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THE ECONOMIC EFFECTS OF SIGNIFICANT U.S. IMPORT RESTRAINTS

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TABLE ES.2 Projected economic welfare changes from baseline projections resulting from the liberalization of significant import restraints, by sector, 2013

Sector	Change in economic welfare (millions of \$)
Simultaneous liberalization of all significant restraints	4,622
<i>Individual liberalization</i>	
Textiles and apparel	2,254
Dairy	733
Sugar	514
Ethyl alcohol	356
Footwear and leather products	325
Tobacco	99
Tuna	23
Costume jewelry	21
Ball and roller bearings	14
Pens, mechanical pencils, and parts	13
Cutlery and hand tools	13
Table and kitchenware	10
Watches, clocks, watch cases, and parts	7
Dehydrated fruit	4
Ceramic wall and floor tile	1
Glass and glass products	-1

Source: USITC estimates.

Table ES.3 also shows the effects of liberalization on nine broad sectors that constitute the entire U.S. economy. The two broad sectors characterized by the most significant tariffs, agriculture and nondurable manufacturing, are estimated to contract overall. Durable goods manufacturing; transportation, communications, and utilities; and wholesale trade are estimated to expand in response to liberalization.

Effects of Sector-by-Sector Liberalization

Liberalization was considered in each sector with significant restraints to identify the economic effects, including the welfare effects, and to estimate the upstream and downstream effects. A summary of the key results for each sector is provided below.

Textiles and apparel Liberalization of the textile and apparel subsectors increases welfare by approximately \$2.3 billion. Liberalization causes declines from 10–11 percent in domestic shipments and

TABLE ES.3 Elimination of all significant import restraints: effect on liberalized sectors and broad sectors of the economy, percent, 2013

Sector	Employment	Output	Imports	Exports
Entire economy	0.0	(+)	0.4	0.3
<i>Liberalized sectors</i>				
<i>Food and agriculture</i>				
Sugar	-7.5	0.6	93.2	66.7
Dairy	-1.9	-2.2	77.6	30.2
Ethyl alcohol	-2.2	-2.3	198.0	—
Tuna	-4.5	-9.7	6.3	19.7
Tobacco	-0.5	-0.4	28.8	4.9
<i>All textiles and apparel</i>				
Yarn, thread, and fabric	-11.0	-10.0	0.1	-43.6
Textile products	-1.6	-1.3	2.1	-4.2
Apparel	-11.1	-11.1	2.4	-69.1
<i>Other manufacturing sectors</i>				
Ball and roller bearings	-4.3	-4.3	9.5	0.8
Ceramic wall and floor tile	-4.5	-4.5	2.0	0.6
Costume jewelry	-2.5	-2.4	4.6	1.2
Cutlery and hand tools	-0.8	-1.0	3.7	0.7
Dehydrated fruits, vegetables, soups	0.7	0.7	13.3	10.2
Footwear and leather products	-1.2	-1.2	3.8	0.9
Glass and glass products	-0.1	(-)	5.4	4.8
Pens, mechanical pencils, and parts	-1.9	-1.8	3.7	1.6
Table and kitchenware	-1.9	-1.8	2.3	0.7
Watches, clocks, watch cases, and parts	0.8	0.9	2.0	3.3
<i>Broad sectors</i>				
Agriculture, forestry, and fisheries	-0.1	-0.2	-0.1	1.5
Mining	(+)	(+)	(-)	0.5
Construction	(+)	(+)	—	1.6
Nondurable manufacturing	-0.4	-0.4	1.7	-1.4
Durable manufacturing	0.1	0.1	0.1	0.7
Transportation, communications, and utilities	0.1	0.1	0.4	0.9
Wholesale trade	0.2	0.2	—	-1.1
Finance, insurance, and real estate	(-)	(-)	(-)	0.5
Government and other services	(-)	(+)	(-)	0.6

Source: USITC estimates.

