

U.S. Contingent Protection against Honey Imports: Development Aspects and the Doha Round

Julio J. Nogués*

Professor, School of Government

Universidad Di Tella

Revised Draft

World Bank Policy Research Working Paper 3088, June 2003

The Policy Research Working Paper Series disseminates the findings of work in progress to encourage the exchange of ideas about development issues. An objective of the series is to get the findings out quickly, even if the presentations are less than fully polished. The papers carry the names of the authors and should be cited accordingly. The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent. Policy Research Working Papers are available online at <http://econ.worldbank.org>.

* I appreciate the financial support of the World Bank for writing this paper. I want to express my gratitude to Bernard Hoekman and an anonymous referee for the very useful comments to a preliminary version of this paper. I also appreciate the suggestions made by Lic. Gabriela Michetti, Lic. Elias Baracat, and Mr. Arno Meyer.

Summary

On December 10, 2001 the US Department of Commerce announced the imposition of steep antidumping duties against honey imports from Argentina and China ranging from 32.6% to 183.8%, and a countervailing duty against Argentina of 5.9%. A previous AD investigation was concluded in 1995 with a suspension “agreement” that curtailed US imports from China by around 30%. Millions of beekeepers around the world most of them poor, are making a living from honey production and for them, a free and competitive world market would strengthen their possibilities of raising their standards of living. Nevertheless, the sequential pattern of increasing and widening protectionism followed by the US, the world top importer, to include successful exporters under the effects of its contingent protection measures, sends a clear message that other countries should think twice before investing in expanding honey exports to the US.

In addition to looking into the trade effects of these contingent protection measures, this paper concludes that under the regulatory arrangements of the US Department of Commerce (DOC), Argentina’s beekeepers never had a chance of defending themselves. For example, responding to the DOC’s lengthy and sophisticated questionnaires that sought to determine cost of production, went beyond the capacities of poor beekeepers. In the absence of this information, the DOC resorted to the evidence presented by the Petitioners which apparently, was riddled with errors. The available evidence suggest that had beekeepers being capable of responding the questionnaires, the margin of dumping would had been lower if at all existent. This and other evidence discussed in the paper suggest the urgent need to introduce reforms into the WTO antidumping and subsidy agreements. At the minimum what is required is a consensus that all Respondents will be given the same opportunity by the international trade rules. The paper argues that at present, this is not the case and the final section offers some suggestions for reforms.

I. Introduction

On December 10, 2001 the US Department of Commerce announced the imposition of steep antidumping duties against honey imports from Argentina and China ranging from 32.6% to 183.8%, and a countervailing duty against Argentina of 5.9%. These are the latest measures taken by the US Government in a history of support to this industry that spans more than fifty years. This protectionism by the major honey importer has often destabilized the world market and increased poverty abroad.

Although this paper analyzes trade and development aspects of the recent measures against Argentina, the discussion also illustrates effects on other exporting and importing countries. I start by noting in Section II, opposing international competitive trends between Argentina and the US the first becoming a world top exporter while the second, becoming increasingly import-dependent. This Section also provides an overview of the very long history of subsidy and protection policies that have been granted to the US beekeepers. Following this presentation, the rest of the analysis will address three questions: What can we learn from the procedures applied in this investigation by US authorities? How effectively did Argentina's private and public sectors defended themselves against the accusations of being unfair traders and, What impacts did the contingent protection measures have? Section III offers a detailed analysis of some aspects of the dumping and subsidy investigation undertaken by the Department of Commerce (DOC). A major conclusion of this analysis is that some regulations are so complex and demanding that they are difficult if not impossible to meet which in turn, results in protectionism against their exports. Section IV takes up the defense offered by Argentina. This discussion indicates a striking difference between the degree of cohesion among the different actors in the US, and those same actors in Argentina. Section V presents an analysis of some of the effects of the protective measures paying particular attention to: (i) trade effects including those of recently imposed sanitary measures against honey imports from China, (ii) social implications and, (iii) the costs of the contingent protection measures to the US consumers. Finally in Section VI, I present some suggestions for the Doha negotiations. These recommendations are based on the finding that even for a medium income country like

Argentina, both the private and public sectors face serious difficulties in meeting the requirements of sophisticated US regulations for administering its contingent protection policies. This state of affairs should not remain unchanged.

II. International Competitiveness

The discussion in this Section is based on two pieces of information. I start by reviewing the statistical evidence on international competitive trends and then summarize the salient policies that have entailed long-standing subsidies and protection to the US honey producers.

1. *Statistical evidence*

There is every indication that in terms of international competitiveness of the honey producing industry, Argentina holds one of the leading positions. To illustrate this, Table 1 presents honey exports from 1990 to 2000 by the major exporting countries¹. This data shows that the highest increase in exports is recorded for Argentina who went from

Table 1: Exports by Major Honey Exporting Countries
1990-2000 (Thousands of tons)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2000/1990
Argentina	40	47	55	55	62	64	48	70	68	93	88	2,23
Canada	8	10	11	8	9	16	10	8	11	15	16	2.00
China	88	70	92	97	102	87	84	48	79	87	103	1.17
Germany	13	11	12	14	14	15	16	13	14	1	22	1.71
Mexico	44	50	36	36	30	26	29	27	32	22	31	0.71
World	291	280	281	298	314	301	294	272	307	340	370	1.27

Source: FAOSTAT

¹ At the time of this writing (mid 2002), FAO database did not include trade statistics for 2001.

supplying 14% of world exports in 1990, to 24% in 2000². During this ten year period, honey exports by China, the most important world exporter accounting for around one third of world exports, only increased by 17%. As indicated below, this figure is not so much an indication of China’s competitiveness but at least in part, the outcome of US protection against honey imports from this country in a previous antidumping (AD) case that ended in 1995 in a Suspension “Agreement”.

Table 2 presents data on production and trade for the major exporting countries for year 2000. The numbers indicate that Argentina is by far the most export-oriented country in the sample. The figures also show that Germany is a major importer and exporter mainly to other countries in the EU.

Table 2: Production and Trade in a Sample of Countries, 2000

Country	Production ¹	Exports		Imports		Export/ Prod.
		Value ²	Quantity ¹	Value ²	Quantity ¹	
Argentina	93.000	87.203	88.467	65	14	0,95
Canada	32.000	21.117	15.513	3.195	2.824	0,48
China	253.691	86.892	103.042	2.858	3.552	0,41
Germany	24.638	38.606	22.307	104.894	95.016	0,91
Mexico	56.844	34.805	31.115	129	58	0,55
U.S.	94.000	4.746	8.121	96.018	89.890	0,09
World	1.256.594	436.260	370.431	370.878	438.042	0,29

1.In tons.

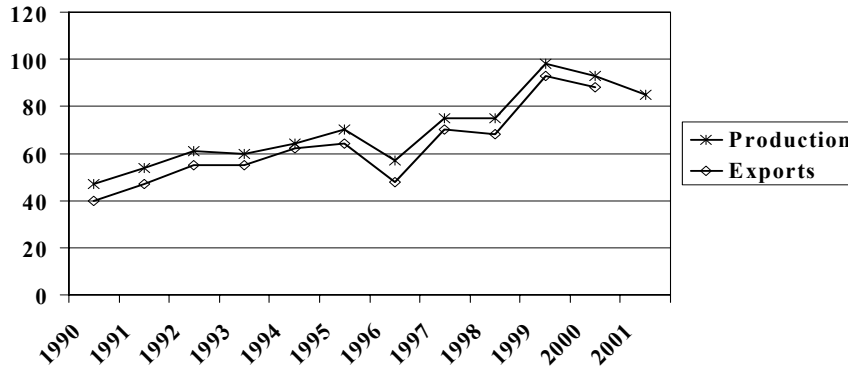
2.In thousand dollars

Source: FAOSTAT

Graph 1 shows honey production and exports by Argentina between 1990 and 2001.

² More recently, this trend has been reinforced by the trade effects of the sanitary problems implemented against China in early 2002. As discussed in Section V, for the first five months of 2002, the tonnage exported by Argentina surpassed that of China by 74% (www.beekeeping.com).

Graph 1: Honey Production and Exports
(thousand tons) of Argentina, 1990,2000



Source: FAOSTAT

The data indicates that starting in 1996 export growth accelerated. This is due in part to the 1995 AD measure imposed by the US against China. While this helped exports from other exporting countries, I don't believe that the growth performance of Argentina's exports should be attributed exclusively to the opportunity opened by this restriction. Following the suspension agreement with China, other countries did not increase exports to the US as fast as Argentina did. Furthermore, Argentina's exports also increased fast to other countries like Germany where it was competing head-on with China: exports to this market more than doubled increasing from US\$10.8 million dollars in 1990 to US\$27.5 million dollars in 2000.

