The Economic Effects of Withdrawn

I. **INTRODUCTION**

It has long been suspected by lawyers and economists that firms may use the unfair trade laws, primarily antidumping (AD), to foster collusive agreements between firms. (Calvani et al.

was first suggest and investigated by Prusa (1992) and later cited by other economists. (Rosendorff (1996) & Zanardi (2000)). This belief is questionable. While there have been studies on the economic effects of AD cases in which duties were imposed, truly withdrawn cases, cases where the domestic firms withdraw the petition without a government negotiated settlement, have not received the same degree of attention. This paper will examine whether trade data supports the belief that withdrawn petitions precede decreases in quantity or increases in the price of subject imports, i.e. a collusive settlement.

The potential collusive effects of withdrawn AD petitions is an important research question for a number of reason. Gallaway et al (1999) estimate that the combined effect of the AD and countervailing (CVD) laws had a negative effect on the U.S. economy of four billion dollars in 1993. This effect is only for cases where duties were imposed. Since only approximately one-half of cases end in duties and approximately 10 percent of cases asltiei50(e(e pknoltigotiated

To understand the institutional background and to motivate the empirical specification that follows, Section II presents a description of the AD process and the legal aspects of an out-of-court settlement. Section III contains a review of previous research on the topics covered in this palt [(o9hgious)-ai used te theinsm2(ation)]TJ 0.06 Tc -0.06 Tw T* D pr0(e t)4t [(o9hgiouVar)4-aie th(rco)

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[1] For a more detailed description of the AD/CVD process see USITC (1995) Chapter 2 or USITC (1999b).

[2] "Fair" or "normal" value is based on home market sales. If home market sales are not available, third country markets prices or constructed values are used.

Within 20 days of the petition's filing, the ITA must determine whether the petition is in order. Within 25 days of receiving notification from ITA, the ITC must determine if there is a "reasonable indication" that an industry in the United States is materially injured, threatened with material injury, or the establishment of the industry in the United States is materially retarded by reason of LTFV imports of the subject product.[3]

After an affirmative decision by the ITC, the ITA has 140 days from the filing of the petition to determine whether there is a reasonable basis to believe that the product in question was sold or is likely to be sold at LTFV. The ITA calculates a preliminary dumping margin for individual firms being investigated and an 'all other' margin for the remaining firms. Once ITA makes an affirmative determination, a duty based on the AD margins must be paid on imports of the subject merchandise. These duties, which may be posted as bonds, are held pending the

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[3] The U.S. AD law defines material injury as "harm which is not inconsequential, immaterial or unimportant". 19 U.S.C. 1667 (7)(A).

involved. When those procedures are followed, an implied antitrust immunity results. However agreements among competitors that do not comply with the law, or go beyond the measures authorized by the law, do not enjoy antitrust immunity. (U.S. DOJ 1995 - Section 3.4)

An example of a legal case very similar to the situation of a withdrawn AD petition was United States v. Nat'l Board of Fur Farms Orgs., 395 F. Supp. 56 (E.D. Wis. 1975) and the subsequent settlement. In this case domestic mink farmers participated in an agreement whereby they would abandon their attempts to secure import relief from the U.S. government in exchange for price fixing with foreign competitors. The Justice Department prosecuted and reached a settlement with the domestic mink farmers that they would cease and desist (Calvani et al (1986)). Even though there is little precedent on this type of case, it is clear that a private settlement of an AD dispute which attempted to increase prices or decrease imports without some other rational, such as a joint venture, would be illegal.

III. REVIEW OF PREVIOUS LITERATURE

There have been a number of investigations of the many facets of AD cases. Several articles have focused on the effects of AD duties on imports to the U.S. and on domestic output (See Kalt (1988), and Morkre and Kelly (1994)). Only a few articles have touched upon the main topic of this paper, the effects on subject import price and quantity due to a withdrawn case. There are more articles which look whether there is an effect of the investigation. The research pertaining to these topics are summarized below and can be classified into several categories by the methodology used. These categories are game theoretic with empirical support, and econometric.

Prusa (1992) presents a game theoretic bargaining model where a domestic firm and a foreign firm compete in prices and shows that they will prefer a settlement to duties and therefore there is an incentive to withdraw cases. Prusa examines the value of trade both before and after the petition is filed in AD cases. This is done on an aggregate basis of all cases for the two years, 1980-1981, and he looks at ratios of the value traded to detect changes in response to

investigations. By examining the data in this way, Prusa concludes that the filing of the petition has no effect on the value of imports. However, once the petition is accepted he concludes it does not matter whether duties are imposed or a settlement is reached, the effects are the same. One interpretation of the model results is that AD petitions serve as a basis to achieve a cooperative level of profits for the foreign and domestic firms. In other words the AD process may allow foreign and domestic competitors to negotiate a settlement that benefits both of them.

