$$

Note: The "given coefficient" may increase as the "price gap" increases.

Note: The two mechanisms above, i.e. the volume based SG and the price based SG, are not invoked concurrently.

Type II

(1) Trigger level

Trigger level
(Volume trigger)

=

Average import volume
during given quarter of
the 3 preceding years

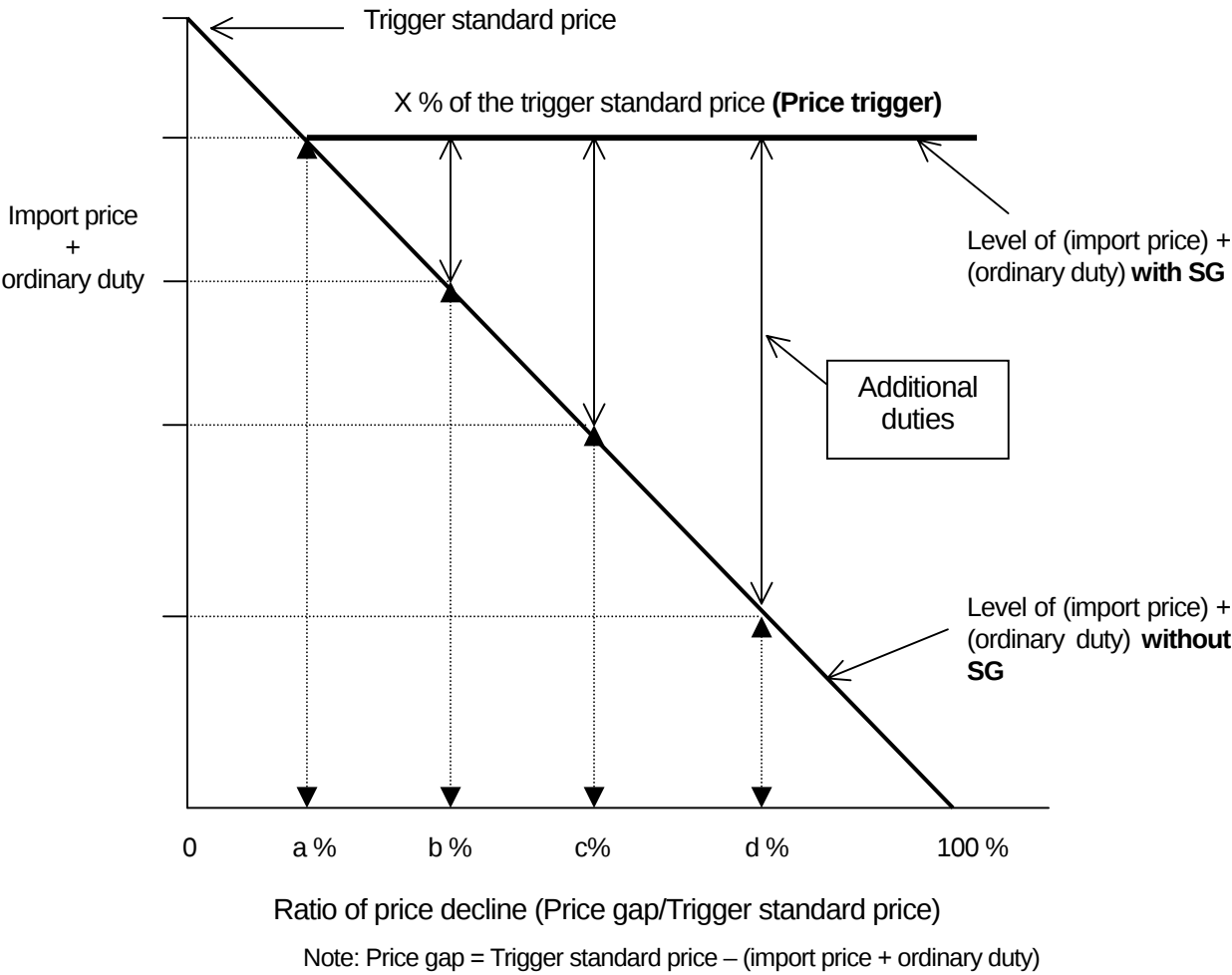
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A coefficient based on
the share of imports in
domestic consumption

+

Changes in
domestic
consumption

Share of imports (imports/domestic consumption)	Coefficient
less than A %	X %
more than A %, less than B %	Y %
more than B %	Z %



Trigger standard price = Average of domestic price during the given preceding years

(2) Additional duties

Additional duty = (X % of the trigger standard price) – (import price + ordinary duty)

Type III

(1) Trigger level

$$\text{Trigger level (Volume trigger)} = \left[\text{Average import volume during given quarter of the 3 preceding years} \right] * \left[\text{A coefficient based on the share of imports in domestic consumption} \right] + \left[\text{Changes in domestic consumption} \right]$$



Share of imports (imports/domestic consumption)	Coefficient
less than A %	X %
more than A %, less than B %	Y %
more than B %	Z %

(2) Additional duties

Additional duty = (ordinary duty) * (fixed percentage)

The “minimum additional duty” is applied when the “additional duty” falls below it.