Table 3: Major Honey Importers

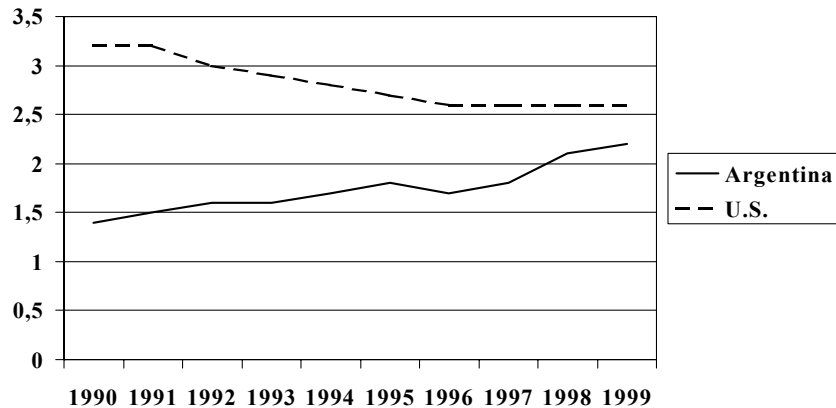
1990-2000 (Thousands of Tons)*

*Ranked by Imports in 2000.

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2000/1990
Germany	79	89	89	81	83	89	88	83	94	90	95	1.20
United States	35	42	52	61	56	41	68	76	60	83	90	2.57
Japan	69	39	32	36	40	39	42	34	29	35	40	0.58
United Kingdom	26	22	23	18	13	14	21	21	25	23	23	0.86
France	8	7	8	6	9	12	13	12	13	15	16	2.18
Total	294	274	296	285	297	308	342	320	326	349	371	1.26

Source: FAOSTAT

Graph 2: Number of Bee Colonies in Argentina and the U.S., 1990-1999
(In millions)



Source: FAOSTAT.

Table 3 presents the major honey importers during 1990-2000 ranked according to imports in 2000. The figures show that while world imports increased by 26% in this ten year period, US imports increased by 118%. Clearly, US consumption has become more dependent on foreign supply and as seen below, this occurred in spite of Government supported honey programs that have been in place for decades, and in spite of the 1995 AD measure against China.

The high dependency of the US on honey imports is seen more clearly in the data reported in Table 2. With a value of 89%, the US import to production ratio is the highest in this sample of countries and as said, it has been increasing fast. For example according to FAO statistics, while the average import-production ratio was 41% during 1989-1991, for the 1998-2000 period this figure climbed to 80%. This increasing dependency took place against a stagnant output. Thus, while the average annual honey production for the years 1989 to 1991 was 90,000 tons, this figure increased to 96,423 tons during 1998-2000 i.e. by 7%. In contrast, during the same years Argentina's output nearly doubled and world output increased by around 30% (www.beekeeping.com). The US stagnation occurred in spite of subsidies and protectionist policies while Argentina's growth happened quite naturally.

As shown in Graph 2, the relative stagnation of US honey production has its counterpart in the number of bee colonies that between 1990 and 1999 declined from 3,210 millions to 2,640 millions, i.e. a reduction of 18%. This compares with Argentina where the number of bee colonies increased by 57% during the same period (Alberta, 2001)³.

Table 4: Honey Quality and Overall Scores

Country	Taste	Color	Food Safety	Drums	Purity	Cristallization	Overall Score
Argentina	76	79	53	87	82	85	9.0
Canada	84	91	52	74	93	64	8.8
China	48	81	46	85	74	67	7.9
U.S.	87	80	45	71	89	84	4.5

Source: Alberta (2001)

Differences in natural comparative advantage appear to explain most of the relative trade performance between Argentina and the US. For example, a number of characteristics allows honey quality to be rated by international markets and the results of one study are summarized in Table 4. In addition to product quality, the numbers in the last column include ratings of production costs and of marketing efficiency. Based on these characteristics, this study concludes that: “While China is extremely cost competitive today, its prominence in global honey trade appears set for decline owing to labor supply limitations and ... increasing costs in accessing floral sources and a host of other issues. Given the competitive disadvantages in the United States, further reductions in the number of beekeepers and hives remains likely unless government subsidies or anti-dumping and countervailing duties compensate their cost disadvantage. Conversely, US beekeepers may

³ According to data from the Secretaría de Agricultura of Argentina, after 1999 the number of bee colonies continued to increase reaching 2.4 million in 2001.

become increasingly competitive in niche markets. Alberta has the advantage of cost-effectively producing high-quality white honey with the US, its main export market, nearby; strategic marketing could further enhance competitiveness. Argentina is cost competitive, produces good quality honey, and markets honey reasonably well, ensuring it a continued position of dominance in world trade” (Alberta, 2001, page iii; underline is mine).

2. Historical overview of Government subsidies and protection granted to the US honey producing industry⁴

Having argued that honey production in the US is a declining industry, it is no surprise that it is resisting its demise by seeking subsidies and protection from the Government. Going as far back as the late 40s, US honey producers have been receiving Government support. In 1949 honey production was included in the Agriculture Act and for decades it received assistance in the form of subsidized loan rates. Starting in 1951, this program was split into two parts: a loan program, and a guaranteed purchase program. The loan program which was available during the production season, sought to avoid putting the farmer in a situation of having to sell his honey in months of declining prices. If at the time of loan repayment prices continued depressed, the farmer had the option of forfeiting his honey to the Commodity Credit Corporation (CCC) without recourse.

Over time, this policy heightened market instability when the accumulated honey at the CCC was put for sale, or given as a food assistance program⁵. In order to reduce these instabilities, this program was amended with the aim of transforming it into a true loan program where the risk was assumed by the producer. In the 1995 Farm Bill, the recourse loan program for honey was eliminated but only for a brief period as it was reestablished in 1998.

⁴ The analysis under this heading is taken mainly from Alberta (2001) and ITC (2001).

⁵ Thus, in the early 80s, “a massive 100 million pounds of forfeited honey reentered the US marketplace with extremely negative market consequences” for producers and exporters (Alberta, 2001, page 59).

Another modification increasing the implicit subsidy was introduced in the Agriculture Appropriations Act for fiscal year 2001. The key provision of this legislation is that the recourse non-purchase loan rate program that was in effect until then, was switched to a non-recourse purchase loan rate program or loan deficiency payment program. These changes in effect brought the nature of Government support closer to what it was before the reform of the 1980s. Some details of this program are: (i) the loan rate is established at \$0.65 dollars per pound, (ii) honey can be forfeited to satisfy the loan, (iii) the loan may be repaid at the lower of the loan rate plus interest, or the prevailing domestic price as established by the USDA, (iv) a loan deficiency payment will be available for the difference between \$0.65 dollars per pound and the market price. Because at the time of introducing this program the market price is estimated to have been around \$0.52 dollars per pound, the subsidy rate was in the order of 25% (Alberta, 2001 p. 59)⁶. Finally, the 2002 Farm Bill has made this a longer lasting program and for its first year, the loan rate has been established at 0.60 dollars per pound (www.usda.gov).

US honey producers have also requested import protection. In 1976 the ITC undertook an investigation under Section 201 of the 1974 Trade Act (ITC, 2001). It concluded that increasing import quantities threatened causing injury to the domestic industry and recommended instituting a tariff-quota in order to avoid damage. Nevertheless, President Ford recommended to the Congress that import relief for the US honey industry was not in the national economic interest and the measures never came into effect.

In 1993 and upon request from the USTR, the ITC initiated an investigation under Section 406 (a) of the Trade Act of 1974. Again it found that imports from China were increasing rapidly and were a significant cause of market disruption to the domestic industry. Once again, the US President determined that import relief for honey was not in the national economic interest and directed the USTR to monitor imports from China.

⁶ The subsidy was capped at \$0.15 per pound and a maximum of \$150,000 dollars per beekeeper.

In 1994, the American Beekeeping Federation (ABF) and the American Honey Producers Association (AHPA) changed their strategy and this time filed a petition alleging that the domestic industry was being injured by “less than fair-value” imports from China. Preliminary affirmative determinations of injury and of dumping margins ranging from 128% to 157% put China against the wall. Subsequently in August of 1995, under pressing circumstances, China concluded an “agreement” with the DOC that suspended the investigation. This agreement obliged China to restrict the volume of honey exports to the US to 20,000 tons per year. An idea of how restrictive this measure was, is given by the fact that during 1992-1994 (the three preceding years), the average US annual import volume from China was 31,000 tons suggesting that the “agreement” led to a 30% reduction in trend imports from this country. In addition to the quantity restriction, the “agreement” also instituted a pricing mechanism according to which exports could not be sold at a price below a reference price⁷. This was a five-year agreement that concluded in August 1, 2000.