An extension to Prusa's model is given in Zanardi (2000). In his model he examines when the domestic firm should withdraw a petition and reach a collusive out of court settlement with the foreign firm. A shortcoming of the Prusa model is that it predicts that all cases should be settled. Prusa's model is a special case of the more general Zanardi model. Zanardi also constructs a dataset to measure domestic firm's and foreign firm's coordination costs and bargaining power. Since the measures of relative coordination costs and bargaining power support the theoretical predictions of the model, he concludes that this is consistent with the hypotheses that AD law is used as a collusive device with respect to withdrawn petitions.

An early attempt to econometrically test the effect of affirmative AD investigations on foreign firms is Herander and Schwartz (1984). They examine the dumping margins of foreign firms during 1976-1981 to see if the threat of an AD investigation affects the margins or duty rates of subsequent AD cases. In other words do previous AD cases in a given industry cause foreign firms in that industry to raise their prices to head off future cases. They find that higher probabilities of a petition in a given industry reduce the margins found in that industry when other cases are filed previously. In other words, the threat of an AD investigation raises prices.

Harrison (1991) uses quarterly SITC data on 41 product categories to examine the effect of AD duties on import prices. She tests for the impact of investigations as well as the duties themselves. The OLS results show that investigations have mixed results on the prices, whereas AD duties should raise import prices. When accounting for the simultaneity problem of prices and duties, the results are inconclusive with respect to both investigations and the imposition of duties. So in both specifications there is no investigation effect.

Staiger and Wolak (1994) develop a dataset for AD cases for 1980-85. They use annual import data aggregated to the 4-digit SIC level to look at the effects of AD on the value of subject imports as well as on output in the domestic industry. Since their import data are on an annual basis, and since AD cases last less than a year and may overlap calendar years, they construct an index of the number of AD cases within the industry for each year. They use the change in this index to judge the effects of the AD investigation process on imports and domestic output. Their model shows that the imposition of an AD duty on a single tariff line will generate a drop in annual imports of 10.55 million 1972 dollars. They find substantial investigative effects with a drop in subject imports of approximately 50 percent in the period after the case is filed. However they find no evidence of an impact in imports of a withdrawn case. Cases that ended with suspension agreements have about half the effect as those where AD duties were imposed in their dataset.

USITC (1995) evaluates the impact of AD orders focusing on 8 products where AD orders were imposed. Each case study econometrically analyzes the impact of the AD duties on

withdrawal of the petition. He finds significant reductions in trade for affirmative and settled cases. There are stronger quantity effects than price effects. The reduction in the quantity of trade is similar for the settled cases and the affirmative cases. Prices increase less when cases are settled than when duties are imposed. However, settled cases include both suspended cases where a settlement has been reached and withdrawn cases where a settlement may or may not exist. In grouping these cases together, the estimated effect off this collection of cases is a weighted average of the suspended and withdrawn cases. Since there were settlements in the suspended cases that should have limited imports, the weighted average effect of all the suspended and withdrawn cases says nothing about the effects of withdrawn cases.

A slightly different econometric approach to examine the effect of investigations or the imposition of duties is an event study. An event such as an AD petition filing or the imposition of AD duties is examined using time series data before, during, and after the event. Hartigan et al (1986, 1989) and Lenway et al. (1990) examine the impact of trade measures on market returns to firms that are affected by AD investigations. Most relevant for this paper is Hartigan et al. (1989), which analyzes the effects of the investigation process by evaluating the return to the stock verses the expected return of companies who were judged to be affected by AD cases. Firms are found to gain during the investigation process even when the outcome is negative, i.e. no duties are imposed. This implies that import quantities, prices or both should be affected as a result of an investigation or settlement. Their analysis does not allow the price and quantity effects to be identified.