Note: The symbols (+) and (-) denote small positive and negative changes with magnitudes below 0.05 percent. The symbol — denotes that the value is not applicable.

employment in yarn, thread, and fabric and apparel. Exports, production, and employment in apparel (cut pieces), yarn, thread, knit fabric, and broadwoven fabric decline considerably as a result of liberalization, which includes elimination of rule-of-origin-based requirements for U.S. inputs. Domestic prices of these goods also decrease, leading to increased U.S. competitiveness in the global economy and a slight mitigation of the decline in U.S. exports caused by the elimination of rule-of-origin requirements. Effects on the textile products category are smaller.

Dairy

Removing tariffs and TRQs on imports of dairy products is estimated to increase U.S. welfare by approximately \$733 million. Shipments of butter and dry and condensed dairy products are estimated to decline by 10–11 percent. Shipments of cheese, fluid milk and cream, and ice cream decline by less than 1 percent. The value of imports of butter and dry and condensed dairy products more than doubles, with the other dairy subsectors experiencing smaller increases in imports.

Sugar

Removing tariffs and TRQs on imports of raw and refined sugar is estimated to increase welfare by about \$514 million. Employment and production changes in the liberalized sugar subsectors are mixed. The removal of U.S. TRQs on raw and refined sugar results in price declines throughout the industry. Shipments of raw cane sugar and refined beet sugar decline 32 and 10 percent, respectively. Cane refiners benefit from the drop in raw cane sugar prices and increase shipments by 14 percent. Confectioners benefit from the decline in refined sugar prices and increase production and exports.

Ethyl alcohol

Liberalization of ethyl alcohol would increase welfare by \$356 million. The effects on industry output and employment are minimal, with each declining by 2 percent. The value of imports increases by 183 percent.

Tobacco

Elimination of tariffs and TRQs on cigarettes and tobacco is estimated to increase welfare by about \$99 million. Shipments and employment in tobacco are estimated to decline by 4–5 percent. Because tobacco is a major input into the

results for individual model sectors are given in table E.30. The reported results represent percentage changes relative to the baseline simulation of the economy in 2013. The economy-wide effects are small, with the most significant being increases in imports and exports. For most liberalized sectors, imports and exports are estimated to rise, while domestic production and employment decline. Landed duty-paid prices of imports and U.S. producer prices are expected to decline; private household prices (a weighted average of prices for imports and domestically produced goods) generally fall for the liberalized sectors (table E.30). All price changes are relative to an economy-wide index of final consumption prices.

We note that while this report analyzes the effects of the liberalization of significant U.S. import restraints, it does not address the effects of simultaneous liberalization of significant trade barriers in other countries. In many circumstances, the removal of import restraints maintained by U.S. trading partners could be expected to boost output and employment in affected U.S. industries.

When all significant U.S. import restraints and ROO requirements for apparel are simultaneously eliminated, the analysis suggests that the largest percentage declines in U.S. output would occur in sectors having the most significant import restraints (table 2.2). The apparel and yarn, thread, and fabric sectors shrink the most with declines in output of 11 and 10 percent, respectively.

Several factors determine the model results for output in textiles and apparel. Yarn, thread, and fabric (such as broadwoven fabric and narrow fabric) are subject not only to increased competition through the removal of tariffs, but also face the loss of export markets currently secured by U.S. ROO requirements for downstream products such as apparel.⁶ When all tariff preferences are removed, the benefits to foreign manufacturers of using U.S.-made inputs disappear, thereby lowering the demand for U.S. exports of these products. This effect is most evident in the fabric sectors. The effect of liberalization is mixed for apparel. While export demand for cut pieces (classified under apparel) is anticipated to contract dramatically, the domestic apparel industry benefits from being able to source inputs such as fabric and thread globally, which somewhat dampens the contraction to 11 percent.

Within the dairy industry, domestic producers of butter, dry dairy products, and condensed and evaporated dairy products all benefit from

⁶See the textiles and apparel section below for a more detailed discussion of U.S. ROOs.

