

Special Safeguard Mechanism (SSM): The Cases of Agricultural Imports in India and China

The global economy is currently facing a rise in trade protectionism and many countries try to develop their economies by protecting fragile domestic industries against foreign competition through imposition of duties or tariff rate quotas. Safeguard mechanism is one of the three types of trade protection measures taken by World Trade Organization (WTO) members, alongside antidumping and countervailing measures. The safeguards are contingency restrictions on imports taken temporarily to deal with special circumstances such as a surge in imports. There are three types of the safeguards¹: (1) General Agreement on Tariffs and Trade (GATT) Article 19 and the Uruguay Round Safeguards Agreement; (2) Special (Agricultural) Safeguard: SSG; and (3) Special Safeguard Mechanism: SSM.

Table 1: Three types of safeguard

	GATT safeguard	Special Agricultural Safeguard (SSG)	Special Safeguard Mechanism (SSM) (details still being negotiated)
Which products?	All, including agricultural	Agricultural, if "tariffied"	Agricultural
Which countries?	All	Developed and developing, but only if "tariffied"	Only developing
Trigger	Import surge with price fall	Import surge or price fall	Import surge or price fall
Remedy	Quantity restriction, tariff increase	Tariff increase	Tariff increase
Constraint / condition	Show injury or threat of injury, negotiate compensation	Only products "tariffied" in Uruguay Round (where comfort needed for liberalization)	For import surge: • limit on % of products in a year • ceiling on tariff at or above pre- Doha rate • minimum surge for tariff exceeding pre-Doha rate?
Expiry of mechanism?	Permanent	Expires or reduced post- Doha	Different views

Source: http://www.wto.org/english/tratop e/agric e/guide agric safeg e.htm²

The first type of safeguard specified in the GATT Art.193 can be imposed on all products (including agricultural) and is meant to address serious injury to domestic industries incurred by import surges and price falls. However, there are several constraints preventing developing countries

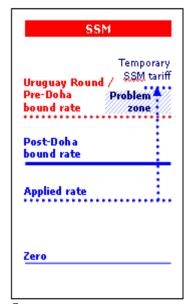
¹ Retrieved September 16, 2008, from http://www.wto.org/english/tratop_e/agric_e/guide_agric_safeg_e.htm

³ See more details of "Article XIX: Emergency Action on Imports of Particular Products". Retrieved September 15, 2008, from http://www.wto.org/english/docs_e/legal_e/gatt47_e.pdf, pg.36-37 or

WTO (1999). The Legal Texts: The Results of The Uruguay Round of Multilateral Trade Negotiations. pg.454-455.

from using this general safeguard mechanism⁴. Firstly, it requires substantial (institutional) resources to establish a case of serious injury. Secondly, the potential cost of compensation to avoid retaliation by affected parties may be prohibitive. Lastly, the use of general safeguards requires that they are implemented in the national legislation, and this is not the case in many developing countries. Due to the above limitations, a clause for SSG was established in the WTO Agreement on Agriculture.

Unlike the general Safeguard provision in GATT Art. 19, SSG does not require evidence of injury and the negotiation of compensation. SSG allows WTO members to impose additional tariffs on particularly agricultural products if their current import volume exceeds the specified trigger levels or if prices fall below the trigger level. In other words, the greater the import volume beyond the trigger level or the greater the decline in the import prices below the trigger level, the higher the tariff is. Noticeably, SSG can be used only on products that were "tariffied" and cannot be used on imports within tariff-quota volumes. However, most of developing countries have not undertaken "tariffication" under the Uruguay Agreement. Instead, they prefer to use "ceiling bindings", which are levels that are higher than the applied rates. This means that many developing countries are automatically not eligible to use the SSG provision, which has led to the introduction of Special Safeguard Mechanism (SSM) as an alternative. It is believed that SSM is simpler to implement than traditional safeguards or countervailing or anti-dumping duties.



