Policies and Trade - Part II: Tariff Rate Quotas

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Introduction of Tariff-Rate Quotas

- In 1995, WTO established tariff-rate quotas (TRQs) as part of Uruguay Round Agreement on Agriculture (URAA)

- TRQs an effort to replace non-tariff barriers (NTBs) with tariffs - *tariffication*

- At same time, objective of preserving minimum levels of market access to importing countries

- TRQs set lower tariff \( t^i \) for imports under defined quota \( Q_M \), and higher tariff \( t^o \) above \( Q_M \)

- Since 1995, 1,425 TRQs introduced by 43 WTO members – Chile (1) up to Norway (232)
Effect of a TRQ: Small Country

\[ P \]

\[ Q \]

\[ S_{w} + t^{o} \]

\[ S_{w} + t^{i} \]

\[ D_{1} \]

\[ D_{2} \]

\[ D_{3} \]

\[ Q_{1} \]

\[ Q_{M} = Q_{2} \]

\[ Q_{3} \]
Effects of TRQs

- Economic effect of TRQs critically depends on location of importer’s excess demand curve:
  - If $D_1: Q_1 < Q_M$, in-quota tariff $t^i$ is effective policy – $P_1$ is price and $a$ is tariff revenue
  - If $D_2: Q_M$ is filled and is effective policy – $P_2$ is price, $(a+b)$ is tariff revenue and $c$ is quota rent
  - If $D_3: Q_3 > Q_M$, over-quota tariff $t^o$ is effective policy – $P_3$ is price, $e$ is over-quota tariff revenue and $(c+d)$ is quota rent
Features of TRQs

- Country numbers: Canada (21), EU (87), Japan (20), South Africa (53), US (54), Venezuela (61)
- 60-70 million tonnes/year traded under TRQs
- Over-quota tariffs average 135 percent, in-quota tariffs average 30 percent
- Variation across countries, e.g., average over-quota tariffs for US 33 percent compared to 286 percent for South Korea
- Variation across commodities, e.g., US sugar (32, 6), Japan rice (258, 22), Canada dairy (254, 5)
- Current fill-rates for TRQs average 65 percent
Administration of TRQs

- Most common methods used to implement TRQs:
  - License-on-demand: high and low cost firms can apply for import licenses
  - First-come-first-served: inefficient firms can be allocated quota, concentration of imports at start of season
  - Historical allocation: system not efficient and susceptible to rent-seeking
  - Discretionary methods: allocation of quota to state trading enterprises/producer groups – open to political influence/limit competition