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BEFORE UNITED STATES
INTERNATIONAL TRADE COMMISSION

Investigation No. 332-344

The Economic Effects of
Antidumping and Countervailing Duty Orders
and Suspension Agreements

ECONOMIC EFFECTS OF DUMPED AND SUBSIDIZED IMPORTS ON DOMESTIC INDUSTRIES, 1980-1988

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FEDERAL TRADE COMMISSION*

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* The views expressed in this statement and in the accompanying Bureau of Economics Report are those of the staff of the Bureau of Economics, and are not necessarily those of the Federal Trade Commission or any Commissioner.

The staff of the Bureau of Economics of the Federal Trade Commission ("FTC") are pleased to share with the ITC today an analysis we have developed about the impact of unfairly traded imports. Our analysis may be relevant to this investigation of the economic effects of antidumping and countervailing duty orders. The views expressed in this statement and in the accompanying Bureau of Economics Report are those of the staff of the Bureau of Economics, and are not necessarily those of the Federal Trade Commission or any Commissioner.

Earlier this year, the staff of the Bureau of Economics released a report, *Effects of Unfair Imports on Domestic Industries*.[1] This staff study represents an economic estimate of the effects of dumped and subsidized imports on the revenues of domestic industries. It does not, however, address the implications of those estimates under the statutory framework that governs ITC determinations. At the request of Chairman Watson, we are submitting that report to you today, and the authors of the report are here to present its findings.

The staff surveyed all final ITC decisions from 1980 to 1983 and estimated injury from available data for 179 of the 221 antidumping or subsidy cases during that period.[2] The staff measured injury to each domestic industry from unfair imports by the percent decrease in domestic industry revenue. The report found some decrease in industry revenue in nearly every case studied. The amount of the decrease varied from case to case:

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[1] Morris E. Morkre and Kenneth H. Kelly (1994), *Effects of Unfair Imports on Domestic Industries: U.S. Antidumping and Countervailing Duty Cases, 1980 to 1988*. Report of the Bureau of Economics to the Federal Trade Commission, Washington, D.C.

[2] It was not possible to estimate injury for the remaining 42 cases because data needed to calculate the estimates were confidential.

(1) about one-third of the cases (32 percent) involved revenue decreases greater than 5 percent, and

(2) about one-eighth of the cases (12 percent) involved revenue decreases greater than 10 percent.

We believe our estimates of injury are upper bounds on the amount of actual injury from unfairly traded imports. The estimates are based on assumptions that would tend to cause the economic model that we used to overstate the likely decrease in revenue. Our estimates do not measure net social welfare effects. The study attempted to identify decreases in domestic industry revenues due to unfair imports, and did not attempt to estimate any benefit to downstream industries or ultimate consumers from lower prices on imports and competing domestic products that result from dumped or subsidized imports. Nor did the study attempt to measure injury to the domestic industry in other terms, such as loss of employment.

Methodology

The methodology that the staff used to estimate injury is explained in Chapter 3 and Appendix B of the report. Some of the essential features of that methodology are:

Isolating the effect of unfair imports. The methodology was designed to isolate and estimate the effects of dumped and subsidized imports on domestic industries. Of course, the performance of domestic industries may also be affected by domestic factors, such as the general state of economic conditions, changes in the prices of labor and other key inputs, or technological changes. International factors other than dumped and subsidized imports can also affect domestic industries. For example, appreciation of the dollar or shifts in comparative

advantage between nations — unless blocked by restrictions on trade — could increase imports and decrease domestic industry revenues. Our method was designed to identify just the effect of unfairly traded imports, and not the effects of these other factors.

Counterfactual analysis. In our analysis, the actual performance of a domestic industry in the reference period was compared with our "counterfactual" estimate of what the domestic industry's performance would have been in the absence of the unfair dumping and subsidies. The reference period was generally the most recent complete year during the period of the ITC's investigation. (This period included the period for which dumping or subsidy margins would have been computed.) Because we assumed that imports and domestic products were, to some extent, substitutes, domestic revenues would have been greater in the absence of the dumping or subsidies. We measured the magnitude of injury as the percentage by which actual industry revenue fell short of the industry's estimated, counterfactual performance.

