



WTO Regime and Productive Role of Management Accountants

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I would like to start with a brief introduction of the World Trade Organization (WTO).

A. Introduction to WTO

1. WTO is the only global international organization dealing with the rules of trade between nations.
2. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments.
3. The goal is to help producers of goods and services, exporters, and importers conduct their business.
4. Its function is to ensure that trade flows smoothly, predictably and freely on international level.
5. There are 144 member countries of the WTO including Pakistan.
6. Various agreements have been established between member countries of WTO concerning rules and procedures for creating better trade culture on a worldwide level.
7. Pakistan as a member country of WTO has to comply with rules and procedures set in its Agreements.

The evolving multilateral trading system:

The multilateral trading system can be broadly defined as the body of in-

ternational rules by which countries are required to abide in their trade relations with one another. The basic aim of these rules is to encourage countries to pursue open and liberal trade policies. These rules are continuously evolving. The existing rules are being clarified and elaborated to meet the changing conditions of world trade. At the same time rules covering new subjects are being added to deal with problems and issues that are being encountered

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B. The WTO System:

The "rule-based" system of WTO give assurance to the member countries that the access which their products enjoy in foreign markets will not be suddenly disrupted by governmental measure, such as the raising of tariffs or the imposition of prohibitions or restrictions on imports.

The WTO system as it has emerged from the Uruguay Round now consists of the following main substantive agreements:

- ❖ Multilateral Agreements on Trade in Goods including the General Agreements on Tariffs and Trade (GATT 1994) and its associated agreements;
- ❖ General Agreements on Trade in Services (GATS);

- ❖ Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)

The responsibility for overseeing the implementation of these agreements rests with WTO. The organization also acts as a forum for negotiations among countries for the further liberalization of the trade in goods and service products. It provides a mechanism among member countries. Any member country which considers that its trade is adversely affected because of the failure of another country to comply with the rules can bring the matter to WTO for settlement, if it fails to find a satisfactory solution through bilateral consultations.

C. Introduction to Trade Remedy Laws

Trade Remedy Laws consist of three Agreements;

1. Agreement on Anti Dumping (AD)
2. Agreement on Subsidies and Countervailing Measures (SCM)
3. Agreement on Safeguard (SG)

The agreement on AD and SCM deals with **unfair** trade practices which distorts conditions of competition i.e the competition may be unfair/distorted, if the exported goods are dumped in foreign markets or if the exported goods benefits from subsidies. Where as Safeguard measures are taken to counter sudden surge in imports caused by lowering of tariffs.



C1. Agreement on Anti Dumping

1.1 Dumping:

If a company exports a product at a price lower than the price it normally charges on its home market, it is said to be “dumping” the product, or

When an exporter sells a product for export to the importing country at less than its cost of production

1.2 Anti Dumping:

The agreement on implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (the “AD Agreement”) governs the application of antidumping measures by members of the WTO.

Antidumping measures are unilateral remedies which may be applied by a member country after an investigation and determination by that member country, in accordance with the provisions of the AD Agreement, that an imported product is “dumped” and that the dumped imports are causing material injury to the domestic industry producing the like product.

1.3 Two very important terms:

Domestic Industry: The Agreement defines the term “domestic industry” to mean:

- ✧ The domestic producers as a whole of the like products, or
- ✧ Those of them whose collective output of the product constitutes a major proportion of the total domestic production of those products.

Like Product: Like product is defined in the agreement as:

- ✧ A product which is identical i.e. alike in all respect to the product under consideration, or

- ✧ In the absence of identical product, another product, which although not alike in all respect, has characteristics closely resembling those of the product under consideration.

The definition of domestic industry is important for the determination of injury, whereas the definition of like product is important for the determination of domestic industry.

1.4 Determination of Normal Value and Export Price

The **normal value** is generally the price of the product at issue, in the ordinary course of trade, when des-

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tined for consumption in the exporting country market, where as the **export price** will normally be based on the transaction price at which the foreign producer sells the product to an importer in the importing country.

