

# Issues in the Administration of Tariff-Rate Import Quotas in The Agreement on Agriculture in the WTO: An Introduction

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The Uruguay Round Agreement on Agriculture (URAA) put in place a set of rules that may, in the future, have significant effects on the conditions for market access for agricultural products. Bound tariffs replaced non-tariff barriers in most cases, and rules facing exporters are now more transparent. In addition, minimum access commitments were made through the use of import quotas, with a lower tariff for imports within the quota. Although agriculture is now integrated into the multilateral trading system, most commentators agree that the URAA did little actually to liberalize agricultural trade. Bound out-of-quota tariffs remain very high while quotas have resulted in the institutionalization of rents for specific countries and firms or state trading enterprises, thereby potentially increasing resistance by these stakeholders to any trade liberalization initiatives.

Potential, however, for trade liberalization through reduction in tariffs or increases in quotas could be realized at the pending agricultural trade negotiations in the World Trade Organization (WTO). Developing countries in particular have much at stake here, as potentially large exporters who lose significantly from agricultural trade restrictions. The purpose of this special section of the *Review* is to assess the problems and issues related

to administering the large number of tariff rate quotas (TRQs). No specific provisions were approved in the URAA regarding administration of the quotas, although relevant GATT rules were to apply. WTO member countries use a host of different methods for administering TRQs, ranging from applied tariffs and auctioning to licenses on demand. A summary of the various methods adopted by different countries is given in table 1. In addition, other conditions placed on TRQ administration are listed. Some of which also have the potential to generate inefficiencies and inequities.

Quota administration can have a direct influence on both trade flows and the distribution of rents originating under the quotas, and is, therefore, a highly political issue. In the debate about implementation of the URAA, much dissatisfaction has been voiced regarding TRQ administration in many specific cases, and in some cases formal disputes have been brought before the WTO. There is an urgent need to provide more information on how TRQs are currently administered, what the economic implications are, how trade flows have developed under TRQs, what better rules for TRQ administration might look like, and how the next round of WTO negotiations should deal with TRQs in agriculture. The authors of the following six papers begin to provide this essential information.

In the opening paper, Boughner, de Gorter, and Sheldon summarize the economics of TRQs and the implications of alternative trade liberalization scenarios. This analysis shows that to maximize the impact of trade liberalization, it is critical for trade negotiators to identify whether it is the out-of-quota tariff, the in-quota tariff, or the quota that is actually effective and to change the relevant instrument to maintain a trade liberalizing effect.

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**Table 1. Principal Methods of Adminstrating TRQs**

| Method of Administration       | 1995<br>No. of<br>TRQs | 1996<br>No. of<br>TRQs | 1997<br>No. of<br>TRQs |
|--------------------------------|------------------------|------------------------|------------------------|
| Applied Tariffs                | 650                    | 650                    | 643                    |
| License on Demand              | 325                    | 333                    | 342                    |
| First-come first-served        | 102                    | 104                    | 102                    |
| Historical Importers           | 49                     | 60                     | 67                     |
| Auction                        | 32                     | 30                     | 32                     |
| State Trading                  | 22                     | 22                     | 20                     |
| Producer Groups                | 8                      | 8                      | 8                      |
| Mixed Allocation               | 42                     | 43                     | 42                     |
| Other                          | 22                     | 21                     | 15                     |
| Not Specified                  | 9                      | 7                      | 99                     |
| Sum of Above                   | 1261                   | 1278                   | 1370                   |
| Total No. of TRQs in Schedules | 1370                   | 1370                   | 1370                   |

  

| Additional Conditions                                | 1995<br>No. of<br>TRQs | 1996<br>No. of<br>TRQs | 1997<br>No. of<br>TRQs |
|--|------------------------|------------------------|------------------------|
| Domestic Purchase Requirement <sup>a</sup>           | 46                     | 46                     | 46                     |
| Limits on TRQ Shares <sup>b</sup>                    | 102                    | 111                    | 118                    |
| Export Certificates <sup>c</sup>                     | 25                     | 25                     | 25                     |
| Past Trading Performance <sup>d</sup>                | 71                     | 71                     | 70                     |
| Past Trading Performance and<br>Limits on TRQ Shares | 3                      | 3                      | 3                      |

<sup>a</sup>A condition requiring the purchase of domestic production of the product in order to be eligible.

<sup>b</sup>Limits the maximum share or quantity of the quota allowed.

<sup>c</sup>Requires an export certificate administered by the exporting country.

<sup>d</sup>Limits eligibility to established importers of the product concerned.

