

# WebMemo



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## Time to End “Zeroing” in Trade Dumping Calculations

*Daniella Markheim*

Brazil and Thailand are the latest to join the list of countries that have filed disputes against the U.S. within the World Trade Organization (WTO) in response to America’s practice of “zeroing” in anti-dumping investigations. Even though the WTO has ruled that zeroing—the tactic of zeroing out dumping calculations when a producer in another country charges a higher price in the U.S. market than in its home market or above its production costs—is not compliant with international trade rules, America refuses to change its dumping methodology. America’s refusal to comply with WTO rulings and eliminate this unfair trade practice erodes U.S. credibility and influence in multilateral trade negotiations and leaves America open to retaliation from affected trade partners. With the new year should come a new commitment to cleaning up U.S. dumping practices.

**Anti-Dumping, Zeroing, and the WTO.** Historically, the U.S. has aggressively applied anti-dumping and countervailing duties, or trade remedy laws, against foreign firms and countries that engage in allegedly unfair trade practices. Anti-dumping duties may be imposed on imports sold in the U.S. market at a price lower than in the producer’s home market or below the foreign firm’s cost of production. Countervailing duties may also be imposed on imported products receiving government subsidies. In both cases, the key factor is that the import causes material injury to the competing domestic industry.

While trade remedies afford a layer of protection for firms facing stiff foreign competition and allow

the government some additional revenue, households and businesses have to pay higher prices for those imports. Moreover, consumers may not be able to purchase the imports at all if duties are high enough to prohibit trade. This tax on America’s households and import-consuming firms reduces economic activity and lowers living standards. Furthermore, the incentives to efficiently use resources and find innovative ways to produce diminish as competition is reduced by the trade barriers.

In general, members of the WTO are required to bind their tariffs and not discriminate between trading partners by charging different tariffs. However, Article 6 of the General Agreement on Tariffs and Trade (GATT), in conjunction with the WTO Anti-Dumping Agreement, allows countries to retaliate against dumping by assessing additional duties on dumped products from specific countries if the dumping is causing material damage to the importing country’s respective industry. Countries investigating alleged incidents of dumping must evaluate all relevant economic factors affecting the industry in question. If a determination is made that injurious dumping is occurring, then the exporting company has the option to raise its price to an agreed level in order to avoid an anti-dumping import duty.

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/TradeandEconomicFreedom/wm2180.cfm](http://www.heritage.org/Research/TradeandEconomicFreedom/wm2180.cfm)

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(202) 546-4400 • [heritage.org](http://heritage.org)

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Anti-dumping measures must expire five years after the date of imposition, unless subsequent investigations show that ending the measure would lead to injury.

“Zeroing” is used by the U.S. Department of Commerce (DOC) in its calculation of dumping margins. The DOC first determines a product’s “normal value,” which can be based on the product’s price in the exporter’s home market, the price charged by the exporter in another country, or on the exporter’s production costs. The DOC then compares the normal price of the good to the price charged in the U.S. for each sale and calculates the dumping margin—the average of the differences between the two prices. When the normal value of the good is more than the price charged in the U.S., the difference contributes to the dumping margin. However, when the normal value is less than the price charged in the U.S., the DOC assigns a zero value to the transaction rather than deduct the difference from the final dumping margin. This practice of “zeroing” artificially inflates dumping margins, increasing both the likelihood that the DOC will find injury and the value of punitive duties that can be assessed on “dumped” products.<sup>1</sup>

In cases brought against the U.S. by the EU, Japan, Canada, Ecuador, and others, the WTO has ruled that zeroing is contrary to anti-dumping rules because it distorts the prices of certain export transactions by not considering all comparisons of normal value and export price. By disregarding certain comparison results, the United States has acted inconsistently with the “fair comparison” requirement set out in Article 2.4.2 of the Agreement on Anti-Dumping.

The U.S. refuses to accept WTO recommendations that America’s anti-dumping methodology

be brought into compliance with international trade rules. The longer America defies or ignores these recommendations, the more likely complainants will be allowed to impose retaliatory duties or other punitive measures against U.S. products. The U.S. insists that the law is being misinterpreted and plans to use the WTO Doha Round of multilateral trade negotiations to permit zeroing in WTO rules. Fortunately, for the cause of free and fair trade, the effort has met with strong opposition.

**The U.S. Should Practice What It Preaches.** When the WTO finds in favor of a U.S. position in a trade dispute, all is fair and good. Yet when it rules against the U.S.—as it has time and time again when considering America’s practice of zeroing—Congress cries foul, insisting that the WTO has overstepped its bounds and is violating U.S. sovereignty. America is as assiduous in rooting out the unfair trade practices of the world and demanding their elimination as it is protecting its own.

It is time to end the hypocrisy. America’s use of zeroing has been found in violation of WTO trade remedy rules and imposes costly distortions on the U.S. economy. At the same time, America’s refusal to comply with WTO rulings to eliminate the unfair trade practice erodes the United States’ credibility as a champion of free and fair trade and weakens America’s influence in multilateral trade negotiations. It is time for America to live up to the same high standards it demands from the rest of the world and end the practice of zeroing in anti-dumping investigations.

—Daniella Markheim is Jay Van Andel Senior Trade Policy Analyst in the Center for International Trade and Economics at The Heritage Foundation.

1. Recent research confirms that zeroing can add 3–4 percent to the average U.S. anti-dumping duty, an amount that costs U.S. consumers approximately \$150 million per year on existing U.S. anti-dumping orders. William W. Nye, “The Implications of ‘Zeroing’ on Enforcement of U.S. Antidumping Law,” Social Science Research Network, August 2008, at <http://ssrn.com/abstract=1263423> (December 19, 2008).