TABLE 2.2 Elimination of all significant import restraints: effect on liberalized sectors and broad sectors of the economy, percent, 2013

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Entire economy	0.0	(+)	0.4	0.3
<i>Liberalized sectors</i>				
<i>Food and agriculture</i>				
Sugar	-7.5	0.6	93.2	66.7
Dairy	-1.9	-2.2	77.6	30.2
Ethyl alcohol	-2.2	-2.3	198.0	—
Tuna	-4.5	-9.7	6.3	19.7
Tobacco	-0.5	-0.4	28.8	4.9
<i>All textiles and apparel</i>				
Yarn, thread, and fabric	-11.0	-10.0	0.1	-43.6
Textile products	-1.6	-1.3	2.1	-4.2
Apparel	-11.1	-11.1	2.4	-69.1
<i>Other manufacturing sectors</i>				
Ball and roller bearings	-4.3	-4.3	9.5	0.8
Ceramic wall and floor tile	-4.5	-4.5	2.0	0.6
Costume jewelry	-2.5	-2.4	4.6	1.2
Cutlery and hand tools	-0.8	-1.0	3.7	0.7
Dehydrated fruits, vegetables, soups	0.7	0.7	13.3	10.2
Footwear and leather products	-1.2	-1.2	3.8	0.9
Glass and glass products	-0.1	(-)	5.4	4.8
Pens, mechanical pencils, and parts	-1.9	-1.8	3.7	1.6
Table and kitchenware	-1.9	-1.8	2.3	0.7
Watches, clocks, watchcases, and parts	0.8	0.9	2.0	3.3
<i>Broad sectors</i>				
Agriculture, forestry, and fisheries	-0.1	-0.2	-0.1	1.5
Mining	(+)	(+)	(-)	0.5
Construction	(+)	(+)	—	1.6
Nondurable manufacturing	-0.4	-0.4	1.7	-1.4
Durable manufacturing	0.1	0.1	0.1	0.7
Transportation, communications, and utilities	0.1	0.1	0.4	0.9
Wholesale trade	0.2	0.2	—	-1.1
Finance, insurance, and real estate	(-)	(-)	(-)	0.5
Government and other services	(-)	(+)	(-)	0.6

Source: USITC estimates.

Note: The symbols (+) and (-) denote small positive and negative changes with magnitudes below 0.05 percent. The symbol — denotes that the value is not applicable.

substantial total protection. As a result, all three sectors see substantial declines in output following liberalization (table E.30). Butter output is estimated to decline by 10 percent, dry dairy products by 11 percent, and condensed and evaporated products by 8 percent.

Almost all sectors with high tariffs or TRQs show the expected patterns of declining domestic production, employment, and prices, along with increases in imports and exports, when these measures are eliminated. The only sector that has a sizable increase in output is refined cane sugar (table E.30). Cane refiners can choose to refine either domestically milled or foreign-milled raw sugar. Because sugar beets are essentially untraded, beet refiners mainly process domestic sugar beets and lack access to less-expensive imported inputs. However, cane sugar refiners benefit by gaining access to cheaper foreign raw cane sugar. Cane refiners are expected to respond by expanding production by 14 percent, and exports of refined sugar more than triple. In contrast, both cane millers and growers would be hurt by import competition; sugarcane production and raw sugar milling are expected to drop by 30 and 32 percent, respectively. Growers of sugar beets and refiners of beet sugar would be hurt to a lesser extent, with output of beets and refined beet sugar declining by 9 and 10 percent, respectively.

In other sectors with significant import restraints, estimates are that employment and output generally fall in response to liberalization, while imports and exports are expected to rise. Some high-tariff sectors that face small output declines under sector-by-sector liberalization are estimated to expand under simultaneous liberalization, owing to more favorable export demand conditions (because there is a larger depreciation of the dollar in the simultaneous liberalization). Leather goods not elsewhere classified (n.e.c.) is one such example. Output and exports of this product are estimated to decline 0.4 percent (table E.27) and 0.6 percent (table E.29), respectively, under sector-by-sector liberalization, but output expands marginally and exports increase 0.1 percent under simultaneous liberalization (table E.30).