The suspension with China was scheduled for its sunset revision in July of 2000 but since no domestic party expressed interest in its continuation, it was terminated. In fact, the interest in import protection was higher than ever but this time the domestic industry had devised an improved protectionist strategy. In September of 2000 and after the termination of the agreement, the US industry petitioned new antidumping investigations against Argentina and China, and an antisubsidy investigation against Argentina⁸. Clearly, US producers had concluded that: (i) a completed antidumping investigation would be more protectionist than one terminated in a suspension agreement and, (ii) that Argentina which had become a competitive exporter, should also be included. In November of 2000, the DOC agrees to open these investigations. On December 10, 2001 the DOC issued AD orders against imports from Argentina that ranged from 32.6% to 60.7%, and against

⁷ This reference price was equal to 92 percent of the weighted-average of the honey unit import values from all other countries for the most recent six months of data available at the time the reference price is calculated. (ITC, 2001).

⁸ The petition was filed by AHPA, Bruce South Dakota, and the Sioux Honey Association which together represent a little more than 50% of the industry (ITC, 2001).

imports from China that ranged from 25.9% to 183.8%. The DOC also issued a 5.85% countervailing duty (CVD) against Argentina.

Summing-up, the statistical trends discussed in this section indicate quite clearly that in the US, honey production is a declining industry. Here, honey output has stagnated while imports have continued to increase and this has occurred in spite of Government financed support and high protection against imports from China. In contrast, Argentina's exports have been increasing at a fast pace to several markets including the US. Likewise, the evidence on economic policies indicate that the US honey industry has been subsidized for several decades and more recently, it is also being protected with high import barriers.

III. US AD and CVD Investigations

During the years of the previous AD investigation (1994-1995), China accounted for around 30% of US imports but in 2000, Argentina plus China accounted for 79%; a significant increase in the US import coverage of its protective measures (www.beekeeping.com). What can we learn from the recent investigation undertaken by the DOC? In order to answer this question, this section starts by focusing on the investigations against Argentina. After this, I present brief comments on the proposed suspension agreement, and the injury determination by the US International Trade Commission (ITC, 2001).

1. The dumping investigation: determining the cost of honey production

The most troublesome aspect of the AD investigation is the chain of events following the decision by the DOC to assess the margin of dumping against an estimate of the cost of producing honey. Its initial attempt was to estimate this cost directly from honey

producers and here a first problem was to locate them. One of the Case Brief (1)⁹, indicates that the difficulty in obtaining data from small-scale beekeepers “is illustrated by the plight of the Federal Express packages sent by the Department to the cost respondents. Of the 48 potential cost respondents selected by the Department to receive the first questionnaire, Federal Express was unable to deliver a package to 22 of them. Of the 26 “successful” deliveries, at one location there was a ladies clothing store, not beehives; at one location the inhabitants had never heard of the intended recipient; in another case neither the addresses nor the business existed in the destination village; at three locations the owners had stopped harvesting honey long ago; and in at least one case the Federal Express envelope arrived without the questionnaire inside. In short, as the Departments first questionnaire should had driven home, it was a fiction to assume that accurate data from the beekeepers was obtainable” (Case Brief 1, page 14-15¹⁰).

Later for a smaller sample of around twelve beekeepers, the DOC sent its lengthy and sophisticated questionnaire that none of them could complete the reasons being lack of knowledge of the english language, plus poor or non-existing records required by the DOC in order to support the answers. Sending sophisticated questionnaires to poor beekeepers who could not respond, is an example that a rules-based system does not necessarily imply that all are given the same opportunities under it. As argued in the final Section, this happened in spite of promises to the contrary made in the Uruguay Round.

After this failed attempt of estimating cost of production with information provided by Argentina’s beekeepers, the DOC had some degrees of freedom regarding the evidence on which to estimate the margin of dumping. The DOC could had taken more market-

⁹ Unless otherwise indicated, reference to Case Brief in this section refers to that presented by ACA (Case Brief 1, 2001). Other Case Briefs as well determinations published in the Federal Register in reference to these AD and CVD cases are listed in the bibliography. At the time, ACA was the most important exporter.

¹⁰ Even a big firm like ACA, was hard pressed to complete its questionnaire on time. My interview with this firm also indicates that important amounts of administrative resources had to be devoted during several months to this case. As an example, the verification undertaken by the DOC included the elaboration of documentation that is included in four volumes. If this happened to the biggest exporter, it is reasonable to presume that expecting a small beekeeper to respond to the DOCs complex and sophisticated questionnaire was unreasonable. See Boltuck and Litan (1991) for an elaboration of the harassment that goes with AD and CVD investigations undertaken by the DOC.

oriented approaches instead of relying on constructed cost structures as it finally did. For example, it could have used export prices to some destination other than the US and the obvious candidate would have been sales to Germany where Argentina also exports heavily. Apparently, this alternative was never seriously considered..

In the end, the DOC used reconstructed costs and assessed the margin of dumping with this methodology which has been severely criticized by prominent analysts (Finger, 1993 and Krueger, 1995). In essence, the DOC concluded that the best available evidence on cost of production, was the one that had been presented by the Petitioners. This evidence was published in a second rate journal called *Gestión Apícola* that had been in print for a brief number of months before the petition was filed and has by now gone out of print¹¹. The DOC characterized this as the only piece of “independent evidence” on which to base the case¹². As expected, the decision to use this data opened the door to a debate on the appropriateness of different assumptions used in these estimates. The Argentine exporters argued that they contained several errors and that either the DOC should discard them or at the very least, should adjust them. The petitioners objected to all of these arguments and in the end, the DOC concluded that: “We agree with the petitioners” (DOC a, page 11; underline is mine).

Some examples of the discussion that went on illustrates the type of Pandora box that was opened when non-market data was used to make the determination on cost of production. The following are three examples: (1) Joint production. The exporters argued that in the production process of honey, other products can also be jointly produced. But the denominator of the cost in *Gestión Apícola* did not include an estimate of the income

¹¹ A lucky coincidence for the Petitioners? The argument by the DOC was that these costs were used “because these studies were prepared: 1) by an independent author; and 2) not in anticipation or response to the antidumping investigation” (DOC a, page 6). Given that the period of these investigations goes from July 1, 1999 to June 30, 2000, the DOC used the cost of production estimates published in this magazine during 1999 and 2000. For example, the September 1999 issue of this magazine shows a cost of producing honey of \$1.27 dollars per kilo or \$58 cents per lb.

¹² It is of interest to note that an independent estimate arrives at the following cost of production per lb.: Argentina: \$0.47 dollars; Canada: \$0.50 dollars; China: \$ 0.42 dollars 19 %, and the US: \$0.65 dollars (Alberta, 2001). This estimate for the US is 38% and 55% above the estimates for Argentina and China respectively.

generated with the sale of other products and the exporters argued that the DOC methodology for treating joint products was not appropriately used in this investigation. By one estimate presented in the Case Brief (1), separating the costs of production of honey and other products instead of assigning all costs to honey would have reduced the cost of production from \$1.36 dollars per kilogram to \$1.04 dollars per kilogram or \$47 dollar cents per lb which coincides with the estimate presented in the Alberta study (2001, page 57). (2) Wax replacement. According to the Case Brief (1), Gestión Apícola seriously overestimates several items such as the cost of wax replacement. (3) Feeding and health care. According to the Case Brief (1), the feeding costs in Gestión Apícola are overestimated by 51%, and the cost of health care of the beehives is overestimated by 33%.

To conclude, a March 5, 2001 article in the New York Times summarizes well the nature and consequences of US regulations: the “United States began its investigation by giving producers and exporters 30 days to answer a nearly 150-page questionnaire in english, but because they could not understand english, failed to realize what was at stake or had incomplete records, the beekeepers did not respond” and, in “the absence of what it considered a satisfactory response from beekeepers, American auditors were authorized to turn to the best available evidence. That turned out to be a magazine article that producers and exporters here say was riddled with errors and false assumptions” (Rohter, 2002). Not surprisingly, the final estimated margins of dumping by the DOC indicated that Argentina’s and China’s honey exporters were selling at prices that were more than 30% below production costs¹³. The fact of the matter is that most honey producers in Argentina (and other countries) are so poor that they have no capacity to undersell for more than one harvest before going out of business¹⁴ but this type of common sense economic reasoning has no place in the current WTO and US regulations on contingent protection¹⁵.

¹³ More concretely, the antidumping duties against Argentina and China are the following: a) Argentina: ACA: 37.4%; Radix: 32.6%; Con Agra: 60.7%, and all others: 36.6%, b) China: Inner Mongolia: 57.1%; Kunshan: 49.8%; Zhejiang: 25.9%; High Hope: 45.5%; Shanghai Eswell and Anhui and Henan: 45.5% and all others: 183.8%. These barriers are applied on top of a specific import duty of \$1.9 dollar cents per pound.

¹⁴ One explanation that was given to me of why the cost of production published in Gestión Apícola were inflated, had to do with attempts by smallholders honey producers, to put pressures on exporters to pay better prices. This could be the case as none of the major exporters appears to be producing honey i.e. there is a clear gap between the interests of exporters and those of the producers with the first apparently holding monopsony power over the later.