The present paper is the only one that examines a dataset based exclusively on withdrawn petitions. In addition, much of the previous research in this area uses aggregate data. Much of this research uses annual data, on an SIC or SITC basis, and this data measures the value of imports from all countries. The data on the cases in this paper shows an average 30 percent market share of subject imports to total imports at the 10-digit harmonized tariff schedule (HTS) level of disaggregation. Much of the previous research did not break out subject and non-subject imports when examining antidumping cases. Aggregating to SIC or SITC level may

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$$\ln(P_S) = \beta_0 + \beta_1 Ln(Q_S) + \beta_2 \ln(P_{NS}$$

13   (4)

To make sure that the regressions were not spurious because of non-stationary variables, the augmented Dickey-Fuller test for unit roots was performed. In all cases the dependent variable was I(0). The only independent variable that was I(1) was industrial production. That variable was included in levels as well as first difference. As an additional check for growth trends in the import data, the system was estimated with a time trend in each equation.

B. Data

Between 1990 and 1997 approximately nine percent of all AD and CVD cases were withdrawn without an official settlement, either a suspension agreement or a voluntary export restraint. A little over one percent of the cases ended in some kind of official settlement.[4] In 47 percent of cases duties were imposed following affirmative final determinations by the ITA and the ITC. The remainder were resolved through the normal investigation process in which terminations occur because of negative determinations. Cases are terminated if the ITA reached a negative final determination of sales at LTFV or if the ITC reaches a negative injury determination in either the preliminary stage or the final stage of the investigation. Cases considered in this analysis include only investigations that were withdrawn. Those cases terminated before the final determination are sometime mis-classified as withdrawn. Table I describes the cases analyzed in this paper. The table shows the product, the subject country, the ITC case number, the month the petition was filed and the month it was withdrawn. It is important to point out that most cases are withdrawn relatively quickly. The average number of months a case is under investigation before being withdrawn in this dataset is just under three months. Thirteen of the twenty-one cases were withdrawn in one or two months.[5] This is

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[4] Other time periods have a greater number of withdrawn cases, see Prusa (1992) and Prusa (1999). In addition it is important to separately count cases that end in an official settlement from those that are withdrawn without a known settlement.

[5] I am counting the cordage cases as four cases instead of twelve. One of the difficulties in counting the number of cases is how to treat a withdrawn and refiled case. The cordage cases

important when considering whether it is likely that a collusive out of court settlement was reached.

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were withdrawn and refiled twice.

V. RESULTS

The simple single equations regressions given in equations one through three are estimated to give a benchmark for the more complex system regressions. These simple regressions are a more refined version of the ratios calculated in Prusa (1992) and similar to the regressions in Prusa (1999). For all the cases the monthly value of subject imports was regressed on the binary variables for one year before the petition was filed, the investigation period and the one year after. This was done for the entire set of cases with case fixed effects and then case by

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[6]To interpret the dummy variable coefficient ($"$) as a percent change, $e^{"}-1$, Kennedy (1981).

value regressions showed similar results. The average price decrease for all cases estimated with case fixed effects is 10 percent. Eight cases showed no significant change in the unit value, five showed a decrease in the unit value and three showed a significant increase in unit value.

There is little support, in these simple regressions, for the notion that withdrawn AD and CVD duty petitions are a signal of a collusive agreement between the domestic firms and the foreign firms subject to investigation. There is only one case, steel wire rod from Belgium, case number 686, where quantity dropped and price increased and two cases, bulk ibuprofen from India, case number 526 and ultra high temperature milk from Canada, case number 767, where prices increased after the petitions were withdrawn. It is important to point out that the cases which did show a decrease in quantity or increase in price did not show a significant difference in trade volume. In other words it is important to look at prices and quantities not just the volume of trade. While there is not a great deal of support for the collusive hypothesis in the simple regressions, the simple regressions do not control for a number of important variables in the supply and demand system.

The supply-demand system was estimated case by case. Overall the supply-demand framework fits the data well. In the vast majority of cases the supply and demand curves have the expected slope, the control variables have the right sign and are significant much of the time and the R-squareds are reasonably high. Given the wide variety of effects of the withdrawn cases shown in the simple regressions and the range of coefficients on the case by case regressions for the other explanatory variables, pooling the data was not appropriate.

Table IV presents the coefficients of the dummy variables for one year before, during and one year after the investigation as well as the tests statistics for whether there is a differences in the parameter estimates. Overall the results are very similar to the results of the simple regressions. There are two cases which show a decrease in quantity or an increase in price after a withdrawn petition. These are two of the three cases that had these type of effects in the simple regressions, steel wire rod from Belgium and ultra high temperature milk from Canada.

In most cases there was no significant change in quantities or unit values or the variables moved in a procompetitive direction. Trade with non-subject countries in about half the cases

increased and the other half were unchanged. In only a couple of cases did trade with non-subject countries drop. It is instructive to look at the results in those cases which had significant effects of either the investigation or the withdrawn petition.

