



Executive Memorandum

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AVOID A TRADE WAR OVER U.S. ANTIDUMPING MEASURE

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Last October, when President Bill Clinton signed the fiscal year 2001 agricultural appropriations bill (P.L. 106-387) into law, the United States stepped closer to a trade war with some of its largest trading partners. Because of an amendment added in conference by Senator Robert Byrd (D-WV), Japan, Canada, the European Union (EU), and six other World Trade Organization (WTO) members may soon file the largest joint complaint in WTO history against the United States. At issue is U.S. anti-dumping law, which allows the government to apply tariffs to imports that it deems are being dumped into the U.S. market at below cost. The Byrd amendment allows the revenues raised from these tariffs to be transferred from the U.S. Treasury to the firms that requested the protection.

Proponents argue that this measure, known as the Continued Dumping and Subsidy Offset Act, will discourage foreign companies from dumping products into the U.S. market at below-market costs. In reality, this new policy of rewarding U.S. firms that request trade protection will have damaging effects. Specifically, the new practice will:

- **Harm** U.S. exporters and American consumers by raising prices;
- **Increase** the incentive for U.S. firms to seek additional trade protections; and

- **Hamper** efforts to reduce trade barriers around the world by weakening the WTO.

Despite any good intentions behind this amendment, President George W. Bush and the 107th Congress have inherited a protectionist policy that will undermine their efforts to promote free trade. They should take immediate steps to prevent the harmful effects of this measure from becoming reality; explain to American businesses that such protectionism is inherently damaging to their interests, and demonstrate America's leadership in promoting free trade by eliminating protectionist U.S. trade policies. The Administration should work with Congress to develop legislation that restores the previous practice of depositing antidumping revenue in the U.S. Treasury.

The Harmful Effects. The Byrd amendment, Title X, attaches a proposed bill—the Continued Dumping and Subsidy Offset Act of 1999 (S. 61)—

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to the agriculture appropriations act. (Though this bill had a number of sponsors, it never made it to the floor for a vote.) One of the driving forces behind S. 61 was the steel industry, which had aggressively petitioned Washington for relief after the Asian financial crisis of 1997 and 1998 had flooded the U.S. market with lower-cost steel imports. Interestingly, the steel industry will be a primary beneficiary of the new antidumping policy.

The need for such relief is not as great as the industry outcry. According to Daniel Griswold, associate director of the Center for Trade Policy Studies at the Cato Institute, the major *steel-using* U.S. industries, such as transportation, construction, and fabricated metal, employ 40 times the number of workers employed in *steel-producing* industries. Thus, the majority of companies in the steel sector actually benefit from lower prices for steel, and American consumers benefit from lower prices on such products as automobiles, major appliances, and housing. Protectionist policies limit competition and increase costs. For example, Griswold estimates that for every dollar-a-ton increase in the price of steel caused by protectionist policies, consumers will pay \$120 million more for the very same products.

U.S. manufacturers are right to worry that foreign countries will retaliate for this new policy and subject U.S. products to their own antidumping rules. According to *The Rushford Report*, a Washington, D.C.-based newsletter on trade and politics, more than 130 American exporters have been subjected to antidumping investigations in recent years. Some of these investigations undoubtedly were a form of retaliation for U.S. antidumping investigations.

Perhaps the worst result of this policy is the incentive it gives U.S. businesses to seek additional relief from foreign competition through the application of antidumping law. U.S. firms already have an incentive to seek protection, because a favorable ruling would make their goods and services more competitive and imported goods and services less competitive. But the windfall in revenue they will receive from the new protection—which *The Rushford Report* estimates could reach approximately

\$200 million each year—will encourage them to seek the additional protection.

A Trade War? The WTO allows countries to impose tariffs to offset “unfair” pricing but does not permit them to add another layer of protectionism to those tariffs. Giving U.S. businesses the revenue raised by antidumping tariffs acts as a government subsidy that adds another layer of protectionism in the U.S. market. By implementing this practice and thumbing its nose at WTO rules, the United States is undermining the WTO’s effectiveness as a forum for reducing trade barriers multilaterally.

This is no small concern. It is estimated that the WTO’s efforts to reduce barriers have contributed to economic prosperity in many of its 140 member countries. World export levels are approximately 18 times higher today than they were in 1950 when the WTO’s precursor, the General Agreement on Tariffs and Trade, first took effect, and world GDP is six times higher. The benefits of trade—including lower prices, increased competition, greater innovation, and increased productivity—clearly contributed to this gain in world GDP.

By adopting a policy that decreases competition and increases prices, the United States is inviting a trade war. The nine WTO members that may soon file the largest joint complaint in WTO history against the United States would be taking an unprecedented step to draw attention to this misguided policy. The United States already is engaged in trade disputes with the EU over such issues as bananas, genetically modified food, and export subsidies. The Byrd amendment will further strain relations with important allies and undermine America’s position as the foremost advocate of free trade.

Conclusion. The Byrd amendment sacrifices the interests of American consumers and exporters for the sake of special interests. The Bush Administration and the 107th Congress should make clear that this is not their intention and take steps to avoid a trade war by reversing this ill-advised policy.

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