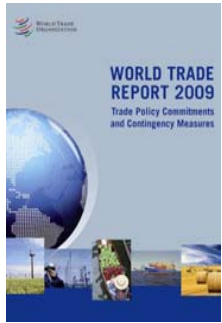


World Trade Report 2009

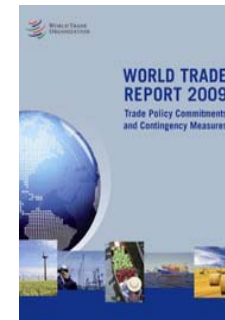


“Trade Policy Commitments and Contingency Measures”

Economic Research and Statistics Division

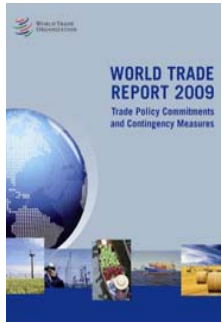
22 July 2009

What Are Contingency Measures?



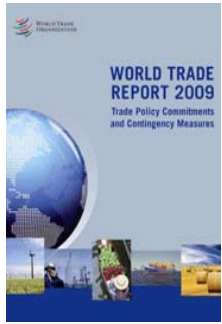
- Policy instruments available to WTO members to deal with unanticipated adverse circumstances (economic and non-economic)
- The Report adopts a broad definition of contingency measures, focusing primarily on:
 - Safeguards
 - Anti-dumping
 - Countervailing duties
 - Renegotiating prior tariff commitments
 - Binding overhangs (gap between legal maximum and applied tariffs)
 - Export taxes

Why this Report?



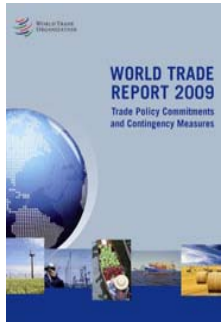
- Contingency measures are essential for credibility, stability and effectiveness in trade agreements – there is no such thing as perfect foresight so we need some flexibility
- Contingency measures can be a contentious element in trade negotiations – design matters
- Contingency measures are typically used more in times of economic difficulty – times when trade cooperation is under more strain than usual

Main Elements of the Report



- Flexibility in trade agreements
 - The rationale of measures and their consequences
- Economics, Disciplines and Practice
 - Economic logic, law and practice
 - Striking the balance between flexibility and commitments
- Empirical evidence
 - Does the theory stand up in practice?

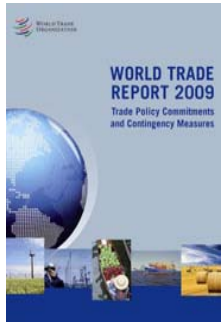
Flexibility in trade agreements: the rationale



Why governments seek flexibility in trade agreements

- Safety valve
- Insurance
- Adjustment policy tool
- Deterrent against trade-distorting policies
- To protect the rule-based system
- To reduce the political costs of signing trade agreements
- To manage the fact that contracts are “incomplete”

Flexibility in trade agreements: the effects



Trade contingency measures may involve both benefits and costs

Benefits :

- Key to the achievement of deeper commitments
- A contribution to the credibility and durability of an agreement

Costs:

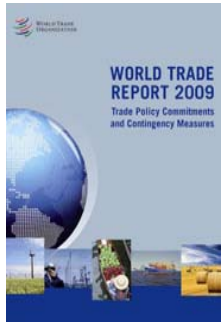
- May be used to backslide on previous commitments
- Measures restricting trade will cause losses in income if not directed at existing distortions

Economics, Disciplines and Practices

- Key features of WTO disciplines have an important bearing on the balance between flexibility and commitments:
 - causality and injury tests
 - whether compensation is required
 - whether a measure is temporary

- Economists have questioned:
 - the lack of consideration of the overall welfare effects of contingency measures
 - risk of escalation of contingency measures among many countries in times of crisis