Sugar and Sugar-Containing Products

Total U.S. sugar use was 10.9 million short tons, raw value (strv), in marketing year (MY) 2008.⁷ U.S. per capita sugar consumption has been

⁷USDA, FAS, Production Supply and Distribution Online. Data are on a marketing year basis, generally October of the previous year through September of the stated year.

only major dutiable supplier. The ODC likely will be restrictive, depending on market conditions. There were no direct imports of fuel ethanol from Brazil in 2008 following the drawback change. However, unfavorable U.S. market conditions, caused largely by oversupply and the financial crisis, likely were contributing factors as well.

Effects of Liberalization

Liberalization is expected to result in an increase in U.S. welfare of \$356 million. The effects of liberalizing U.S. imports of ethyl alcohol are modeled by removing the quota and all tariffs on imports of ethyl alcohol. Summary results from liberalization are shown in table 2.4; sectoral impacts of the liberalization are shown in figures 2.1 and 2.2 and in tables E.6–E.9.

The only significant impact is felt in the ethanol sector itself; effects on upstream industries are minimal. Elimination of the origin quota would lower the landed, duty-paid price of ethanol by 25 percent from the projected 2013 baseline value, increasing the value of imports by 205 percent (table E.8). Because imports are small relative to domestic production, the effect on domestic output is small, a decrease of about 3 percent.

Dairy Products

In response to increased domestic and foreign demand, U.S. shipments of dairy products rose considerably during 2005–07 and reached \$106.2 billion in 2007 (table 2.5). U.S. trade in dairy products is small compared with total domestic production. In 2007, dairy imports amounted to \$2.1 billion, or about 2 percent of the total value of U.S. dairy shipments, while dairy exports amounted to \$3.1 billion, or just under 3 percent of such shipments. More than 80 percent of dairy imports consisted of cheese, casein/caseinates, and milk protein concentrates (MPC) in 2007. Other imported products include butter and ice cream (nearly 5 percent, combined, of dairy imports). Major dairy exports in 2007 were nonfat dry milk (NDM), whey products (which falls under the dry/condensed milk products category), cheese, and lactose.⁴¹

⁴¹Casein, caseinates, and MPC have not been produced in the United States in large quantities since the early 1950s. After USDA established a price support program for

TABLE 2.5 Dairy products: summary data, 2005–07, and simulation results, 2005–13

Item	Summary data			Simulation, %	
	2005	2006	2007	Baseline 2005–13	Liberali- zation ^a
<i>Employment</i>					
<i>Full-time equivalent</i>					
Total dairy	132,287	130,253	129,600	-2.7	-2.1
Butter	1,442	1,574	1,600	-0.6	-10.0
Cheese	41,188	40,446	40,000	-5.8	-1.1
Dry/condensed milk	13,933	14,466	15,000	-2.2	-9.6
Fluid milk and cream	56,193	54,649	54,000	-2.6	-1.0
Ice cream	19,531	19,118	19,000	1.7	-0.1
<i>Shipments</i>					
<i>Millions of \$</i>					
Total dairy	70,966	69,181	106,235	15.7	-2.4
Butter	2,264	2,204	2,581	20.7	-10.4
Cheese	24,396	23,116	41,434	14.0	-0.8
Dry/condensed milk	10,181	10,446	15,579	18.5	-10.6
Fluid milk and cream	25,447	24,814	37,572	14.8	-0.6
Ice cream	8,678	8,601	9,069	18.9	(+)
<i>Imports</i>					
Total dairy	1,910	1,969	2,129	91.8	81.7
Butter	89	63	65	64.5	193.1
Cheese	1,007	1,029	1,108	141.1	36.8
Dry/condensed milk	539	590	646	46.4	143.4
Fluid milk and cream	14	5	8	78.3	31.3
Ice cream	46	42	39	37.0	19.4
<i>Exports</i>					
Total dairy	1,647	1,915	3,058	49.5	29.1
Butter	17	19	112	23.4	284.2
Cheese	201	245	388	34.4	91.7
Dry/condensed milk	1,351	1,569	2,463	52.8	12.5
Fluid milk and cream	16	20	37	30.6	8.5
Ice cream	62	62	60	75.2	1.1

