

Antidumping Investigations and the Pass-Through of Antidumping Duties and Exchange Rates: Reply

By BRUCE A. BLONIGEN AND STEPHEN E. HAYNES*

The Comment correctly identifies an invalid assumption of Blonigen and Haynes (2002) that antidumping (AD) duties are subtracted from the US price when calculating AD duties in administrative reviews. This error arose from our misinterpretation of which duties are covered under the term “US import duties” in the US AD statutes. As the Comment correctly notes, this invalidates our theoretical explanation for why pass-through of the AD duty can be up to 200 percent. However, this point does not affect our original article’s theory or empirical evidence (verified after re-estimation taking this point into account) about the magnitude of exchange rate pass-through and the presence of structural breaks in both the AD duty and exchange-rate pass-through coefficients stemming from AD investigations and orders.

Although not discussed in the Comment, the theoretical point does affect our *estimate* of the AD pass-through coefficient reported in our original article. As is common in tariff pass-through studies, we added the full AD duty to the border price to construct our dependent variable (US price). With a standard tariff, this is appropriate because the tariff is always assessed and will, thus, be passed through to the importer. If the border price remains the same, pass-through of the tariff would be 100 percent. But an AD duty is not necessarily assessed if dumping is not found to be occurring during the current period by an ex post administrative review. However, our construction of the dependent variable was valid under our initial (but incorrect) assumption that US import duties are subtracted from the US price when calculating the current-period AD duty.

With the invalidation of our assumption on the subtraction of the AD duties from the US price, adding the AD duty to the US border price to construct our dependent variable is no longer appropriate to estimate the pass-through of the AD duty to the US importer. The ultimate pass-through of the AD duty to the US importer will be an increase in the border price plus the current-period AD duty assessed from the ex post administrative review. When we reestimate our empirical specifications with a dependent variable that does not include the AD duty, our original AD duty pass-through coefficients are reduced by almost exactly 1.0 and all other coefficient estimates are virtually identical to those reported in our original article (these estimates are omitted for brevity). Thus, reestimation yields an estimate of AD pass-through to the border price after the final determination of around 60 percent. Since the ultimate AD duties assessed in the case ex post were very close to zero, the full pass-through of the AD duty (the rise in border price plus the AD duty ultimately assessed) is likely not much greater than 60 percent—much less than full pass-through.¹ Importantly, we note that reestimation does not alter our other empirical findings. In particular, the estimates of exchange rate pass-through, and structural breaks in the exchange-rate pass-through coefficients, remain essentially identical to those in the original article.

Despite the validity of the Comment, there remain other theoretical explanations for why pass-through of AD duties could exceed 100 percent. One explanation is the use of “zeroing,” where

*Blonigen: Department of Economics, University of Oregon, Eugene, OR 97403 and National Bureau of Economic Research (e-mail: bruceb@uoregon.edu); Haynes: Department of Economics, University of Oregon, Eugene, OR 97403 (e-mail: shaynes@uoregon.edu).

¹ Actual AD duties assessed after the first administrative review ranged from 0.19 percent to 1.96 percent, as presented in column 3 of Table 1 in the original article.

negative dumping margins are set equal to zero, yet positive dumping margins are not. Zeroing implies that, on average, dumping margins are effectively biased upwards and that complete pass-through would not eliminate a duty.² Second, an unrelated importer (who is ultimately liable for paying the AD duties) may charge current US customers very high prices on the affected product to compensate for the uncertainty of not knowing how the foreign firm will price the import in the future, which, in turn, would determine the AD duty that is ultimately assessed. While our results from re-estimation after taking into account the Comment's point do not support more-than-complete pass-through for the case of Canadian steel exports to the United States in the early 1990s, this outcome may remain an area for interesting future work to investigate across a broader sample of products.

In conclusion, while giving full credit to the Comment's point, we note that our original article's general conclusion remains the same—special features of US AD laws can lead to AD duty and exchange rate pass-through outcomes that may be quite different from those with a standard tariff.

REFERENCES

- Blonigen, Bruce A.** 2006. "Evolving Discretionary Practices of U.S. Antidumping Activity." *Canadian Journal of Economics*, 39(3): 874–900.
- Blonigen, Bruce A., and Stephen E. Haynes.** 2002. "Antidumping Investigations and the Pass-through of Antidumping Duties and Exchange Rates." *American Economic Review*, 92(4): 1044–61.

² An earlier version of the Comment presented this explanation. See Blonigen (2006) for further details on zeroing, which has been the subject of a recent World Trade Organization dispute between Japan and the United States.

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