2. The subsidy investigation

Following a positive final injury determination by the ITC, the DOC's final determination issued on October 4, 2001 indicates that the margin of subsidy received by Argentina's honey exports was 5.85%. The petitioners requesting countervailing measures were the same as those who requested the antidumping protection against imports from Argentina and China. This subsidy investigation covered 31 national, provincial and municipal programs of which the DOC found: (i) six to be conferring subsidies, (ii) eight not to be conferring subsidies, (iii) ten not in use, (iii) four not in existence and, (iv) three had been ended (DOC b)¹⁶.

In the end, most of the countervailing duty countervailed the reintegro program and it is of interest to focus on this issue. This program entitle exporters to a rebate of internal or domestic taxes levied during the production, distribution and sales process. This rebate is paid upon exports and is calculated as a percentage of the FOB invoice price. It should be clarified that the reintegro program is the classic rebate of indirect taxes particularly important to some developing countries having weak direct tax systems. For closing fiscal gaps, governments in these countries resort to a number of measures including the taxation of transactions which have the negative effect of increasing production costs. Rebating these taxes is the only means of ensuring that they are not exported.

In past subsidy investigation the reintegro program was countervailed following a precise methodology according to which the DOC estimated the incidence of indirect taxes and countervailed the amount of reintegro that was in excess. The Uruguay Round Subsidy Agreement introduced important modifications in the methodology to be followed in the assessment of rebates of indirect taxes. In essence the new procedure puts the burden of the

¹⁵ To be sure, Article 15 of the Antidumping Agreement promises that in AD cases requested in industrial countries, developing countries should be treated with some care. In the final Section, I return to this issue.

¹⁶ The high number of programs listed in the petition is an indication of the amount of preparatory work that went into this case.

proof on the exporting country and if its Government cannot demonstrate that the rebate is well estimated, then the importing country is free to countervail 100% of the rebate.

The new regulations, which are included in Annex II of the WTO Agreement (“Guidelines on Consumption of Inputs in the Production Process”), stipulate that the entire amount of the reintegro confers a benefit unless the exporting country Government can demonstrate that: (i) it has a procedure to determine which inputs are consumed, in what amounts, and which indirect taxes are imposed on them and the system is reasonable for the purpose of determining reintegro rates or, if this procedure is not in place, (ii) the Government has carried out an “examination” of actual inputs involved to confirm which are consumed in the production process of the exported product.

The Government of Argentina (GOA) invested significant amounts of resources in order to contest the DOC preliminary decision that its procedure was not a reasonable system but in the end its argument failed to make a dent in the final decision. Regarding the first alternative, while the DOC acknowledged that the GOA collects information from honey producers and is in contact with them, it also argued that it failed to demonstrate that it analyzes data as part of a systematic procedure. The fact of the matter is that resources at the disposal of the Government are not abundant to operate a system as sophisticated as that required by the DOC as complying with the WTO regulations.

Regarding the second alternative, in order to justify reimbursement to honey exports, the GOA commissioned a study measuring the incidence of indirect taxes in honey exports. The DOC disqualified this study because: (1) it was not based on a representative sample of Argentine beekeepers, (2) did not test the inputs and indirect tax incidence against actual company experience and, (3) overstated the costs as well as the taxes paid on listed inputs (DOC b)¹⁷.

¹⁷ TIMES (2001) offers a critical analysis of this report.

Summing-up, in previous subsidy investigations against Argentina, the DOC had adjusted the incidence of indirect taxes when it found evidence of overstatements. In the honey case, following the new UR regulations, the DOC determined that all of the reintegro should be countervailed. It is apparent that unlike earlier cases, in this case the DOC was unwilling to accept any type of analysis on prior-stage cumulative indirect taxes levied on inputs consumed in the production process. This happened in spite of the clear fact that at least some of these taxes had been paid by honey producers. The system required by the US and sanctioned in the WTO Agreement to be in place in the exporting countries is costly and therefore, unlikely to be implemented. In much the same way that in the dumping investigation the private-sector beekeepers were unable to meet the demands associated with responding lengthy and detailed questionnaires, the Government of Argentina could not meet the challenge associated with the new regulations for supporting specific rebate rates of indirect taxes. There is no doubt that a trading system without export subsidies would entail greater gains to the world economy but the specific regulation addressed above, does not move the system in this direction. It simply facilitates protectionism through countervailing duties that exceed the rate necessary to compensate export subsidies¹⁸.

3. The proposed suspension agreement

Article 18 of the Agreement on Subsidies and Countervailing Measures regulate how undertakings should be negotiated. The US offered Argentina a suspension “agreement” but under terms that were clearly injurious to its honey producers and exporters; honey exports would be limited to 27,000 tons per year plus the obligation by the GOA to eliminate export subsidies and implement a quarterly monitoring system of prices and quantities exported to the US¹⁹. Given that during 1998-2000 the average quantity exported by Argentina to the US had been 39,000 tons per year, the undertaking offered by

¹⁸ One comment from the referee indicates that in the UR, it was likely that it was the US who pushed for the new regulations; presumably because the GATT does not allow rebate of direct taxes, it wants to make it very difficult for other countries to receive rebates of indirect taxes.

¹⁹ The figure of 27,000 tons is mentioned in an article entitled “Tentative Suspension Agreement Reached in Argentine Honey Cases”, published in the American Bee Journal of October 2001 (page 692).

the DOC would have reduced exports by 31%; more or less by the same proportional amount that China's exports were reduced in the 1995 suspension agreement. Under these terms, Argentina concluded that such an agreement was not in its interest.

4. Determination of injury by the ITC: the role of prior AD measures

According to its regulations, in determining whether or not the domestic industry is being injured by “dumped and subsidized imports”, the ITC takes into account several factors including: (i) the recent behavior of import volumes, (ii) the effect of imports on domestic prices and, (iii) other factors that might also account for any injury that is being experienced by the industry. During the period under investigation, imports showed a strong increasing trend going from 60,000 tons in 1998, to 83,000 tons in 1999, to 90,000 tons in 2000, and were still increasing in the first semester of 2001 when the ITC was investigating this case. Together with the relatively slow growth of domestic production, the participation of imports in apparent consumption increased from 28.4% in 1998, to 36.8% in 1999, to 37.7% in 2000 (ITC, 2001)²⁰.

Regarding the effects of imports on domestic prices, the ITC determined that they had a negative impact. It should be stressed nevertheless, that domestic prices were coming down from the high levels that had been triggered by the 1995 Suspension Agreement with China; as new exporters like Argentina entered the scene, international prices began declining as evidenced in Graph 3. This suggests that contingent protection measures facilitate affirmative injury findings in AD petitions filed at later dates.

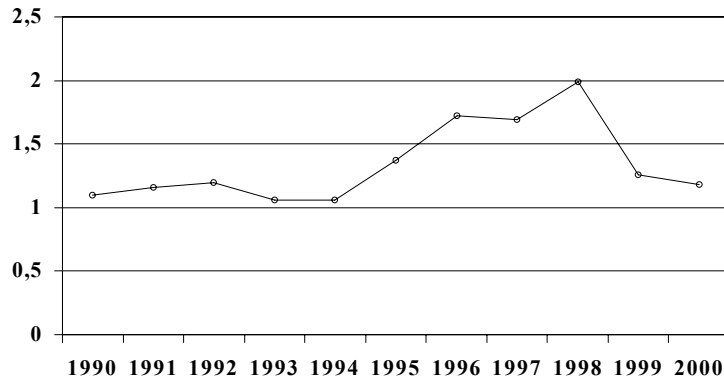
In any case, the presence of lower prices plus evidence on declining profits and problems in repayment of loans by beekeepers, were core evidence leading to the positive determination by the ITC²¹. Obviously, increasing imports and declining prices and profits

²⁰ In this investigation, the ITC proceeded to cumulate imports from Argentina and China, thus increasing the likelihood of finding injury.

²¹ According to the US regulations, the ITC has to consider whether imports are having an impact on the fiscal costs of honey supporting programs. The conclusion of this analysis was that during 1999 and 2000, the fiscal cost of honey supporting programs had increased. Increasing protection in order to reduce the fiscal cost of Government subsidies is bad economics.

are also effects that occur naturally in industries that cannot successfully meet international

Graph 3:
Unit Prices in World Honey Exports
(dollars per kg.)



Source: FAOSTAT

competition i.e. declining industries which as argued in the previous section, is a characteristic that fits the US honey industry. Nevertheless, these type of considerations that would push for an improvement in the worldwide allocation of resources are not taken into consideration neither by the ITC nor the WTO rules.