1.5 Calculation of Dumping Margin

Dumping Margin is calculated on the basis of a “fair comparison” between normal value and the export price. Prices being compared are those of sales made at the **same level of trade**, normally the ex-factory level, and of sales made at as nearly as possible the same time.

$$\text{Normal Value} - \text{Export Price} = \text{Dumping Margin}$$

In most of the cases this comparison is not that simple, and it is necessary to undertake a series of complex analytical steps in order to determine the appropriate price in the market of the exporting country and the appropriate price in the market of the importing country so as to be able to undertake an appropriate comparison. Further antidumping duty may be imposed to the extent of the dumping margin.

C2. Agreement on Subsidies & Countervailing Measures

The SCM agreement recognizes that governments utilize subsidies to attain various policy objectives. However, it restrains the right of government to grant subsidies that has significant trade distorting effects.

2.1 SUBSIDY:

Under the SCM Agreement an industry is deemed to have received a subsidy, where a **benefit** is conferred on the industry as a result of:

- ✧ Direct transfer from the government of funds or government guarantees for payment of loans;

The government foregoing the revenue that should otherwise have been collected;

The government providing goods or services, or purchasing goods

2.2 The agreement divides subsidies into prohibited and permissible subsidies.

Prohibited subsidies (red subsidies)

- ✧ Subsidies that are contingent on export performance

- ❖ Subsidies that are contingent on the use of domestic over imported goods.

Permissible subsidies

Permissible subsidies are divided into two categories

- ❖ Actionable subsidies (**amber subsidies**) are those subsidies which are specific e.g enterprise specific, industry specific etc.
- ❖ Non-Actionable subsidies (**green subsidies**) are those which are not specific.

2.3 Remedies:

SCM Agreement provides that, whenever a country has reason to believe that any subsidy granted or maintained by another country results in:

- ❖ Injury to its domestic industry;
- ❖ Nullification or impairment, or
- ❖ Serious prejudice

Such country may request consultation with such other country to clarify the facts of situation and to arrive at a mutually agreed solution. If consultations do not result in a mutually agreed solution, the matter may be referred to Dispute Settlement Body (DSB) of WTO, which may ultimately results in the imposition of countervailing duty.

2.4 Special and Differential Treatment for Developing Country Members

Members of WTO recognize that subsidies may play an important role in economic development programs of developing country members

- ❖ Due to this fact prohibition of subsidies contingent upon export performance shall not apply to:

- Least developed countries
- Developing countries including Pakistan, India, Sri Lanka, Indonesia, Senegal (list of 22 countries)
- Other developing countries for a period of 8 years (till December 31,2002) from the date of entry into force of the WTO Agreements.
- ❖ Similarly prohibition of subsidies contingent upon the use of domestic over imported goods shall not apply to:
 - Developing country members for a period of 5 years.

The agreement on SCM and AD provide that the determination of whether subsidized or dumped imports are causing injury to a domestic industry should be made on the basis of all “relevant economic factors having a bearing on the state of the industry”

- Least developed country member for the period of 8 years from the date of entry into force or the WTO Agreement.

Rules and Procedures for Levying Anti-Dumping and Countervailing Duties

1. Main criteria for levying of duties

1.1 Injury to Domestic Industry

The basic rule which the agreement on AD and SCM lay down is that, antidumping and countervailing duties should be levied **only where it**

has been established on the basis of investigations that :

- ❖ There has been significant increase in **dumped or subsidized imports**
 - either in absolute terms , or
 - relative to production or consumption in the importing country.
- ❖ The prices of such imports have:
 - undercut those of the like domestic product
 - depressed the prices of the like product, or
 - prevented that price from increasing.
- ❖ As a result, injury is caused to the domestic industry or there is a threat of injury to the domestic industry of the importing country.

1.2 Causal link between dumped, subsidized imports and injury to the domestic industry:

The agreement on SCM and AD provide that the determination of whether subsidized or dumped imports are causing injury to a domestic industry should be made on the basis of all “ relevant economic factors having a bearing on the state of the industry”. Such factors includes

- ❖ Actual or Potential decline in:
 - sales
 - profits
 - output
 - market share
 - productivity
 - return on investment
 - utilization of capacity
- ❖ Effects on domestic prices;
- ❖ Actual or potential effects on :

- cash flows
- inventories
- employment
- wages
- growth
- ability to raise capital or investments

However the list is not exhaustive, and other factors may be deemed relevant. In addition, the agreement specifies that no single factor or combination of factors will necessarily lead to either an affirmative or negative determination.