Sources: Shipments and employment: USITC estimates for 2007 are based on price and production data from USDA, AMS, *Dairy Market Statistics: 2007 Annual Summary*, <http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=stelprdc5069509> (accessed February 13, 2009). Data for 2005–06 are from the U.S. Census Bureau's *2006 Annual Survey of Manufacturers*, http://factfinder.census.gov/servlet/IBQTable?_bm=y&-.skip=200&-ds_name=AM0631VS101 (accessed February 13, 2009). Ice cream pricing data for 2007 were taken from Brian Gould, Agricultural and Applied Economics, University of Wisconsin-Madison, http://future.aae.wisc.edu/data/monthly_values/by_area/304?tab=prices&grid=true&area=US (accessed February 13, 2009). Imports and exports: USITC Dataweb: Butter HTS 0405, cheese 0406, fluid milk 0401, ice cream 2105, dry/condensed milk, 0402, 0403, 0404, 1702.11, 1702.19, 1901.10, 1901.20, 3501.10, and 3502.

Note: The symbol (+) indicates a small positive value.

^aIncremental effect in 2013 of liberalizing U.S. dairy imports.

Nature and Restrictiveness of Trade Restraints

Several dairy products, including fluid milk and cream, butter, cheese, powdered milk products, ice cream, infant formula, and animal feeds containing milk, have significant import restraints.⁴² Import restraints operate in conjunction with a complex system of federal, state, and local laws to maintain price and production supports for the domestic dairy industry. Federal programs include domestic price supports, milk marketing orders, export supports such as the Dairy Export Incentive Program (DEIP), and domestic and international food aid programs.⁴³ The USDA has not funded the DEIP since the beginning of FY 2005 because U.S. prices for NDM, butter, and several varieties of cheese have been globally competitive, at least through 2007.

Of the approximately 392 U.S. 10-digit HTS numbers considered to be dairy products, 135 are not subject to any TRQs. The other 257 HTS numbers are subject to 27 separate TRQs, most of which have country-specific in-quota volume allocations.⁴⁴ U.S. imports of dairy products subject to these TRQs are primarily cheese, ice cream, butter, and yogurt.

Slightly more than one half (51 percent) of the value of dairy products imported into the United States during 2007 was not subject to TRQs, including MPC, whey protein concentrates, and certain varieties of cheese (mainly cheese made of sheep and goat milk). These imports face low tariffs and account for over 95 percent of domestic consumption of these products, and U.S. production of these products is negligible. For example, the average ad valorem equivalent (AVE) across all nonquota imports was 0.4 percent during 2005–07, with cheese not subject to TRQs averaging 1.4

milk, U.S. butter and milk powder producers realized greater returns from drying their skim milk into nonfat dry milk and selling it to the government intervention agency, the Commodity Credit Corporation (CCC), than from processing it into casein and MPC. Therefore, domestic supplies of casein are furnished by imports.

⁴²Some food preparations and chocolate products covered in chaps. 18, 19, and 21 of the HTS contain both dairy and sugar products.

⁴³DEIP covers NDM, butterfat, and various cheeses. It helps U.S. dairy exporters match prevailing prices in certain export markets by paying cash bonuses, thereby allowing exporters to sell certain U.S. dairy products at prices lower than the exporter's costs of acquiring them. DEIP is designed to develop export markets where U.S. products are not competitive because of subsidized dairy products from other countries. For more information on DEIP, see USDA, FAS, "Dairy Export Incentive Program," undated (accessed February 10, 2009).