5. Conclusion

The major conclusion of this Section is that existing WTO rules allow Members to implement regulations that can turn out to be so complicated not to say costly, that in some cases cannot be met by developing country exporters. Argentina's beekeepers never had a chance of responding to lengthy and detailed "cost of production" questionnaires. In the absence of this evidence, the DOC turned to estimates that had been presented by the Petitioners. These estimates were published in a second rate journal that was in print for a little more than the duration of the investigation and that apparently were riddled with errors. In the case of the alleged subsidy of the reintegro program, the system required by the US and sanctioned in the WTO Agreement, to be in place in the exporting countries is costly, and was not implemented by the Government of Argentina at least, not by the level

of sophistication required by the DOC. There is no doubt that a trading system without export subsidies would entail greater gains to the world economy but the specific regulation that I have addressed, does not move the system in this direction. It only benefits US producers at a cost to consumers and foreign exporters.

IV. Fragmentation versus Cohesion: Contrasting Argentina with the US

I believe that under the present US and WTO regulations, there is no strategy that could have been successful to impede the imposition of contingent protection measures against honey imports from Argentina. Yet, it is instructive to discuss some striking differences in the way that US producers organized themselves behind their petition for protection, with the way that Argentina defended itself. The party usually defending a subsidy investigation is the Government, and that usually taking up the defense of a dumping investigation is the exporting sector. In order to analyze salient characteristics of the defense, it is instructive to start separating the analysis along these lines. I conclude the Section by contrasting the cohesion behind the petition by the US honey industry with the fragmentation shown by different parties in Argentina.

1. Defense in the she subsidy investigation

The defense of the subsidy allegations in the reintegro and other Government supported programs, was complicated by numerous factors including:

- Difficulties in financing the legal fees that had been budgeted at the quite normal value of around \$400,000 dollars plus travel and miscellaneous expenses. This did not include the defense on the injury investigation by the ITC which was financed by a group of exporters. The Province of Buenos, that accounts for approximately half the honey produced in Argentina, pledged to put half of this amount but finally because of fiscal problems, failed to comply with its promise and the National Government had to foot the bill.

- Lack of human and financial resources further weakened the capacity of different layers of Government to articulate a defense in a coordinated manner²². One example is that an invitation by the National Government to officials from the major honey producing provinces that sought to start coordinating the defense, was responded negatively by most due to lack of travel budgets. The resource constraint was so severe that several express mail envelopes and international phone calls were paid by one of the officials who by default of the different layers of Government, took the defense of this case as a personal challenge.
- Knowledge with the dimensions of what was at stake, was an added problem as most provincial officials ignored the WTO rules and US legislation on unfair competition.
- The time limits of the US regulations also put the Government against the walls. All in all for the preliminary determination, the Government received three extensive questionnaires from the DOC. In developing answers to these questions, some seven volumes containing around 400 pages each were created.
- Then there is the problem of inter-agency coordination. Given the dispersed nature of honey production along a vast territory, the answer to the questionnaires by the National Government required the collaboration of some 17 government and provincial offices. Nevertheless, in Argentina strong inter-agency coordination is an exception more than the rule and often, the consequences of the DOC's overloaded questionnaires created tensions between these offices.

²² Several Provinces had also implemented social development programs that supported the incomes of honey producers and in spite of this goal, the final determination countervailed some of them. For example, in the case of the Province of San Luis, the DOC acknowledged that the promotion of honey production is “to supplement the income of disadvantaged people in underdeveloped areas” (DOC b, page 11). A leasing program, which essentially was a loan program, is a component of the social assistance strategy that was countervailed because the “verification indicate that there is no expectation by provincial officials that the loans will be repaid” (DOC b, page 12).

- In addition to these problems, there were others that also weakened the defense by the Government. First, lack or inadequate knowledge of the English language by many officials implied an additional burden as many could not understand what was included in the documentation. The problems that this generated were compounded by lack of translation services in most public offices. Second, sometimes the degree of disaggregation of the statistical data required by the DOC was well beyond what is customary. Furthermore, absence of human resources and underdeveloped communication technology implied that even if available, the required information could not be easily put into a standard format. For example, regarding loans to the industry, the DOC handled a form that had to be filled with information for each beneficiary under each of the programs included in the Petition. Often lack of personnel made it impossible for the government offices and bank branches where this form was sent, to complete them in the detail required by the DOC.

Summing-up, although it is true that many layers of Government are disorganized and that here there is much room for improvement, the nature and complexities of the investigation of the margin of subsidy by the DOC created demands that were difficult if not impossible to meet. Some of the problems encountered in the attempts for orchestrating the defense included lack of financial resources and a quite widespread absence of knowledge on WTO regulations and their implications. What happened during this process also illustrates that a rules-based system requires knowledge and financial resources for complying and ensuring compliance by other Members. Without these elements in place, a rules-based system can end up benefiting some Members more than others.

2. Defense in the dumping investigation

Although the responsibility for the defense in dumping cases falls primarily on the firms selected by the DOC, which in practice were the largest exporters, it should be said that neither the national nor provincial governments played any significant role in assisting these enterprises. This as I shall argue, is in contrast with the cohesion between some layers

of the US Government and its honey producers for organizing themselves and obtaining the necessary financing for initiating the AD and CVD cases.

Regarding the structuring of the defense by Argentina's exporters there were two alternative paths that they could follow: (i) they could choose to implement a united front by for example, agreeing to collaborate and split the costs of the legal fees or alternatively, (ii) they could go their own way on the expectation that differential firm-specific antidumping duties would benefit some at the expense of the others. Following the traditional rivalry that apparently has characterized their behavior, the exporting firms selected the second strategy²³. It is of interest to contrast this behavior with the high degree of cohesion shown by US honey producers which I address next.

3. US cohesion in building the petition

A few comments illustrate several differences between the building of the petition by the US honey producers and the defense of Argentina. Early in 2000, the American Honey Producers Association (AHPA) published in several bee and honey specialized journals, a note to beekeepers notifying them that the legal firm "Collier, Shanon, Rill and Scott" had expressed that there was a reasonable expectation that an antidumping case against Argentina and China would be successful because "current prices are about the same as when we won the previous antidumping action against China"²⁴.

In order to arrive at a better assessment of its chances in a new antidumping case, in its letter AHPA recommended a contribution of \$35,000 dollars required to undertake a study on: (i) the situation in Argentina, (ii) the situation in India which in the 1995 investigation was the surrogate country for China and, (iii) an assessment of the injury on

²³ Nevertheless, for the injury investigation twelve exporting firms came up with \$100,000 dollars to pay the legal services. This cost was split in proportion to their export value.

²⁴ This notice appeared for example in the June 10, 2000 of "Bee Culture". According to this article, the expectation was that a new AD measure would put \$20 millions in the pocket of beekeepers during the first year.

the US honey industry. Furthermore, AHPA surveyed the readiness of beekeepers to pay \$700,000 dollars as legal fees to the above-mentioned firm for managing the case.

Therefore, a first contrasting difference with Argentina is that US beekeepers are well organized and have efficient umbrella organizations capable of coordinating their actions. A second difference was that the US beekeepers had the advantage of a previous case won against China which permitted a better assessment of their chances in a new case. A third difference is that they have money.

Two other aspects are of interest. First, there appears to have been a number of articles in honey oriented journals and magazines that helped to prepare an environment of finger-pointing against Argentina. For example, one article commissioned by APHA asserted that some exporters in Argentina make money “from the blood” of beekeepers. There was also a presentation by an Argentina beekeeper at the Annual Meeting of AHPA who expressed that the biggest enemies of Argentina’s honey producers are its exporters and US importers (Braunstein, 2000); a shot in the foot.

Finally, it is of interest to note that at least the Governor of one of the US honey producing states, pledged to pay for part of the legal fees. For example, a note in the Honey Producer Magazine of August 29, 2000 indicates that Governor Bill Janklow of South Dakota is “contributing \$50,000 to help the American Honey Producer Association fight against unfair trade practices by Argentina and the People’s Republic of China”. This is in contrast to the situation in the Province of Buenos Aires who as said, was unable to pay a penny that it had initially pledged.

4. Conclusions

The evidence on the CVD investigation against Argentina shows a clear disarticulation of different layers of Government for defending itself. In the end, the crucial role was played by its legal representation, and by a couple of Government officials who

took the challenge of defending this case with great energy but without any financial support.

The defense of the dumping investigation appears to have been weakened by a number of factors including a level of sophistication of the investigation that was well above the capacities of most beekeepers in Argentina. The industry never came close to presenting a unified front. This situation is in sharp contrast to the organizational strength of US beekeepers to build their case in the form of a strong petition and later, to fight successfully the arguments of the defense. Furthermore, the evidence indicates a high degree of cohesiveness between the US private sectors and different layers of governments that was never present in Argentina. This cohesiveness also included financial support by governments of honey-producing States to pay for the legal costs of this case. Finally, US producers were protected by new regulations negotiated in the Uruguay Round and it is unclear whether developing countries' negotiators were aware that these reforms could turn out to be so damaging to their exports²⁵.