**Source:** World Trade Organization, 1998. "Tariff Quota Administration Methods and Tariff Quota Fill." Background Paper by the Secretariat, 6 November (AIE/S4).

Boughner, de Gorter, and Sheldon also provide a framework for understanding the implications of allocating non-tradable, country-specific export quotas and licenses to importing or exporting firms. The method of allocating quotas can also have important implications for the impact of trade liberalization. For example, if export licenses are allocated to high cost producers, reduction of in-quota tariffs may result in increased quota fill, whereas an increase in the quota may result in quota under-fill.

The remaining five papers are case studies, in which the authors examine specific issues in the European Union (Bureau and Tangermann), the United States (Skully), Japan and Korea (Choi and Sumner), Canada (Barichello), and in developing countries (Abbott and Morse). Four major issues addressed in each of these country cases include:

- Identification of the many different TRQ *allocation methods* and the problems associated

with those methods, including the additional conditions.

- The incidence and problems associated with *discrimination*, as in country-specific export quotas and import and export licensing to trading firms
- The economics of *fill rates* and the reasons for and implications of quota under- or overfill
- Problems associated with TRQ *transparency* and the means by which countries may circumvent market access commitments

The URAA does not insist on each quota being filled. In fact, a low quota fill rate does not necessarily imply inefficiency, for example, there may either be unavailable supply or insufficient demand, or the in-quota tariff may be effective nor does a fill rate of 100% or more imply efficiency. Filled quotas may have occurred even if suppliers are high cost importing firms or export countries/firms, or state trading enterprises may have fulfilled WTO commitments but have imported low quality product or destroyed imports (see the discussion in Choi and Sumner). Either way, inefficiencies in the administration of quotas can be associated with 100% fill rates.

Fill rates for each method of administration are given in table 2 for a subset of the total quotas for agriculture listed in the WTO, and the number of countries, commodity groups, and observations are also provided for each method. The last column of table 2 gives the distributions of fill rates falling below 95%. The average fill rates can be misleading because some are equal to zero and others are equal to 100%. They are also not weighted by trade volume or value. Coming to conclusions using aggregate data may be misleading. Hence, the case study approach is adopted for the major countries employing TRQs, with each of the following papers focusing on the potential problems and the pros and cons of each administration method.

Bureau and Tangermann examine the use of TRQs in the European Union (EU). They note that to meet their market access obligations under the URAA, the EU had to implement 87 TRQs, of which 60% relate to minimum access, while the remainder relate to current access, where this categorization provides a good deal more transparency compared with other countries such as the U.S. Bureau and Tangermann conclude that the EU has chosen to administer its TRQs in a way that neither discourages imports nor improves economic efficiency, the most common methods of TRQ administration being licenses on demand, his-

**Table 2. Fill Rate Breakdown 1996**

| Administration method   | Countries | Product Groups <sup>a</sup> | Total Observations | Average Fill Rate | Distribution  |
|-------------------------|-----------|-----------------------------|--------------------|-------------------|---------------|
|                         |           |                             |                    |                   | of Fill Rates |
|                         | no.       | no.                         | no.                | %                 | <95%<br>%     |
| Applied Tariffs         | 10        | 12                          | 154                | 72                | 39            |
| Auctioning              | 4         | 4                           | 27                 | 38                | 70            |
| First-come first-served | 6         | 9                           | 81                 | 63                | 56            |
| Historical Allocation   | 10        | 10                          | 67                 | 82                | 45            |
| License on Demand       | 12        | 12                          | 242                | 52                | 72            |
| Mixed Allocation        | 7         | 8                           | 42                 | 82                | 55            |
| Not Specified           | 2         | 2                           | 6                  | 34                | 83            |
| Other                   | 3         | 3                           | 8                  | 54                | 50            |
| Producer Groups         | 2         | 6                           | 7                  | 53                | 57            |
| State Trading           | 5         | 7                           | 21                 | 82                | 24            |
| Total                   | 22        | 12                          | 655                | 63                | 57            |

<sup>a</sup>Product groups are: cereals; oilseeds; sugar; dairy; meat, eggs; beverages; fruit and vegetables; tobacco; agricultural fibers; coffee; tea, spices and processed agricultural products from multiple groups; and other.

Source: ABARE (Australian Bureau of Agricultural and Resource Economics) 1999. "WTO Agricultural Negotiations: Important Market Access Issues" Research Report 99.3, Canberra, Australia, and World Trade Organization, 1997. "Tariff Quota Administration Methods and Tariff Quota Fill." Background Paper by the Secretariat, 6 November (AIE/S4).

torical allocation, and first-come first-served. Fill rates have been quite high for most TRQs, and there is no evidence that the EU has managed TRQs in a way that discourages market access. In fact, the TRQ system accounts for most of the increased access to the EU after the URAA. In terms of further trade liberalization, the authors believe that increasing quota volumes is likely to result in more gains than reductions in tariffs.