Case 438, limousines from Canada, shows an increasing quantity of trade and decreasing price throughout the time period. Case number 496, shopping carts from Taiwan, shows a similar pattern, although there is a drop in price and quantity during the month the case was under investigation, a possible investigation effect.

In terms of potential investigation effects the only case that show a decrease in quantity or an increase in price during the investigation period is cordage from Portugal, case 631. This case, as described on Table I, is one of the cordage cases. The certain cordage products cases were filed three separate times between November 1992 and July 1993. In case 631 there was a decrease in the quantity of trade during the eight months of investigation, but not after the case was withdrawn. While this is the only case with an investigation effect, the cordage cases had the longest investigations in this data set, given the number of somewhat consecutive filings.

Case number 686, steel wire rod from Belgium, prices and quantities increase between the pre-investigation period, the investigation period, and the year after withdrawal. This pattern does not show up in any of the other import equations. Case number 767, ultra high temperature milk from Canada, shows increased price and increased quantity throughout the period. There are few imports of ultra high temperature milk from the rest of the world to the United States and so the rest of world demand equation was not estimated for th cases hnot l- Bbut EJTJ sedts cases whire

argument that other imports are significant alternative choices for U.S. buyers and constrain U.S. producers and producers in subject countries. It also raises the issue of examining importer market shares before making generalization about the possibility of collusion.

VI. CONCLUSIONS

The main purpose of this paper was to assess whether the detailed trade data supported the notion that a withdrawn AD petition is a signal that a collusive agreement between domestic and foreign firms had been reached. Economic researchers have accepted as conventional wisdom that withdrawn petitions are a signal of a collusive out-of-court settlement to an AD case. This has progressed to a point where they are being referred to as "settled cases" and lumped together with cases where there has been an suspension agreement or a voluntary export restraint. Models have been designed to ascertain when firms might want to negotiate a collusive settlement with the foreign firms and withdraw their AD petition. It was also claimed, that these out-of-court settlements are legal as well.

Based on the results of this paper both of these beliefs are open to serious question. The data and analysis presented in this paper concerning cases that were withdrawn without a known settlement, i.e. suspension agreement or voluntary export restraint, suggests that out-of-court collusive settlements are not common - at least not in the 1990s. The vast majority of cases saw an increase or no change in the amount of trade. Only in two of the 16 cases did prices increase or quantities decrease. In addition, none of the six cases that only had value data showed a significant decrease in trade. Given the length of time between filing the case and the withdrawal, in a large percentage of cases this is two months, it is likely that a larger percentage of cases are withdrawn because it became clear that they were unlikely to be successful. The results presented in this paper clearly show that it is important to examine price and quantity data not just the value of trade when looking at the impact of trade restraints.

It is important to point out that in the few cases where the trade data showed a decrease in trade or an increase in prices, there are a number of factors which could explain these movements

other than collusion. In other words a decrease in the quantity of trade or an increase in price are necessary but not sufficient indicia of collusion. It is useful to note that the simple event regressions gave very similar results to the more fully specified model.

Given the results from this dataset, that withdrawn cases do not seem the result of collusive settlements, a fruitful area for research concerns the development of theoretical models of when firms might want to withdraw cases. The explanation might concern a firm wanting to preserve the threat of future trade protection. A second possible avenue for research would be to look for more sophisticated explanation of collusion. This would include collusive arrangements that come out of successful cases, such as the ferrosilicon case, or potential collusive information exchange in the filing process.

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Table I: Cases Covered in the Analysis:

Product	Case Number	Subject Country	Initiation Date	Termination Date
Cases with value and quantity data:				
Portable Seismographs	731-313	Canada	1992: M2	1992: M6

