# AGRICULTURAL MARKET ACCESS AND GATT

- **Agriculture not fully integrated into general tariff reductions during first seven GATT rounds**

- **Achievement of Uruguay Round was to re-write rules on market access rather than large tariff reductions, and *tariffication* was a major advance**

- **Tariffication: transformation of non-tariff barriers into tariffs**

- ***"Dirty" tariffication* resulted in some new bound tariffs that gave some more protection than previously existed**

- **GATT members agreed on quotas to maintain historic trade levels or increase trade - actual instrument known as *tariff-rate quotas* (TRQs)**

- **Specific requirements for allocation of quotas not specified, so that allocation and administration is an issue for negotiation in the Doha Round, and in FTAs such as TPP**

- **How do TRQs work?**

# TARIFF-RATE QUOTAS

- TRQs not a very common instrument of trade policy (Moschini, 1991)

- TRQs not the same as quotas – no absolute maximum set on total imports over a given period

- More like a variable tariff

  - lower *in-quota* tariff is applied to imports entering under market access commitment

  - higher *over-quota* tariff levied on imports in excess of agreed market access

- As Abbott and Paarlberg (1998) note, in-quota tariffs were bound either at or above historic levels, while over-quota tariffs were often bound at prohibitive levels

- Figure 1 (a) represents domestic market - autarky price $p^a$ determines vertical intercept of the importing country's excess demand curve ($ED$) in (b), which describes world market

- $ES$ is relevant excess supply curve if no tariff were applied by importing country, $ES'$ is excess supply curve including the in-quota tariff $t^i$, while $ES''$ is excess supply curve including over-quota tariff $t^o$

- Effective excess supply curve is made up of $ES'$ for import levels below minimum access level $Q$, and by $ES''$ for import levels in excess of minimum access level

- At $Q$, there is a discontinuity between $ES'$ and $ES''$, the height of which is a function of the difference between the in and over-quota tariffs, given the level of market access

- Equilibrium is where $ED$ intersects effective excess supply curve in the discontinuity

- Imports are the agreed level of minimum access, $Q$, and the equilibrium domestic price is $p_e^d$

- In terms of its effect on domestic price, equilibrium is equivalent to a pure quota set at $Q$

- Equilibrium in Figure 1 illustrates case where over-quota tariff $t^o$ is much higher than that necessary to make TRQ bind

- Vertical difference between *k* and *e* is commonly termed *water* in the over-quota tariff, which may be due to dirty tariffication

- Under a pure quota, total quota rents would be given by the rectangle *abce*, whereas with a binding TRQ, part of this is captured by the importing country's government as tariff revenue, *fbcg*, leaving area *afge* as quota rents

- Who gains these rents is a function of how TRQ is administered

  - if rights to import under minimum level of access are auctioned off competitively by importing country, it will fully capture rents, *afge*

  - if methods other than auctioning are used, rents are captured by private agents, either in importing country or exporting countries

- Unless rights to import are freely tradable after allocation, methods of administration such as license on demand, first-come-first-served (FCFS), and historical allocation allow for *extra-marginal* suppliers to fill either part or all of the quota $Q$

- effective excess supply curve can be rotated up from $h'g$ to $h'e$ to approximate higher production costs of extra-marginal suppliers

- this inefficiency is added to the usual deadweight loss triangle, which is $ejc$ when measured relative to free trade, and $eig$ when compared to a simple *ad valorem* tariff of $t^i$

■ In addition to equilibrium drawn in Figure 1, three other equilibria are illustrated in Figure 2

- *Case 1*, $ED_1$ does not intersect excess supply at all, autarky price $p^a = p_1^d$ is globally lower than border price inclusive of in-quota tariff, as a result of which there are no imports and, hence, *zero fill* of the TRQ

- In *Case 2*, $ED_2$ intersects $ES'$, which is below minimum access level $Q$, so that there is *partial* TRQ fill at $q'$, in-quota tariff is binding, the equilibrium domestic price, inclusive of tariff $t^i$, being $p_2^d$, so that effects of TRQ are equivalent to a tariff

- *Case 3* is equilibrium already outlined in Figure 1 where $ED_3$ intersects excess supply in the discontinuity

- *Case 4*, $ED_4$ intersects $ES''$, such that over-quota tariff is binding, amount imported $q''$ exceeds $Q$, i.e., there are over-quota imports, and equilibrium domestic price is $p_4^d$ inclusive of the over-quota tariff $t^o$

  Tariff revenue consists of area *fbcg* due to application of in-quota tariff on $Q$ units imported under agreed minimum access, and area *eijh* due to application of the over-quota tariff on $q'' - Q$

  In addition, compared to *Case 3*, owners of rights to import under the minimum access now earn larger quota rents of *afge*, which is clearly larger than rents earned in *Case 3*

- **depending on method of quota rights allocation, some of these rents may be paid out to extra-marginal factors of production, adding to the inefficiency of the TRQ**

- **deadweight loss of *Case 4*, relative to the free trade equilibrium, is the area *hjk***

- **1,425 TRQs notified to the WTO by 43 countries**
- **For OECD, average in-quota tariff of 36% and average over-quota tariff of 120%**
- **Total tariff revenue of US$ 26 billion, and quota rents of US$ 16 billion**
- **Only 36% of TRQs are filled, the average fill-rate being 61%**
- **Common methods of administration are licenses on demand, first-come-first-served, and historical importers, accounting for 49% of all TRQs – auctions account for only 5% of all TRQs**