2. Duration and Review of Antidumping/Countervailing Measures:

In both the cases provisional measures may be imposed, after preliminary affirmative determination of dumping/subsidized imports, injury and causality. Duration of such provisional measures is usually 4

months, with a possible extension to 6 months at the request of the exporters.

“SUNSET” requirement of both the agreements establishes that anti-dumping/countervailing duties shall normally terminate no later than 5 years after first being applied.

Such duties may not terminate after 5 years, if review investigation prior to that period (before end of 5 years) establishes that expiry of the duty would be likely to lead to continuation or recurrence of dumping/subsidized imports and injury.

3. Price Undertakings:

Agreement on AD establishes the principle that undertaking between any exporter and the importing country, to revise prices, or to cease exports at dumped prices, may be entered into to settle an investiga-

tion, but only after a preliminary affirmative determination of dumping, injury and causality has been made. It is voluntary on both the sides.

Similarly Agreement on SCM provides that investigation proceedings may be suspended or terminated without the imposition of provisional or definitive measures, upon receipt of satisfactory voluntary undertaking under which:

- ◇ the government of exporting country agrees to:
 - eliminate, or
 - limit the subsidy, or
 - take other measures concerning its effects, or
 - the exporters agrees to revise its prices so that the investigation authorities are

AD Measures: By Reporting Party (Developing Country) From: 01/01/95 To:31/12/01

Reporting Party	1995	1996	1997	1998	1999	2000	2001	Totals
Argentina	13	20	11	13	9	16	15	97
Brazil	2	6	2	14	5	9	13	51
Chile	2	0	2	2	0	0	0	6
Colombia	1	1	1	0	6	2	0	11
Czech Republic	0	0	0	0	0	1	0	1
Egypt	0	0	0	5	13	0	0	18
Guatemala	0	0	1	0	0	0	0	1
India	7	2	8	22	22	56	38	155
Indonesia	0	0	4	2	7	0	3	16
Israel	1	0	0	6	4	0	1	12
Korea, Rep. of	0	5	10	8	0	5	0	28
Malaysia	0	2	2	4	1	1	0	10
Mexico	16	4	7	7	7	7	3	51
Nicaragua	0	0	0	0	1	0	0	1
Peru	2	1	2	0	3	4	1	13
Philippines	0	2	0	1	2	3	1	9
Poland	0	0	0	1	0	6	0	7
Singapore	2	0	0	0	0	0	0	2
South Africa	0	8	18	14	34	13	5	92
Thailand	0	0	1	2	0	0	0	3
Trinidad and Tobago	0	0	0	2	0	1	2	5
Turkey	11	0	0	0	1	8	2	22
Venezuela	2	0	4	0	8	9	0	23
Total	59	51	73	103	123	141	84	634



AD Measures: By Reporting Party (Developed Country) From: 01/01/95 To:31/12/01

Reporting Party	1995	1996	1997	1998	1999	2000	2001	Totals
Australia	1	1	1	7	6	5	10	31
Canada	7	0	7	10	10	14	19	67
European Community	14	17	23	25	18	41	15	153
Japan	1	0	0	0	0	0	0	1
New Zealand	3	4	0	1	0	1	2	11
United States	33	11	20	16	24	32	33	169
Total	59	33	51	59	58	93	79	432

satisfied that the injurious effects of the subsidy is eliminated.

◇ Duty increases to higher than bound rates.

◇ Generally they are applied on a non-selective (i.e most-favored-nation, or “MFN”) basis,

Such measures may only be applied to the extent necessary to remedy or prevent serious injury and to facilitate adjustment.

◇ They be progressively liberalized while in effect

◇ The country imposing them generally compensate to the country whose trade is affected,(more market access).

The agreements on safeguards authorize importing countries to restrict imports for temporary periods if, after investigation carried out by competent authorities, it is established that imports are taking place in such increased quantities as to cause serious injury to the domestic industry that produces like or directly competitive products

One thing is clear that safeguard measures, unlike antidumping and countervailing measures, do not require a finding of an “unfair” practice.