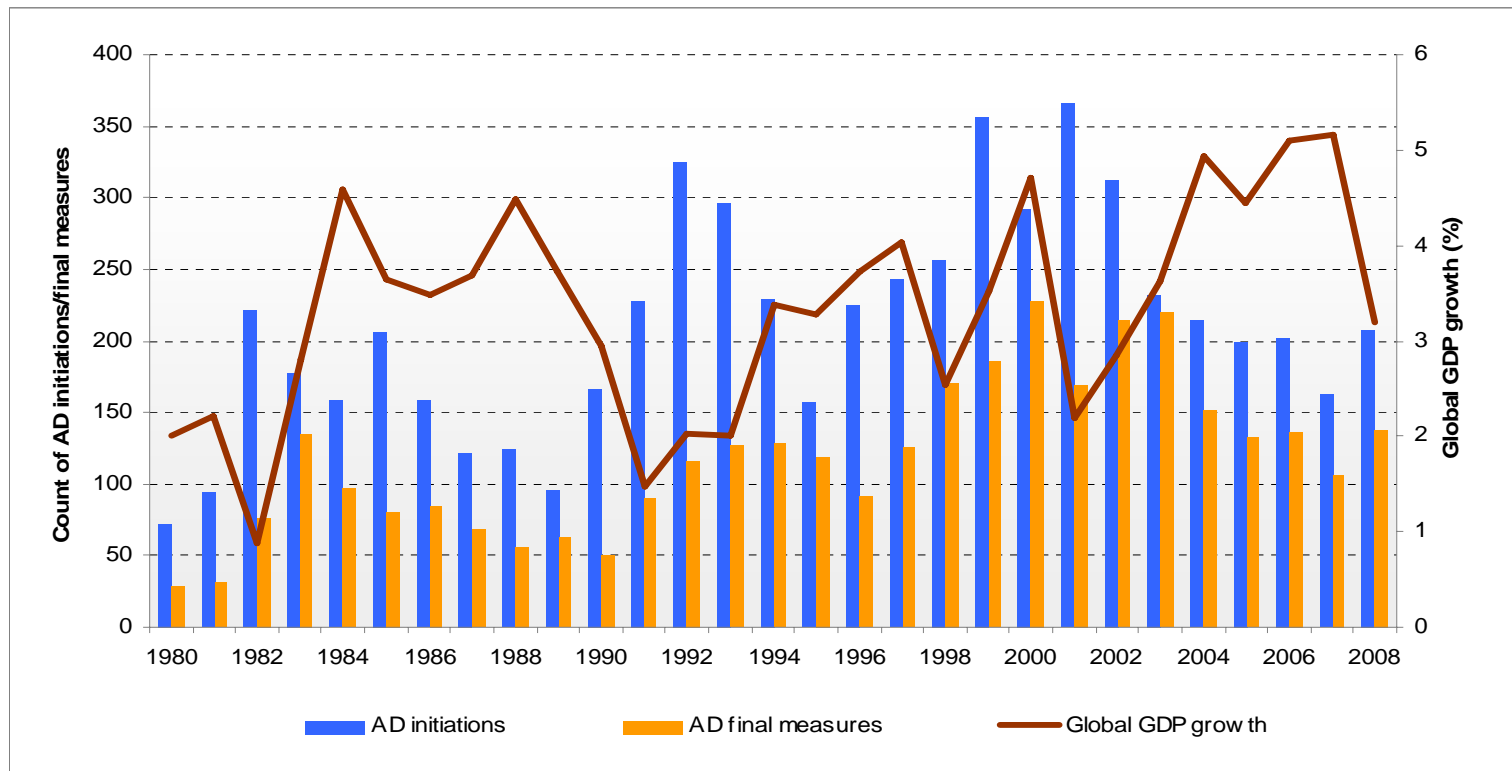
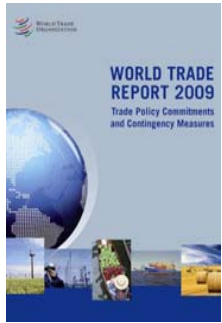
Empirical Evidence



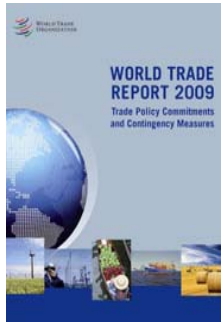
Testing three questions:

1. Does the existence of contingency policy options deepen commitments? – Limited evidence so far
2. Are contingency measures used to manage unanticipated difficulties or as measures of protection? – Contingency measures are responsive to economic downturns
3. Does the use of contingency measures have overall positive or negative effects? – There are costs, but disagreement as to magnitudes

Antidumping measures and business cycle: An illustration

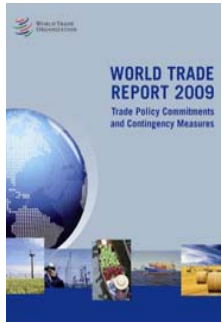


Conclusions 1



- Trade agreements need contingency measures, but reliance on flexibility provisions may not be costless
- Design is crucial to the minimization of protectionist capture of contingency measures
- Economists worry about the neglect of a comprehensive analyses of the impact of contingency measures
- The margin of flexibility provided under contingency measures is considerable – especially when contingency is broadly defined

Conclusions 2



- In times of economic crisis governments face pressure to adopt measures that restrict trade and can foster protectionism
- The rules-based system shields the world economy from unbridled protection, but flexibilities challenge governments to show restraint
- Effective monitoring, together with comprehensive and timely notifications, can play a crucial role in supporting cooperation and restraint