V. Some Impacts of the US Protectionist Measures

This section starts by analyzing the important shifts in the direction of honey trade during the investigation, and following the final AD and CVD determinations. This analysis includes a discussion of the recently implemented sanitary-induced import ban on China's honey by major importers. Then I present a brief discussion of how the US protectionist measures may affect poverty. Finally, I conclude with an analysis on the cost of protection to US consumers.

1. Trade effects of the US measures

²⁵ Regarding the new WTO CVD rules the referee of this paper asserts that the "United States probably provided this particular paragraph (new rules for rebating indirect taxes), it seems to be a frustration over 50 years of struggle with the European Union over rebate of indirect taxes being allowed, but not rebate of direct taxes. It is also evidence of the technical capacity of the US to plant these little mines in many places, hidden from the unwary. (The objective is more to blow off legs than to prevent anyone from crossing the territory)".

Recently, the world honey market has been affected by two major disruptions. First, the administrative procedures and successive findings leading to the affirmative AD and CVD decisions by the DOC had clear effects even during before the final orders issued in December 2001. More recently in 2002, the findings of antibiotic residues has led major honey importing countries to ban imports from China²⁶. In order to distinguish these effects more clearly, I divide the discussion according to what the data shows for 2001 when there were no sanitary problem, and for 2002 .

1.1 Trade impacts in 2001

There is no doubt that the US trade measures had devastating effects on Argentina's and China's honey exports to the US, and this occurred even during 2001 when the investigations by the DOC and the ITC were still underway. Table 5 shows that in 2001, US honey imports from Argentina declined by 55%, and those from China by 33%. Although Canada would had been a natural source to replace at least some imports from the affected countries, the figures indicate that this did not occur probably because in 2001 the honey harvest was not that good²⁷. Instead, the data indicates that the US increased imports from many other countries and particularly from Vietnam, Mexico and Uruguay. In spite of this apparent market substitution, overall US imports (in tons) during 2001 were 26% below the level recorded in 2000.

²⁶ The analysis and conclusions presented in this paper are not affected by the devaluation and policy mismanagement that has characterized Argentina during 2002.

²⁷ Statistics from FAO indicate that during 2001 Canada produced 32,000 tons which was approximately the same as production in 2000 which in turn was lower than the production recorded in the previous two years.

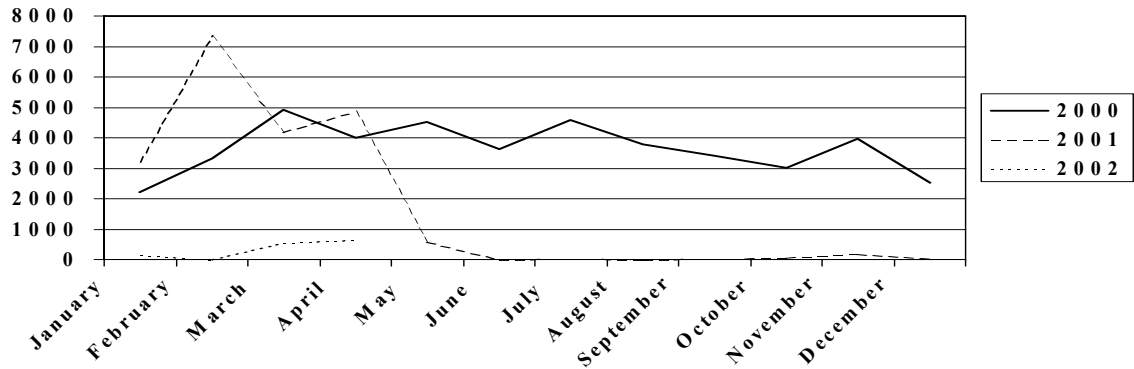
**Table 5: Major Suppliers of Honey to the U.S. (tons), 2000
and 2001**

Country	Year	2001
	2000	
Argentina	45.010	17.825
China	26.633	10.564
Canada	12.963	5.693
Vietnam	1.902	4.241
Mexico	2.085	2.478
Uruguay	60	1.302
Thailand	161	921
Chile	0	611
Hungary	89	413
Australia	93	64.520
Total ten	88.995	65.749
Total	89.883	

Source: USITC.

Graphs 4 and 5 shows US monthly imports (in tons) from Argentina and China. For Argentina, the lines indicate that starting in May 2001, shortly after the preliminary affirmative determination by the DOC and six months in advance of the final decision, imports began to crawl through the zero axis line raising the fears of a major collapse of Argentina's honey industry.

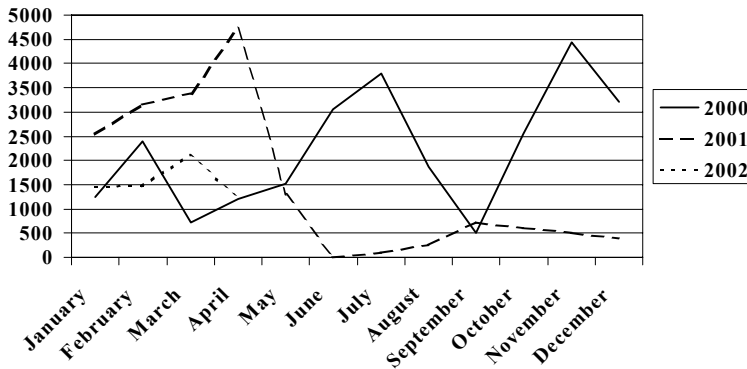
Graph 4: U.S. Monthly Imports from Argentina (In Tons.), 2000-2002



Source: USITC

Graph 5 shows a similar behavior for US imports coming from China but probably

Graph 5: U.S. Monthly Imports from China (In Tons.), 2000-2002



Source: USITC

because these imports were already restricted by the previous AD measure, the decline during 2001 is not as intense as that shown for Argentina but in any case, it is substantial. This trade effect during the DOC's investigation has been noticed in other studies. For example, Staiger and Wolak (1996, p. 86) concluded that "...the effect of a typical

antidumping investigation is to reduce imports during the period of investigation by roughly half the reduction that could be expected if antidumping duties had been imposed from the beginning of the investigation...”. As shown in graphs 4 and 5, this decline is noticeable after the preliminary affirmative findings which were published in March 2001.

This happens because preliminary positive determinations carry with them “...the liability of duty assessment for all imports entering thereafter if a final affirmative dumping determination is subsequently made...” (Staiger and Wolak, 1996, p.86). In the case of honey, the earlier AD measure against China implied a high likelihood that this would be the final result.

1.2 Trade impacts in 2002: the sanitary-induced import ban on China

On January 25, 2002 the EU Standard Veterinary Committee (SVC) voted “... in favor of a Commission proposal to suspend imports of Chinese products of animal origin intended for human consumption, or for use in animal feed...The main products affected by the suspension in volume terms are honey, rabbit meat, poultry and crustaceans such as shrimps and prawns. A recent mission of the EU’s Food and Veterinary Office (FVO) revealed serious deficiencies of the Chinese residue control system and problems related to the use of banned substances in the veterinary field” (EUSVC, 2002 in www.europa.gov). In the case of honey, the residues refer to streptomycin and chloramphenicol above the levels allowed by the EU (EUSVC, 2002)²⁸.

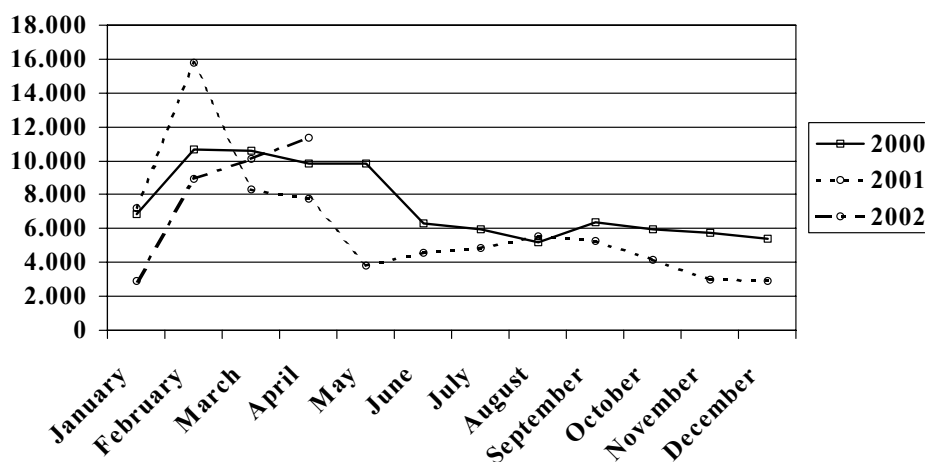
More recently on August 28, 2002, the US Customs Service has begun to follow the earlier steps by the EU after it found several containers with chloramphenicol. Moreover, the Customs Service has detected that “...in an effort to evade US Antidumping duties, this honey had allegedly been illegally transshipped through third-party countries on its way from China to America” (US Customs Office, 2002). Apparently, transshipment has taken place through Thailand.