C3. Agreement on Safeguards

The agreements on safeguards authorize importing countries to restrict imports for temporary periods if, after investigation carried out by competent authorities, it is established that imports are taking place in such increased quantities as to cause **serious injury** to the domestic industry that produces like or directly competitive products.

In simple words safeguard measures are defined as “**emergency**” actions with respect to

- ◇ Increased imports of particular products;
- ◇ Where such imports have caused or threaten to cause **serious injury** to the importing country’s domestic industry.

3.4 Causation

A determination of serious injury cannot be made unless there is objective evidence of the existence of a causal link between increased imports of the product concerned and serious injury.

3.1 Serious Injury

Serious injury may be defined as the “significant overall impairment in the position of a domestic industry”.

3.3 Guiding Principles

Guiding principles of the agreement with respect to safeguard measures are that;

3.2 Application of Safeguard measures:

Safeguard measures may be imposed in two ways:

- ◇ Quantitative import restrictions (quota), or

◇ Such measures must be temporary,

◇ They may be imposed only when imports are found to cause or threaten serious injury to a competing domestic industry,

Factors other than increased imports, which are causing injury to the domestic industry at the same time, must not be attributed to the calculation of injury due to increased imports.

3.5 Duration and Review of Measures

◇ SG Agreement establishes 4 years to be the maximum period of any safeguarded measure.

◇ This period may be extended (to further 4 years) only if through



a new investigation it is found that continuation of measure is necessary to prevent or remedy serious injury, and only if evidence shows that the industry is adjusting.

- ❖ Safeguard measures in place for longer than one year must be progressively liberalized at regular intervals during the period of application.
- ❖ Any measure of more than 3 years duration must be reviewed at mid-term, which may result in withdrawal or increasing the pace of liberalization.
- ❖ Developing countries may extend the application of a safeguard for an extra two years (i.e. 6 years) beyond that normally permitted, and for a total of 10 years as compared with usual 8 years.

D. Productive Role of Management Accountants

1. Management Accountants can provide management consultancy services to the domestic industry of their country that have been or threaten to have been materially/seriously injured due to dumped/subsidized/sudden increased volume of imports, and want to prepare and initiate relevant case before the investigating authorities.
2. They can assist their government/investigating authorities, in resolving problems that may arise during the course of investigations, with their professional skill and competence.
3. They are most suitable candidates to maintain proper books of cost accounts and all other relevant documents and details which may be useful in the preparation or in defending an-

tidumping, subsidies or safeguard cases.

4. Respective institutes (such as in Pakistan ICMAP) can organize and arrange capacity-building programs to make domestic producers/manufacturer's, as well as exporters of their countries, aware of the implications and agreements of WTO.
5. Management accountants are required at all the ends of the case.

Management Accountants can provide management consultancy services to the domestic industry of their country that have been or threaten to have been materially/seriously injured due to dumped/ subsidized/ sudden increased volume of imports, and want to prepare and initiate relevant case before the investigating authorities

Applicant:

For applicant management accountants are required to prepare and compile the case in the most efficient manner.

Investigating Authorities:

Management accountants are also required by the investigating authorities to verify the application data lodged by the applicant.

Respondent:

Respondent also requires the services of a management accountant to make appropriate replies to the queries of the investigating authorities,

in appropriate way to protect its own interest and to justify its position.

6. Cost effective production is the only way to compete in the international market. To achieve this goal, the need for:
 - ❖ External and internal cost audits would be realized.
 - ❖ Bringing more industries in the cost audit ambit would be realized by the governments.
 - ❖ Proper maintenance of cost accounts and preparation of management reports relating to costing information would be realized.

A Cost/Management Accountant can appropriately do all this. They would be required to make use of their professional skills and competence in order to achieve the desired objectives.

7. Determination and calculations of certain values e.g normal value (in an antidumping case) requires certain allowances and adjustments to be made. A management accountant may make such determination/calculation in the most suitable manner.

All the above mentioned points will definitely increase the demand of Management/Cost Accountants in industrial as well as service sector to perform their functions:

- ❖ as an integral part of the senior management level to take appropriate and timely decisions to protect their company/unit from any adverse implications of WTO regime, and
- ❖ as management consultants to serve the domestic industry in overcoming their problems ■