⁴⁴Submission by the National Milk Producers Federation, February 6, 2009, 3.

percent. Casein and milk albumin, accounting for 17 percent of all dairy imports, were imported duty-free. By comparison, the average ad valorem equivalent for imports subject to TRQs was 8.4 percent.

Overall, the TRQ system has made over-quota imports uncompetitive in the U.S. market. For example, in 2007, the U.S. price of butter (\$1.35 per pound) was significantly higher than the price of imports subject to the in-quota tariff (\$1.26 per pound), but lower than the price of imports subject to the over-quota tariff (\$1.46 per pound). Similarly, for cheese, the over-quota tariff for the most part was sufficient to deter imports above the TRQ level during 2005–07.⁴⁵

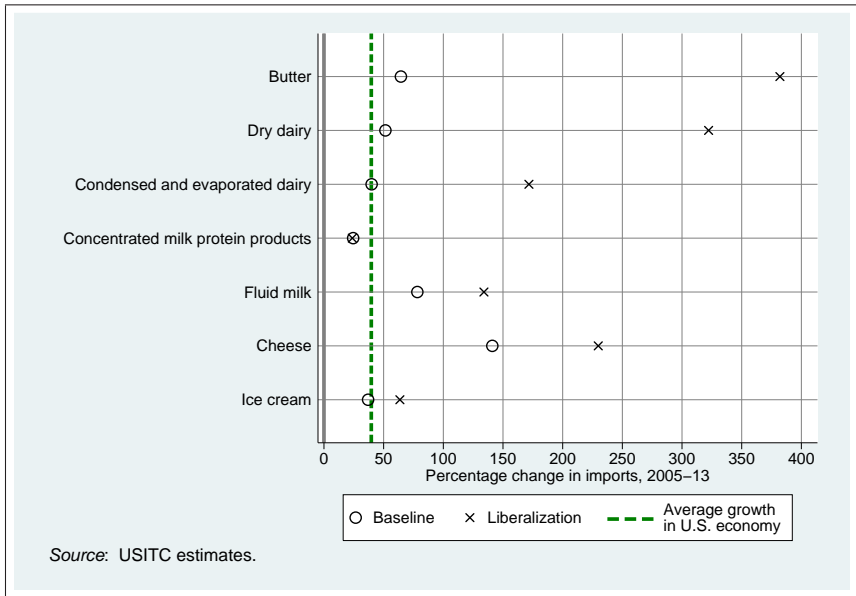
TRQ fill rates, the ratio between imports and the quota level, provide an indication of the restrictiveness of restraints. In 2007 fill rates for butter and cheese exceeded 90 percent, which indicates restrictiveness. In some product categories, however, fill rates show that the TRQs were not constraining in 2007. For instance, the quotas do not appear to be binding for whole milk powder (58 percent fill), NDM (6 percent fill), fluid milk and cream (44 percent fill), and ice cream (69 percent fill). However, it is difficult to gauge whether these TRQs may still have had some small effect because the U.S. licensing system allocates country-specific quantitative limits and thus the quota fill rate may have been higher for particular countries.

In some instances there is clearly no effect from TRQs. For example, since 2005, U.S. imports of milk powders declined, and the United States became a significant exporter of NDM. During 2005–07, the price of NDM in the United States was 2 to 30 percent lower (but typically more than 10 percent lower) than European and Oceania prices for skim milk powder.⁴⁶ Part of the explanation for this price discrepancy is that NDM and skim milk powder are not completely substitutable on world markets. Another explanation is that federal milk programs at times encourage overproduction of NDM at the expense of other dairy products.

⁴⁵Over-quota imports can occur when the U.S. domestic price exceeds the world price by more than the tariff. For example, high U.S. prices of cheese in the second quarter of 2005 led to limited over-quota imports. During this period, the gap between the U.S. price and the world price was as much as \$850 per metric ton. But most of the over-quota imports for any year occur in the fourth quarter, as annual quota volumes fill. For 2006 and 2007, U.S. and international prices for most cheeses tracked closely.