Source: http://www.wto.org/english/trat op e/agric e/guide agric safe g e.htm SSM is an instrument to enable developing countries to increase their tariffs above the bound tariff rates commitments made in the Uruguay Round (or for new member like China, the tariffs can be raised beyond the levels committed to WTO at the accession) in the event of a fall in price of imported products or an increase in the volume of imports beyond certain levels. Since agriculture is considered as the backbone of almost all developing economies, the increase in tariffs is meant to protect the local agricultural sector not to be harmfully affected by lower import prices. However, by using SSM, the additional tariffs imposed by developing countries shall not go above the commitments which they have made in the 1986-94 Uruguay Round (the pre-Doha Round bound rates)⁵ as illustrated in the figure.

⁴ Agricultural Economics Research Institute (LEI) by Tongeren F. (2004). <u>Special safeguard for agricultural products: concerns and options for developing countries</u>. Retrieved September 16, 2008 from <u>www.lei.dlo.nl/wever/docs/WTO/SSG_general.pdf</u>

WTO Meeting Summary 30 JULY 2008. Retrieved September 15, 2008, from http://www.wto.org/english/news_e/news08_e/meet08_summary_30july_e.htm

Therefore, it is unquestionable that the issue of SSM in agriculture for developing countries has led to the collapse of the WTO mini-ministerial meeting in Geneva at the end of July, 2008. In addition to the failure of the negotiation, India and China - the two fastest growing and largest emerging economies - wanted SSM to take effect at a lower import surge level to protect the interests of millions of poor farmers in developing countries, while the US and the EU wanted SSM to begin at a higher rate so as not to hurt their agricultural exporters. As reported in NEWS TRACK India (2008)⁶, the US was willing to set the trigger level at a 40% jump in farm imports while India and China insisted on using SSM at a 10% increase. India and China have lowered their tariffs on industrial goods, in exchange for the tariff and subsidy cuts on farm products to be carried out by the US and the EU. Both India and China refused to permit developed nations to enter their agricultural markets due to concerns over food security and the livelihoods of their rural population.

The Case of India's Agricultural Imports

During negotiations, India was highly protective on agriculture because the agricultural sector is India's utmost vulnerable sector. According to the economic data for the financial year 2006-07, agriculture accounts for 18% of India's GDP, and about 43% of India's geographical area is used for agricultural activities. With over 650 million people as 65% of India's population depending on agriculture, there is a critical need for India to safeguard millions of small farmers. Therefore, India has refused attempts to weaken SSM regardless of immense pressure from developed countries, especially the US. Basically, India's interests lie in reducing heavy agricultural subsidy in developed countries, while increasing agricultural tariff to protect the livelihoods of its poor farmers whose lives depend on agricultural products like wheat and rice.

Table 2: India's Tariff Structure for selected products (2006)

Product	Avg Bound (%)	Avg Applied (%)
Animal products	105.0	33.0
Dairy	65.0	35.0
Fruit, vegetables	100.9	31.5
Coffee, tea	133.1	56.3
Cereals	119.4	37.3
Fats and oils	168.9	52.5
Sugar	124.7	48.4
Beverages	127.5	68.9
Cotton	110.0	17.0

Source: Monitoring Agri-trade Policy (MAP) No.03-07, December (2007), page 9

⁶Retrieved September 19, 2008, from http://www.newstrackindia.com/newsdetails/9190

It is said that India's bound and applied rates of agricultural tariffs are among the highest in the world (See Table 2). According to Das (2008)⁷, the Indian government has extensive flexibility to raise applied tariffs on most agriculture products, as there is a significant difference between the existing bound rates and applied tariffs. The government can even increase applied tariffs up to the ceiling binding if imports cause (or threaten to cause) market disruption. A case given is that the bound rate on some edible oils is 300%, but the applied customs duty is 100%. Thus, the government has the flexibility to increase customs duty on some edible oils. However, in case of certain products like olive oil, the bound rate and applied tariffs are the same at 45%, which makes the government have no flexibility to adjust applied tariffs, even if the need were to arise in the future⁸. Thus, due to a considerable gap between bound and applied tariffs, the applied tariffs are subject to frequent adjustment, depending on domestic supply⁹. For example as addressed in MAP (2007), the wheat tariff was cut down in 2006 as India needed imports to compensate for its poor harvest. As a result, the EU was able to export wheat to India at zero tariff in 2006 and the EU's wheat export to India accounted for one third of total EU exports that year. However, the EU's export volumes of dairy products are very low primarily due to high Indian domestic supply, resulting in high Indian tariffs.