In the case of the United States, the WTO has been notified of a total of 54 TRQs covering seven product categories. Of these, the TRQs covering sugar, peanuts, cotton, and dairy products originated in quotas designed to maintain a U.S. domestic price support program. Skully presents an interpretation of GATT Article XIII showing that it is inherently contradictory—it advocates non-discrimination and use of tariffs, yet also permits TRQs to be allocated on an historical basis, a procedure that is typically discriminatory, thereby resulting in trade disputes. Skully notes that TRQs in the United States are allocated on an historical market share basis, and, once allocated, they are likely to become difficult to redistribute in accordance with changing comparative advantage.

Choi and Sumner note that Korea and Japan established TRQs for all agricultural imports following the URAA, specifically, 190 in the case of Korea, and 19 in the case of Japan. Korea administers its TRQs through licenses on demand, first-come first-served, auctioning, and state trading enterprises (STEs). Japan uses both licenses and STEs. Although the U.S. and other exporting coun-

tries have targeted STEs for investigation in the next round of trade negotiations, TRQs involving STEs have the highest fill rates in Korea and Japan. Nevertheless, Choi and Sumner conclude that while TRQs have resulted in increased market access to these countries, problems exist with their transparency and administration. For example, rice is imported by Korea on the basis of the lowest tendered bid, resulting in low-quality rice supplied by exporters who would not do well under free trade.

Barichello focuses on the case of Canada, where a total of 21 TRQs are administered for agricultural commodities, and the fill rates are typically high. Most Canadian TRQs are allocated to private firms, and administration imposes minimal burden on importers. Because of its reliance on historical importers, Canada has not aided efficient allocation of quotas. However, it has started to make progress toward transferability of quotas on a permanent basis, with quotas now being tradable in many categories. Overall, Barichello notes that Canada's TRQ regime has been successful in maintaining transparency and minimizing costs to importers, although additional gains could be made through further simplification of quota administration, notably for poultry, and by making it possible to buy and sell or rent quotas within a particular year in all product categories. Quota rents could also be spread more widely if quota auctions were adopted.

Finally, Abbott and Morse analyze the implementation and administration of TRQs in develop-

ing countries. They report that fourteen developing countries have notified the WTO that they utilize TRQs for over 180 agricultural commodities for trade involving Brazil, Colombia, Costa Rica, Guatemala, Indonesia, Korea, Malaysia, Mexico, Morocco, Panama, the Philippines, Thailand, Tunisia, and Venezuela. Abbott and Morse conclude that only Korea and the Philippines are actually implementing TRQs in the manner originally envisioned. The remaining countries made TRQ notifications to the WTO to verify that they are meeting their access commitments. In at least half of the total cases, an applied tariff is the relevant regime, while for a third of the cases either licenses are being employed or there is STE involvement. In many cases, applied tariffs are well below a country's bound GATT rates, the exceptions being Korea and the Philippines, where applied tariffs are close to GATT bindings. This suggests that there has already been substantial trade liberalization in some of these markets and that overfill of quotas is as common as under-fill. Abbott and Morse argue that maximal benefits from future trade liberalization in developing countries are most likely to come from tariff reduction than from expansion of quotas.

Overall, the following papers indicate that the TRQ system is working rather well in terms of fulfilling market access commitments, quota fill rates, and transparency. Much more can be done, however, to liberalize market access. At a minimum, future trade negotiations within the WTO should focus on achieving the following:

- Avoid un-weighted percent tariff reduction requirements that give governments the flexibility to reduce low tariff items more and so minimize trade liberalization
- Revise baseline tariffs, because of their overstatement, and revise baseline quotas, because of potential understatement
- Implement optimal rules to liberalize trade in terms of how to reduce tariffs and increase quotas
- Develop rules for the administration of quota licenses, e.g., increase tradability between firms, eliminate country specific quotas, minimize unnecessary costs to the importer/exporter.

In conclusion, TRQs have become an important instrument affecting international agricultural trade as signatories to the URAA endeavor to meet their obligations to increase international access to their markets. The overall purpose of this set of papers is to increase understanding of how TRQs work, both in principle and in practice with specific attention paid to issues such as methods of quota administration, quota fill, and appropriate means of achieving trade liberalization in the presence of TRQs. It is hoped that this special volume of the Journal will serve as an important input for discussions in the pending WTO negotiations on agriculture.