⁴⁶Alan Levitt Corporate Communications, "SMP: World Prices vs. U.S. Prices," undated (accessed February 17, 2009).

FIGURE 2.4 Percentage change in imports of dairy, baseline projection and liberalization, 2005–13

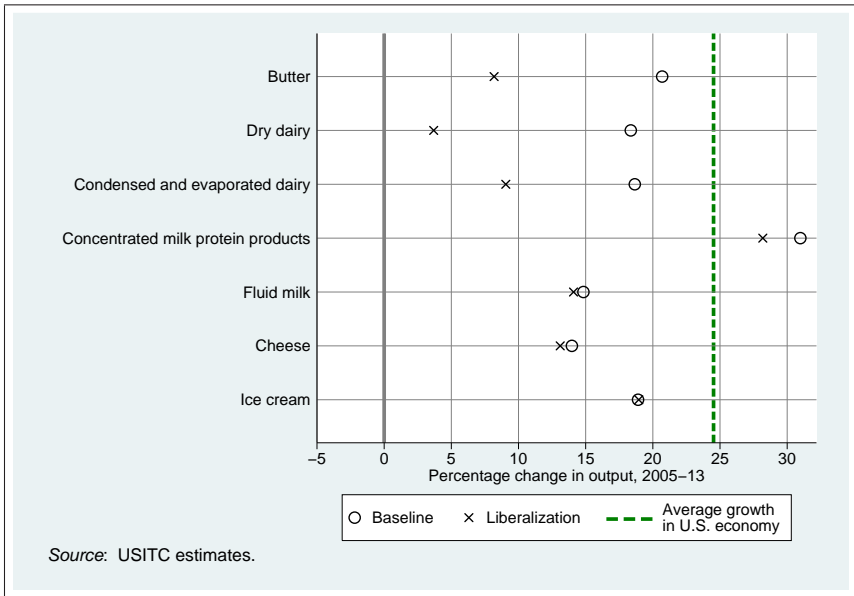


Effects of Liberalization

Liberalization of U.S. import restraints on dairy products would increase U.S. welfare by \$732.5 million by 2013. Liberalization is modeled by removing the TRQs and duties on dry, condensed, and evaporated dairy products, and on butter, cheese, ice cream, and fluid milk. Table 2.5 and figures 2.4 and 2.5 show the summary results of this liberalization. Results on specific dairy sectors, as well as on sectors that provide inputs to dairy production are presented in tables E.14–E.17. Among dairy products, butter is affected the most because its trade restraints are the largest.

The removal of import restraints is expected to lead to a decline in the landed, duty-paid price of imports, especially for butter (–35 percent), dry dairy products (–35 percent), and condensed and evaporated dairy products (–22 percent) (table E.16). These price declines lead to increases in imports, led by butter and dry dairy products (193 percent and 179 percent, respectively). In contrast to increased imports, domestic production is expected to decrease, again led by butter and dry dairy products, where production declines by 10 and 12 percent, respectively (table E.15), and

FIGURE 2.5 Percentage change in output of dairy, baseline projection and liberalization, 2005–13



employment would decline by roughly similar proportions. Declines in domestic production are not expected to entirely offset increased imports, however, and the decline in domestic prices relative to world prices for all dairy commodities actually leads to increased exports. This is especially true for butter and cheese, for which the cost of important input components (fluid milk and dry dairy products) declines as a result of the liberalization of import restraints. The increase in import volume at lower prices would lead to lower household prices for all dairy products except concentrated milk protein products, with the largest decline of 7 percent occurring in the household price of butter (table E.15).

Tobacco and Tobacco Products

The United States’ principal tobacco products are cigarettes and unmanufactured tobacco.⁴⁷ U.S. production of flue-cured and burley

⁴⁷Semiprocessed tobacco (leaf), also referred to as unmanufactured tobacco, is an intermediate product that has undergone some processing, including curing, destemming, and redrying.