The Case of China's Agricultural Imports

Like India, the agriculture sector is of essential importance to China's economic development and social stability, and it is the biggest sector responsible for the feeding of China's population. After China's accession to the WTO in 2001, trading opportunities for the WTO members, particularly the EU, have increased and as a result, Chinese tariffs have been bound and significantly reduced. According to WTO Trade Policy Review Report (2006)¹⁰, average agricultural tariffs in China fell from 23.1% in 2001 to 15.3 % in 2005, and remain mostly unchanged since then. Only the soybean tariff was cut down to 0-3% from 2002 (compared to 114% out-of quota rate in 1997). OECD (2006)¹¹ notes that the highest above-quota tariff of 65 % may be charged on wheat, maize and rice imports, but that in-quota tariff rates are much lower at 1% (see Table 3).

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⁷ Das A. (2008). <u>WTO negotiations and India's stand: Agriculture, NAMA and services.</u> Retrieved September 15, 2008, from http://infochangeindia.org/

⁸ Ibid.

⁹ Monitoring Agri-trade Policy (MAP) No.03-07, December (2007). <u>India's Role in World Agriculture</u>. Retrieved September 17, 2008, from http://ec.europa.eu/agriculture/publi/map/03 07.pdf

September 17, 2008, from http://ec.europa.eu/agriculture/publi/map/03 07.pdf

10 Monitoring Agri-trade Policy (MAP) No. 01-08, May (2008). China: Out of the Dragon's Den? Retrieved September 17, 2008, from http://ec.europa.eu/agriculture/publi/map/01 08.pdf

11 Ibid 10.

Among the OECD countries, China was one of the countries that have the highest levels of in-quota trade as well as high levels of out-of-quota imports¹².

Table 3: China's Tariff Structure for selected products

Product	Average Applied (%)	In-Quota (%)
Animal products	12-20	
Dairy	10-12	
Cereals & Rice	65	1
Sugar	50	15
Soybeans	0-3	
Other oilseeds	9-15	
Edible Oils	9-10	
Oilcake	5	
Fresh vegetables	10-13	
Spirits	10	
Wine	14	
Beer	0	
Cotton	40	0-1
Flax	6	

Source: Monitoring Agri-trade Policy (MAP) No.01-08, May (2008), page 6

In conclusion, SSM is a contingency measure in the sense that it can be used only when imports are substantive or when import prices fall. However, in the views of many developing countries, SSM is a defensive instrument to safeguard the livelihoods of their impoverished farmers because it helps developing countries not to be dependent on the uncertain and volatile global market for agricultural supply, and so as not to be too adversely affected by the effects of price fluctuations in the world market. The SSM issue was not of concern only to India and China as abovementioned, but is also to over 100 developing countries represented by various groups (G33, Africa, ACP, LDCs, SVEs). This is because they believe that opening up their markets to international competition, removal of tariffs and withdrawal of government intervention in agriculture, have brought the countries from net food exporters to net food importers and left them with payment of huge import bills. Furthermore, with cheap food imports and lack of efficient protection measures, developing countries may not be able to compete. Such incident would harm poor farmers the most and perhaps will lead to significant displacement of the agricultural population across the developing world.

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¹² Tariff rate quotas consist of two levels of tariffs, one is the lower "in-quota" tariff with a limited volume of imports permitted and another is the higher "out-of-quota" tariff imposed when the import volume exceeds the quota (OECD 2001). OECD - Organisation for Economic Co-operation and Development. (2001). <u>The Uruguay Round Agreement on Agriculture: An Evaluation of Its Implementation in OECD Countries</u>. Retrieved September 17, 2008, from www.oecd.org/dataoecd/50/55/1912374.pdf