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## **Trade Safeguards and Agricultural Imports: The Case of American Cheese**

by

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Imports of American cheese have been making news recently, illustrating just how complicated agricultural trade policy can be in these days of the World Trade Organization (WTO). On November 15, 2002, USDA announced the imposition of additional tariffs on imports of American-type cheese because the total amount of imports during 2002 had surpassed a “trigger” level for such action. The additional tariffs amount to about \$0.16/lb., bringing the overall tariff to \$0.64/lb. (which is more than 50 percent of the current price of Cheddar cheese in US markets).

The use of these additional tariffs raises questions about the overall effectiveness of trade policy in preventing imports from undermining prices for US producers, and about the various “safeguard” mechanisms that were written into the WTO agreement. When the US agreed to join the WTO, it modified its dairy trade policy to replace fixed-amount import quotas (often with country-specific import licenses required as well) to a system called Tariff Rate Quotas (TRQ). Under this system, the US agreed to allow a limited amount of most dairy products to be imported at relatively low tariffs. This is referred to as “in-quota” imports. The amount of in-quota imports increased through 2001 to allow other countries greater access to US markets. (Other countries were also required to provide greater access to their markets.) Amounts of imports over the “in-quota” amount are subject to much higher tariffs, and are referred to as “over-quota”

imports. These higher tariff rates were often large enough that they made over-quota imports very small under normal market conditions. Even with this protection, many of the countries joining the WTO saw a need for additional measures, just in case imports grew too rapidly, or world market prices dropped too far below previous levels. This is where “safeguard” mechanisms come in.

There are a number of “safeguard” provisions for different products. Under “normal” safeguard mechanisms, producers who believe they have been harmed by excessive imports can request that the federal government assess the degree of damage to their industry. If a formal study concludes that producers have been harmed, the government may then impose additional tariffs, as it did in the case of lamb imports a few years back. “Special” safeguards operate a bit differently, and there are two kinds, value-based and volume-based. Value-based safeguards kick in according to a sliding scale whenever the imported price of a product falls below a specified level. These additional tariffs are automatic and remain effective until the import price rises above the specified level. For example, if American cheese could be landed in the US at a price of \$0.64/lb., the US could impose a relatively small additional tariff of about \$0.04/lb. on top of other tariffs.

Volume-based safeguards may come into play when the level of imports in a calendar year reaches some reference level—37 million lbs. in the case of American cheese. But rather than kick in automatically, someone has to request that they be imposed, and the government has to agree to do so. In August 2002, the National Milk Producers Federation, a trade association representing dairy farmers, called for the Secretary of Agriculture to impose volume-based safeguard tariffs on American-type cheese. Unlike “normal” safeguards, there is no need to prove injury or conduct a study to find out what level or type of remedy should be applied. The trigger quantity is based on a three-year moving average of all imports, both in-quota and over-quota, but the tariff imposed applies only to the over-quota imports. Thus, growth in imports is allowed, but the safeguards should help prevent large increases in imports in a given year. However, there are limits on the imposition of these tariffs, and therefore on their effectiveness. These volume-triggered tariffs only apply until the end of the calendar year in which they are imposed, and they start at the time they are authorized following the request. In

addition, they don't apply to any shipments that are "on the water" at the time the tariffs are authorized. Given that it's November and it takes a few weeks by boat for cheese to reach the US, it is unlikely that they will affect many imports before they expire.

For American cheese, the various tariffs and safeguards, along with actual calendar-year imports through August of this year and last, are shown in Table 1. In-quota imports are subject to a tariff of 10 percent, or less than \$0.15/lb. in a typical year. The tariff rate for over-quota imports is about three times as much, \$0.48/lb. The import price would need to fall to \$0.73/lb. before value-based safeguards could be applied, and it was well above that at \$0.95 in the first eight months of 2002. The actual amount of imports through August was 42 million lbs., well above the volume-based trigger of 37 million lbs.

In the case of American cheese, over-quota imports (nearly all from New Zealand) have increased markedly in 2002 despite tariffs of \$0.48/lb. and the threat of volume-based safeguards. This is due in part to lower cheese prices on the world market. The impact of American cheese imports on overall cheese and milk prices is likely to be minimal, even given the large increase from last year. However, given the low milk prices that dairy producers have seen this year, the growth in imports of "American" cheese from "non-American" sources adds a bit of insult to injury.

**Table 1. Trade Policy and Imports for American Cheese, 2001-2002**

Import Category	Tariff Rate, \$/lb.	Imports, mil. Lbs.			Value-based trigger, \$/lb.	Actual import price, 2002, \$/lb.	Volume-based trigger, mil. Lbs.	Volume-based tariff, \$/lb.
		Jan-Aug 2001	Jan-Aug 2002	% change				
In-quota	10.0%	3.8	3.7	-3.6%				
Over-quota	0.48	16.3	38.6	137.2%				
Overall		20.1	42.3	110.4%	0.73	0.95	37.0	0.16

More information on dairy trade policy will be available shortly at the Cornell Program on Dairy Markets and Policy website: [www.dairy.cornell.edu](http://www.dairy.cornell.edu) under "Weblets."

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