²⁸ This residues have been associated with anemia and cancer. Europe has banned the use of this antibiotic in animals or their products which are destined for human consumption.

This decision has created a supply shortage that has led to a process of accelerated increases in honey prices around the world. Obviously this situation is benefiting other exporting countries including Argentina whose exports (in dollar terms) for the first six months of 2002 have increased by 28% on a yearly basis²⁹.

Graph 6 shows for example, monthly honey exports of Argentina since January of 2000. It is seen that starting in April 2002, monthly exports are above the level in 2000 which was a record exporting year. The data also shows as expected, that exports are growing particularly fast to countries other than the US. Germany which is the major unrestricted buyer, is one important destination where exports from Argentina are growing

Graph 6: Argentine Monthly Honey Exports



Source: INDEC

fast; exports to this destination for the first five months of 2002, are 47% above the level in 2001 (www.beekeeping.com).

Summing-up, the US AD and CVD investigations brought to a sudden stop the dynamic process of honey exports from Argentina to the US. During the 90s, Argentina's

²⁹ In quantity terms, exports during this period are up by only 1%.

competitiveness showed itself in a strong export performance. In order to reduce the speed of decline of the US honey industry, producers made sure that all major suppliers were included in the new allegations of being unfair traders. The initial trade effect reduced US imports dramatically and in this sense, and only in this sense, producers were successful. More recently, the sanitary induced import ban against China by major industrial country importers has added another destabilizing element to the world honey market.

2. Social impacts of protectionist measures

Under normal circumstances, we would expect that US protection of honey producers would lead to a reduction of international prices with negative effects on the incomes of beekeepers over the world. Given that many of these people are poor or very poor, protection against honey imports by the world leading importer will have poverty increasing effects. A few comments illustrate what is at work but a more precise assessment requires further analysis and additional data.

Although protection reduces international prices, the poverty increasing effects are felt with particular intensity in the countries targeted by the US trade measures; in this case, Argentina and China. The estimates suggests that China has around 200,000 beekeepers while in Argentina the number is around 25,000³⁰. As in Argentina, most of China's honey producers own a low number of bee colonies (around fifty), and only a few are estimated to be operating 300 colonies or more (Alberta, 2001 page 40). Furthermore, the indirect employment effects can also be very serious. For example, the Alberta study estimates that the honey industry in Argentina provides employment to around 60,000 persons many if not most of them being family members³¹.

In Argentina, a small producer is considered to have less than 50 beehives while a big producer is one who has more than 500 and according to estimates from the Secretaría

³⁰ The estimate for China is from www.beekeeping.com, and that for Argentina from the Secretaría de Agricultura.

³¹ It should also be said that due to the pattern of floral sources that characterizes China, much of the honey produced here comes from the efforts of migratory beekeepers which is an added element increasing their hardships (Alberta, 2001).

de Agricultura, only 3% of producers have more than 500 beehives. The beehives owned by the remaining producers are distributed in the following way: 1) 12% own from 350 to 500, 2) 75% own between 20 and 350 and, 3) 10% own less than 20³².

An estimate from the Secretaría de Agricultura is that in 1998 the annual net income for the honey producer was around \$0.30 dollars per kilo. Assuming that each beehive produces 35 kilos of honey, then a producer with 300 beehives would had netted \$3,150 dollars or around \$300 dollars per month. To put this in contrast, this amount is less than half the average income received by the people in the honey producing zone which are located mainly in the Provinces of Buenos Aires, Santa Fé, Córdoba, Entre Rios and La Pampa³³. These figures clearly indicate that for most producers, honey sales allow an extremely low standard of living.

In addition to the fact that honey production offers at best a subsistence income, beekeepers in Argentina as in other parts of the world, are also exposed to important uncertainties associated with: (i) fluctuations in international prices, (ii) unstable climatic conditions and, (iii) pest-related risks and uncertainties. Clearly, a protectionist trade measure by the major world honey importer can have devastating effects primarily on the beekeepers in the affected countries but also, through international price reductions, on those in other countries.

3. Prices and cost to US consumers

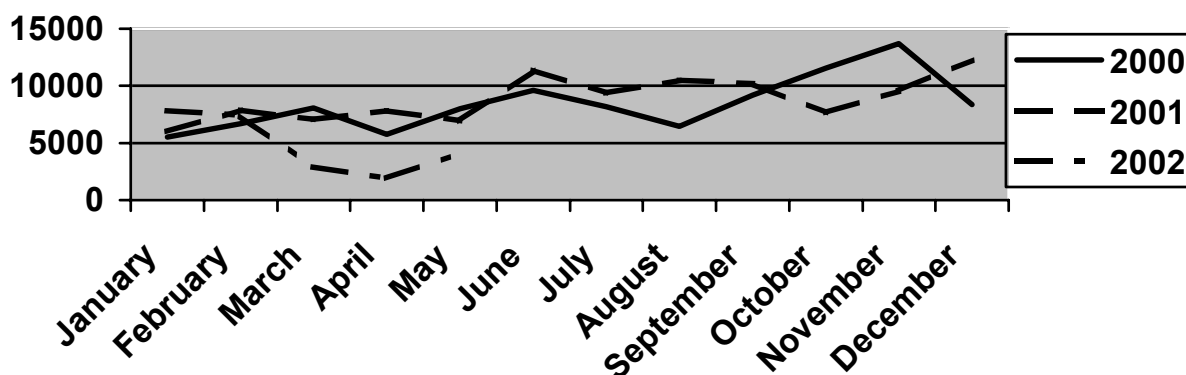
The purpose of this last comment, is to present an estimate of the impact of the trade measures on the cost of honey paid by US consumers. Under the present circumstances of the international honey market, this estimation is not straightforward. Under normal circumstances, we would expect that the US protective measures would increase domestic

³² Given that in 2000 the number of bee colonies in Argentina is estimated to have been 2.2 millions, the average number per beekeeper is 88. For other countries, breakdown of the number of beekeepers according to the number of colonies owned is apparently not available in the web.

³³ Information taken from the Encuesta de Hogares (household survey) published the the Instituto Nacional de Estadísticas y Censos (INDEC)..

prices while depressing world prices. Nevertheless, as Graph 7 shows, international prices approximated by Argentina's unit export values started to increase in late 2001 and this trend accelerated in 2002. For example, while unit prices were in the order of \$0.98 dollars per kilo in June of 2001, the price for the same month in 2002 was \$ 1.35 dollars per kilo; an increase of 38%. In part this increase must be attributed to the sanitary measures against imports from China imposed by big industrial countries. Under these circumstances: What are the consumer costs of the US AD and CVD duties?

Graph 7: China Monthly Honey Exports



Source: www.beekeeping.com

It is not straightforward to separate the price and trade effects of these duties from those induced by the import bans on China³⁴. Furthermore, US importers may be partially succeeding in switching sources of honey supply from Argentina and China to other countries. For example, while in 2000 Argentina and China accounted for 77% of US honey imports, during the first four months of 2002, they accounted for only 25%³⁵.

³⁴ To be sure, there has been no major change in the US MFN rate which has remained at \$1.9 dollar cents per kilo (www.dataweb.usitc.gov). In contrast, the EU charges a flat ad-valorem duty of 17.3% on honey imports. Methodologies for assessing the trade effects of contingent protection in the absence of complicating factors are presented in Hufbauer and Elliot (1994) and ITC (2002).

³⁵ Because as said, apparently some countries have been transshipping honey from China, the true substitution that has taken place is lower than what the numbers in the text suggest.

Clearly, many forces are at play. Furthermore, as the number of countries banning imports from China continues to increase (Canada has recently followed the EU and the US), the web of substitution effects surrounding the trade and sanitary measures becomes increasingly complex. Therefore in order to offer a back of the envelope estimate of the consumer costs associated with the US AD and CVD measures against Argentina and China, I will rely on the following simple assumptions: (i) in 2000 the US honey market was close to equilibrium, (ii) imported and domestic honey are perfect substitutes³⁶, (iii) the price elasticity of demand is -0.5% , and, (iv) the increase in consumer prices triggered by the trade measures is 20% . This is only a fraction of the average AD duty but given the evidence on market substitution possibilities that US importers have faced in the past, this appears to be more reasonable than assuming that the price increase will be equal to the average AD duty which is around 50% .

In 2000 US honey consumption was 179,143 tons while the retail price of honey was around \$7.00 per kilo³⁷. Under these assumptions, the extra costs that US consumers will pay on account of AD and CVD duties is in the order of \$238 million dollars.

VI. Development and the Doha Round

The analysis presented above, suggest a number of development topics that require attention in the Doha negotiations.

Development potential of honey exports. Millions of people around the world are making a living from honey production and for them, a free and competitive world market would strengthen their possibilities of raising their standards of living. Nevertheless, the US trade actions have reduced or eliminated the hope that this could become a reality any time soon. The 1995 AD measure against China was bad enough, but the new measures implemented in 2001 have increased the likelihood that the world honey market will continue to be

³⁶ The discussion presented by the ITC report suggests that the elasticity of substitution is very high (ITC, 2001).

