

Summary

The Uruguay Round Agreement on Agriculture (1996) initiated several major steps toward freer trade for agricultural products, including the lifting of bans and the removal of quotas on agricultural imports. The Agreement did not require immediate conversion of bans and quotas into tariffs; rather, it permitted them to be converted into tariff-rate quotas (TRQs). A TRQ is a two-level tariff, charging one tariff on a limited volume of imports and a second, higher tariff on all additional imports. The higher tariff is often set so high that imports are not profitable beyond the limited volume. In such cases, the TRQ functions exactly like a quota.

The Uruguay Round stimulated the creation of over 1,300 tariff-rate quotas. Some TRQs increased market access for imports compared with earlier levels. Many, however, merely preserved pre-Agreement levels of protection. Thus, TRQs remain a significant barrier to trade and will likely be a source of contentious debate in the next round of agricultural trade negotiations. On the one hand, exporters want TRQs removed or liberalized, while on the other, protected producers want to preserve TRQs because they shield producers from greater import competition.

Debate about TRQs can be divided into two issues: TRQ administration and TRQ liberalization. This report considers administration. TRQs are administered in various ways, but there is no consensus about how to administer TRQs so as to keep them consistent with WTO principles. This report explains how TRQs operate, the various forms of TRQ administration employed, and the rules governing TRQ administration in the General Agreement on Tariffs and Trade (GATT).

The analysis evaluates how the seven basic administrative methods perform according to the two GATT criteria for quota administration: quota fill and nondiscrimination.

Quota fill is the principle that quota administration itself should not inhibit imports. That is, no rules or regulations should act as trade barriers. The analysis finds that the risk of inhibiting quota fill is relatively minor for all methods. Some licensing methods can result in shipments that are too small to be economically viable, but when this problem emerges, it is usually remedied. Similarly, domestic producer groups or state trading organizations that administer TRQs have the capacity to inhibit quota fill. In practice, they have not abused this potential, in part because exporters closely monitor them.

Nondiscrimination is the principle that all imports from all countries be treated equally. TRQs can discriminate when imports equal or exceed the in-quota volume. When this happens, the price of imports in the importing country is more than the world price plus the import tariff. The price difference is known as rent. Quota rents attract suppliers that would not otherwise enter the market and thus bias the distribution of trade. Trade shares are no longer determined by the relative economic efficiency of competing suppliers, but rather on the basis of which suppliers win access to the quota rent. Some administrative methods pose a greater risk of discrimination than others. We conclude that:

- TRQs administered at the discretion of state trading organizations and producer groups and TRQs allocated to suppliers based on their historical market shares are the most likely to be discriminatory.
- TRQs allocated by license or by first-come, first-served methods pose a moderate risk of biased trade.
- Auctioning the right to import at the in-quota tariff rate neutralizes the quota rent. Auctions therefore are nondiscriminatory, and by this criterion, an auction is the best way to administer a TRQ.
- Allowing the unrestricted resale of quota rights allocated by non-auction methods can substantially reduce the risk of discrimination.