Table II: Simple Regressions on Value, Quantity and Unit Values

Case #	Value		Value	Quantity		Quantity	Unit Values		Unit Values
	Year Before (1)	Year After (2)	(1)-(2)	Year Before (3)	Year After (4)	(3)-(4)	Year Before (5)	Year After (6)	(5)-(6)
ALL	11.73*	11.92*	-0.19**	12.13*	12.39*	-0.26*	-0.40*	-0.50*	0.10*
	(0.35)	(0.34)	(0.13)	(0.32)	(0.32)	(0.13)	(0.10)	(0.10)	(0.05)
313	11.04*	10.95*	0.09	2.67*	3.15*	-0.48*	8.37*	7.80*	0.57*
	(0.17)	(0.17)	(0.24)	(0.20)	(0.20)	(0.28)	(0.20)	(0.20)	(0.29)
438	19.55*	20.55*	-1.00*	9.93*	11.10*	-1.18*	9.63*	9.45*	0.18*
	(0.16)	(0.13)	(0.21)	(0.19)	(0.15)	(0.24)	(0.04)	(0.03)	(0.04)
463	11.43*	11.38*	0.05	8.55*	8.68*	-0.13	2.88*	2.70*	0.18
	(0.31)	(0.31)	(0.44)	(0.63)	(0.63)	(0.89)	(0.34)	(0.34)	(0.48)
495	14.20*	14.31*	-0.11	11.78*	11.91*	-0.13	2.41*	2.40*	0.01
	(0.07)	(0.07)	(0.09)	(0.06)	(0.06)	(0.08)	(0.04)	(0.04)	(0.06)
496	12.46*	12.87*	-0.41*	10.34*	10.89*	-0.54*	2.12*	1.99*	0.13*
	(0.10)	(0.10)	(0.14)	(0.11)	(0.11)	(0.16)	(0.04)	(0.04)	(0.05)
526	12.58*	10.31*	2.27	9.90*	8.05*	1.85	2.68*	2.71*	-0.03*
	(1.21)	(1.21)	(1.72)	(0.15)	(0.96)	(1.35)	(0.01)	(0.01)	(0.01)
549	6.07*	5.41*	0.66	4.83*	5.00*	-0.17	2.12*	0.82	1.31**
	(1.55)	(1.55)	(2.20)	(1.37)	(1.37)	(1.94)	(0.44)	(0.47)	(0.64)
623	14.06*	14.41*	-0.35*	15.16*	15.51*	-0.35*	-1.10*	-1.10*	0.01
	(0.07)	(0.07)	(0.10)	(0.05)	(0.05)	(0.07)	(0.04)	(0.04)	(0.06)
628	9.91*	11.63*	-1.72*	9.48*	11.52*	-2.04*	0.47*	0.12	0.36**
	(0.57)	(0.57)	(0.81)	(0.57)	(0.57)	(0.81)	(0.13)	(0.13)	(0.18)
629	13.07*	13.58*	-0.51*	12.38*	12.64*	-0.26*	0.70*	0.94*	-0.25
	(0.08)	(0.09)	(0.13)	(0.08)	(0.08)	(0.11)	(0.13)	(0.13)	(0.18)
630	13.01*	13.80*	-0.78*	11.76*	12.31*	-0.54*	1.31*	1.28*	0.04
	(0.09)	(0.10)	(0.10)	(0.13)	(0.13)	(0.18)	(0.06)	(0.06)	(0.09)
631	11.02*	11.58*	-0.56*	8.89*	9.58*	-0.68*	2.13*	2.00*	0.14
	(0.16)	(0.16)	(0.22)	(0.20)	(0.20)	(0.29)	(0.14)	(0.04)	(0.20)
647	10.32*	10.93*	-0.61*	10.79*	11.19*	-0.40	0.47*	-0.26	-0.21
	(0.14)	(0.14)	(0.19)	(0.26)	(0.26)	(0.37)	(0.17)	(0.17)	(0.24)
658	14.29*	14.30*	-0.00	12.05*	12.07*	-0.02	2.24*	2.22*	0.02
	(0.08)	(0.08)	(0.11)	(0.09)	(0.09)	(0.12)	(0.04)	(0.04)	(0.06)
686	16.66*	16.64*	0.02	17.57*	17.45*	0.11**	-0.91*	-0.81*	-0.10*
	(0.04)	(0.04)	(0.06)	(0.04)	(0.04)	(0.06)	(0.01)	(0.01)	(0.02)
767	11.20*	12.39*	-1.19	11.72*	12.74*	-1.02	-0.57*	-0.25*	-0.22*
	(0.75)	(0.75)	(1.06)	(0.78)	(0.78)	(1.11)	(0.02)	(0.02)	(0.03)

767   11.20*
(0.02)

Table III: Simple Regressions on Values

Case	Values Year Before (1)	Year After (2)	Values (1)-(2)
456	6.38* (0.04)	6.34* (0.04)	0.04 (0.06)
626	5.10* (0.04)	5.09* (0.04)	0.01 (0.06)
720	5.63* (0.06)	5.75* (0.06)	-0.12 (0.08)
723	5.63* (0.03)	6.02* (0.03)	-0.40* (0.05)
738	5.78* (0.05)	5.93* (0.05)	-0.15* (0.07)

 *   - Significant at the 5% level
 ** - Significant at the 10% level