³⁷ Domestic consumption is estimated as production (94,000 tons) plus net imports (85,143 tons). Average retail prices are estimated from various issues of the American Bee Journal.

shocked by protectionist measures. The sequential pattern of increasing and widening protectionism followed by the US to include successful exporters under the effects of its contingent protection measures, sends a clear message that other countries should think twice before investing in expanding honey exports to the US. One lesson from the events of the last decade is that becoming a successful honey exporter is more likely to make beekeepers from exporting countries poorer rather than richer. In this way, an industry that is very close to poor people all over the world and that should be fostered and stabilized, is in fact being severely harmed by discriminatory trade policies.

Economics of adjustment vs. economics of litigation. In spite of the clear lobbying success that by now spans more than five decades of support, the US honey producing industry continues to decline. Probably the millions of dollars spent in: (i) public support programs financed with US taxpayers money, (ii) legal fees in the antidumping cases and in the countervailing case, (iii) legal fees in earlier safeguard cases, (iv) the costs of the administrative resources invested by the DOC, the ITC and the targeted countries and, (v) the opportunity costs of private resources allocated to rent-seeking activities, plus the costs to US consumers, would had been sufficient to finance an orderly program for down-sizing the US honey industry. Despite the clear economics of the case, this line of action has apparently, never been seriously considered. Perhaps the time has come to compare this alternative to the very costly one that has been followed for so long.

Development, antidumping and the Doha Round. The analysis in this paper validates the criticism of regulatory protectionism by many renowned analysts. For example, in the case of the US, Palmeto (1991), has concluded that: "...the procedure it uses and the implementation of these standards and procedures by the Department of Commerce increasingly ensure that, at the end of the day, an exporter determined to have been selling below fair value probably has been doing no such thing in any meaningful sense of the word fair"³⁸. The analysis I have presented suggests that what was unfair in the antidumping case were not the US honey imports from Argentina and China, but regulations and administrative procedures that allow the imposition of very high duties

³⁸ Cited in Finger (1993, page 31).

against beekeepers that never had a real chance of defending their situation. These regulations and sophistications can perhaps be dealt by major manufacturing enterprises but are well above what poor people in the agricultural sectors of developing countries are able to deal with. Leveling the playing field requires an agreement that the poorest segments of developing countries should not be faced with sophisticated questionnaires for which we know beforehand, that they are not capable to of responding³⁹. At the very least, negotiations aimed at solving these negative development impacts, require a reformulation of Article 15 of the Antidumping Code providing more clear rights to developing countries. As it now stands, this Article only offers empty words and if in the Doha Round negotiations fail to give it teeth, then in order to strengthen the integrity and transparency of the trading system, it should be dropped⁴⁰.

Agriculture, countervailing measures and the Doha Round. A similar recommendation applies to countervailing investigations. The determinations arrived by the DOC in the interpretation of policies like Argentina's reintegro program are made possible by WTO rules that are difficult if not impossible to implement. This CVD case touches on many issues of the Doha Round including: (i) the treatment of dispersed agricultural industries, (ii) the acknowledgement of structural constraints that impede the development of efficient tax systems and, (iii) the good faith implementation by developed countries of promises made in the Uruguay Round. Again the discussion here , illustrates several instances where some of the good intentions that are now written in the WTO agreements are not being implemented. The minor if at all existing subsidy that may have been present in Argentina's honey exports contrast with WTO rules that allow massive export subsidies by industrial countries to their agricultural exports; these subsidies certainly impoverish developing countries (World Bank and IMF, 2002 and WTO, 2002) for agricultural

³⁹ One alternative would be to forbid the method of reconstructing cost when imports come from developing countries.

⁴⁰ This article reads as follows: "It is recognized that special regard must be given by developed country Members to the special situation of developing country Members when considering the application of anti-dumping measures under this Agreement. Possibilities of constructive remedies provided for by this Agreement shall be explored before applying anti-dumping duties where they would affect the essential interests of developing country Members". This Article is being addressed in the Doha negotiations and I hope that the analysis presented in this paper is a positive contribution to these discussions.

products. This is why a world without export subsidies, as proposed by the US and the Cairns Group in the Doha negotiations, would be a better world.

Finally, given the multilateral efforts for achieving the world poverty targets, regulations for managing contingent protection could make room for poverty assessments associated with these measures. This suggestion appears to apply with particular force to agricultural products like honey where an important number of poor people around the world make a living, and where it is crystal clear that they have no possibility of underselling without risking putting themselves and their families closer to indigence. The Doha Development Round should be the appropriate forum to address the poverty effects of “unfair” trade regulations.

Bibliography

Alberta, “Competition for World Honey Markets”, Agriculture, Food and Rural Development, Province of Alberta, Canada, April 2001.

Boltuck, Richard and Robert Litan, “America’s Unfair Trade Laws” in Richard Boltuck and Robert Litan (eds.), “Down in the Dumps: Administration of the Unfair Trade Laws”, Brookings Institution, 1991

Braunstein, Martín, “XXXI Convención Anual de la Asociación de Productores de Miel de EEUU”, Gestión Apícola, Junio 2001.

Case Brief 1, “Public Version of Case Brief of Investigation No. A-357-812”, presented by Wilmer, Cutler & Pickering on behalf of ACA, August 7, 2001.

Case Brief 2, “Public Version of Case Brief of the Countervailing Duty Investigation: Honey from Argentina”, presented by David Houlihan and Gregory Spak of White and Case on behalf of the Government of Argentina and the Government of the Province of Buenos Aires, September 5, 2001.

Case Brief 3, “Public Version of Case Brief of the Countervailing Duty Investigation: Honey from Argentina”, presented by David Houlihan and Gregory Spak of White and Case on behalf of the Government of Argentina and the Government of the Province of Buenos Aires, September 10, 2001.

Department of Commerce (a), Memo from Faryar Shirzad to Joseph Spetrini on: “Issues and Decision Memorandum from the Antidumping Investigation of Honey from Argentina: Notice of Final Determination of Sales at Less than Fair Value”, Public Document, A-357-812, October 4, 2001.

Department of Commerce (b), “Memo from Faryar Shirzad to Joseph Spetrini on: “Issues and Decision Memorandum in the Final Affirmative Countervailing Duty Determination: Honey from Argentina”, Public Document C-357-813, October 4, 2001.

Department of Commerce (c), “Notice of Final Determination of Sales at Less than Fair Value: Honey from Argentina”, Federal Register, October 4, 2001.

Department of Commerce (d), “Notice of Final Determination of Sales at Less Than Fair Value: Honey from the People’s Republic of China”, Federal Register, October 4, 2001.

Department of Commerce (e), “Final Affirmative Countervailing Duty Determination: Honey from Argentina”, Federal Register, October 4, 2001.

EUSVC “EU Standard Veterinary Committee Agrees on Suspension of Imports of Products of Animal Origin from China”, EU Standing Veterinary Committee, January 25, 2002.

Finger, J. Michael, “Antidumping: How it Works and Who Gets Hurt”, The University of Michigan Press, 1993.

Hufbauer, Gary, and Kimberly Elliot, “Measuring the Costs of Protection in the United States”, Institute for International Economics, 1994.

International Trade Commission, “Honey from Argentina”, Publication 3470, ITC November 2001.

International Trade Commission, “Economic Effects of Significant US Import Restraints”, Publication 3519, 2002.

Krueger, Anne O., “American Trade Policy: A Tragedy in the Making”, American Enterprise Institute, 1995.

Palmer, N. David, “The Antidumping Law: A Legal and Administrative Trade Barrier”, in Robert Litan and Richard Boltuck, “Administration of the Trade Remedy Laws”, The Brookings Institution, 1991.

Rohter, Larry, “US and Argentina Fight Over Honey”, New York Times, March 5, 2002.

Staiger Robert and Frank Wolak, “The Effect of Import Source on the Determinants and Impacts of Antidumping Suit Activities”, in Anne O. Krueger, “The Political Economy of Trade Protection”, The University of Chicago Press, 1996.

Starks, Roger, “Beekeeper Suspects Argentine Exporters Not Truthful with Growers”, Honey Producer Magazine, 32: 2, 2000.

TIMES., “Reintegros a las Exportaciones Argentinas de Miel: Observaciones, Aclaraciones, Preguntas y Correcciones”, mimeo, April, 2001.

US Customs Office, “US Customs Service and Food & Drug Administration Uncover Dumping Scheme Involving Contaminated Honey Imports From China”, Press release, Customs Office, August 28, 2002.

World Bank and the International Monetary Fund, “Market Access for Developing Country Exports-Selected Issues”, September, 2002.

World Trade Organization, “Overview of Developments in the International Trading Environment”, Annual Report by the Director-General, WT/TPR/OV/8, November 15, 2002.