Differentiated products. For each industry, our estimate of counterfactual performance was obtained using a computable partial equilibrium model. In our model, the domestic industry's product was assumed to be a close, but not perfect, substitute for the unfairly imported product. This assumption accords with the view, generally held among students of international trade, that domestic consumers are not completely indifferent between domestic and imported products (except, possibly, for certain standardized products such as crude oil and sugar).[3] If total imports exceed unfair imports, the difference is "fair imports." We extended product differentiation to fair imports. That is, they are treated as close but not perfect substitutes for either the domestic or the unfairly imported products.

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[3] The sources are cited at p. 35, n. 49 of our report.

Market structure. In our study, the domestic product and fair imports (where present) were assumed to be produced by competitive industries. The price of unfairly traded imports was generally treated as exogenous, except that, for dumping cases in which the Department of Commerce found price discrimination, unfair imports were treated as though produced by foreign firms that possessed market power.[4]

Upper bound injury estimates. Our injury estimates are upper bound estimates. To implement our model, several demand and supply elasticities were needed. For most cases we lacked sufficient information about at least one of these elasticities. In these cases, we selected extreme elasticity values that would tend to overestimate injury. In other cases, we used elasticity values consistent with the values that the ITC staff has used.

Diagram of model. A diagram illustrating the model used to estimate the effects of unfair imports is shown in Figure 1, attached at the end of this statement.[5] Panel A is for the domestic product, panel B for unfair imports, and panel C for fair imports.

The unfair practice, whether dumping or subsidy, lowers the price of the unfairly imported product from p_f to p_u (panel B). U.S. consumers accordingly substitute in favor of unfair imports and against the domestic product and fair imports. This is shown by the contraction in demand for domestic product from D to D' (panel A), and by the contraction in demand for fair imports from d to d' (panel C).

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[4] Specifically, if there is only one foreign firm it is treated as a monopolist. If there are several firms, they are treated as a foreign cartel.

[5] Figure 1 is based on Figure 3.1 in our report.

Injury to the domestic industry from unfair imports is illustrated in panel A. Without the unfair practice, domestic industry revenue is $P_f Q_f$. With the unfair practice, domestic industry revenue declines to $P_u Q_u$. Thus, the percent decline in domestic industry revenue caused by unfair imports is $100(P_f Q_f - P_u Q_u)/(P_f Q_f)$.

Summary of Injury Estimates

Between 1980 and 1988, the ITC reached final decisions in 221 cases.[6] For 179 cases it was possible either to estimate injury using our model (174 cases) or, from other information about the case, to determine directly that injury was either very large (three cases) or negligible (two cases).

The principal findings of the report are that in about one-third of the 179 cases the decline in domestic industry revenues was greater than 5 percent; in about one-eighth of the 179 cases, it was greater than 10 percent. Estimated injury exceeded 10 percent in 21 cases, which involved products from canned hams and photo albums to EPROMS and teflon. All but two of these 21 highest-injury cases involved dumping. In 15 of the 21 cases the subsidy or dumping margin was relatively high, greater than 30 percent.[7] In three of the 21 cases, which involved offshore platform jackets, the domestic industry was judged to have maximum injury, as sales by domestic firms were zero.[8]

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[6] For 42 cases there was insufficient information to estimate injury. The missing information was typically the market share of unfair imports.

[7] Thus, for the unfairly imported products investigated in these cases to be "fair," U.S. importers would have to pay prices at least 30 percent higher for these products.

[8] In these cases domestic and foreign companies bid for contracts to construct offshore platform jackets. During the period of investigation U.S. companies were unsuccessful in obtaining contracts.

In all of the 174 cases modeled, we found that the domestic industry suffered some measure of injury from unfairly dumped or subsidized imports. In many cases, the estimated decline in industry revenues was quite small, but in others it was substantial.

We would be happy to answer questions about our report.

FIGURE 1
EFFECTS OF UNFAIR IMPORTS

Certain foreign firms price unfairly (as set forth in U.S. law) by selling their product in the U.S. market at price p_u instead of at the fair price p_f (Panel B). This causes U.S. consumers to substitute in favor of unfair imports and curtail purchases of the domestic product and other ("fair") imports. There are consequent declines in the demand for the domestic product (D to D' in Panel A) and in the demand for fair imports (d to d' in Panel C). The declines in prices of domestic product (P_f to P_u) and fair imports (p_f to p_u) have feedback effects on unfair imports, and cause their demand to decline (d to d' in Panel B).