

Policies and Trade - Part II: Tariff Rate Quotas



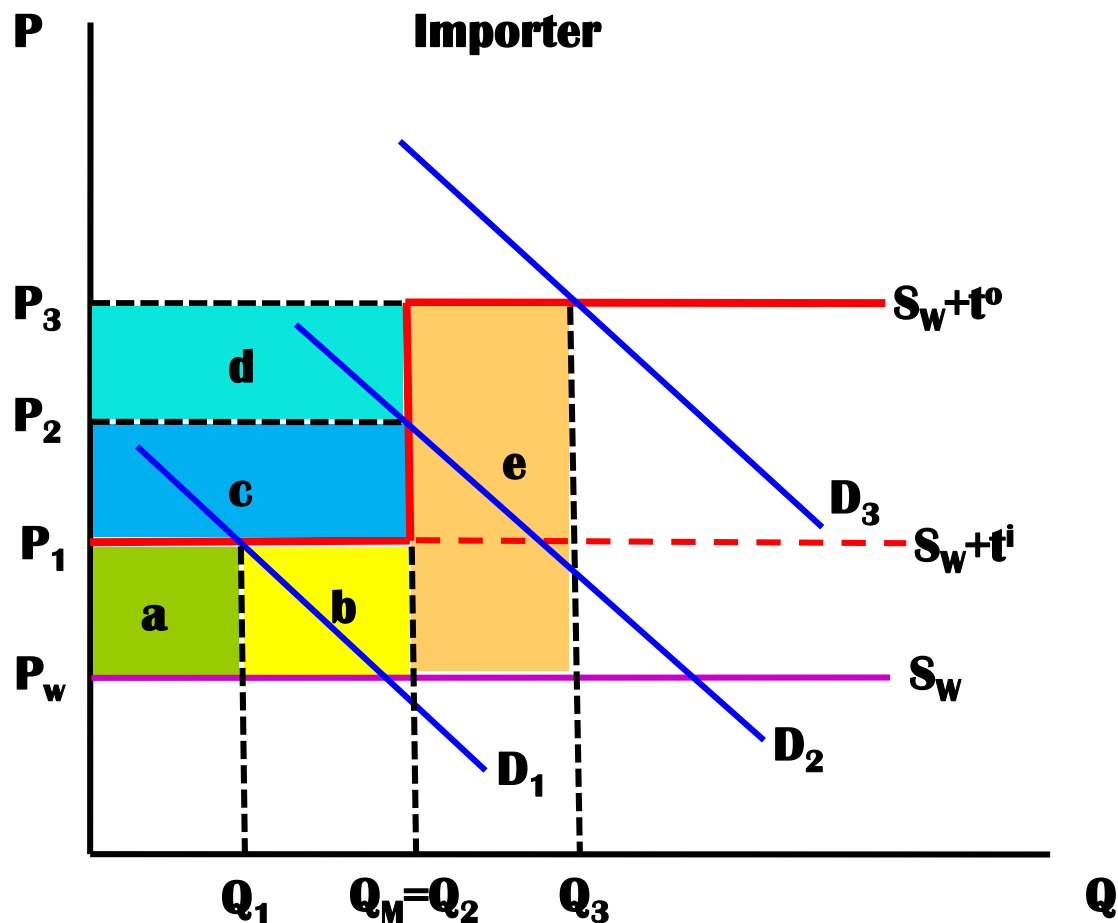
**AED/IS 4540
International Commerce
and the World Economy**

**Professor Sheldon
sheldon.1@osu.edu**

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



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**
- ◆ **In-quota tariffs average 30 percent, over-quota tariffs average 135 percent**
- ◆ **Variation across countries/commodities:**
 - **average over-quota tariffs for US 33 percent vs. 286 percent for South Korea**
 - **in/over-quota tariffs, e.g., Japan rice (22,258), Mexico poultry (50,235), Norway beef (239,369), US sugar (6, 32)**

TRQs and USMCA

- ❖ **Canadian dairy TRQs were a “big deal” during renegotiation of NAFTA to USMCA**
- ❖ **Canada has TRQs in place for yogurt, fluid milk, cheese, milk powder, ice cream and butter**
- ❖ **In-quota tariffs on these products are very low, e.g., 1 percent on cheddar cheese**
- ❖ **High over-quota tariffs, e.g. fluid milk (241), cheese (245), ice cream (292), and butter (298)**
- ❖ **USMCA expanded US access to Canadian dairy market from ≈ 3 to 3.59 percent of Canadian sales**
- ❖ **However, Canadian over-quota tariffs not reduced**

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**