Tariff Rate Quotas in Trade Talks

What is the issue?

Tariff rate quotas (TRQs) can work as deal-makers in global trade talks by balancing the interests of local producers and consumers.

What is a TRQ?

- A TRQ is a mechanism that allows a set quantity of specific products to be imported at a low or zero rate of duty.
- TRQs are established under trade agreements between countries.
- The "TRQ commitment" does not apply any limits on the quantity per se of import of a product.
- Instead, it applies a higher rate of duty for that specific product once imports up to the "TRQ commitment" have been reached.
- So essentially, a TRQ is a two-tiered tariff instrument.
- Imports entering within the quota portion of a TRQ are subject to a lower tariff rate called the tariff quota rate.
- The later imports face a much higher tariff rate, which is normally the MFN (Most Favoured Nation) tariff.
- [MFN tariffs are what countries promise to impose uniformly on imports from other members of the WTO.]

What is the need?

- India has a whopping $104-billion trade deficit with the Regional Comprehensive Economic Partnership (RCEP) grouping.
- This was 64% of India's total trade deficit of 2017-18.
- Consequently, there is a debate on opening up a significant portion of the market.
- Several other trade agreements are also in various stages of negotiations.
- In this context, the introduction of Tariff-rate quotas (TRQs) can be a more relevant transitional tool.
- This may provide a degree of safeguard to the future demand growth in a rapidly expanding market.

How prevalent is TRQ use?

- The use of TRQ as an instrument is globally quite prevalent.
- Tariff quotas are used on a wide range of products but most are in the agriculture sector.
- Cereals, meat, fruit and vegetables, and dairy products are the most common, and sugar is also protected in most producing countries.
- It is estimated that as many as 1,200 TRQs are operated each year by WTO members including EU, Japan, Canada and the US.
- This ensures that limited volumes of sensitive products can enter their market at a low tariff.
- However, the tariff outside the TRQ quantity is kept high to offer a degree of protection to the domestic producers.
- E.g. the US cotton tariff quota protects US cotton growers while allowing textiles manufactures to import some cheaper cotton also

How do TRQs benefit countries?

- TRQs protect domestic producers from having to face competition from large quantities of imports.
- They also allow consumers and producers in the importing country to enjoy a benefit of lower priced products.
- TRQs are used as sweeteners to help reach a consensus in trade negotiations. E.g. EU-Japan bilateral deal was finalised with a TRQ for cheeses
- On the other hand, TRQs help overcome traditional domestic opposition to trade deals.

What lies ahead?

- If India is to induce investments in manufacturing, it need not have to commit entirely to a zero tariff regime.
- A quantity-linked tariff elimination as that in TRQ could be considered in the long run.
- But the TRQ administration system must not impair or nullify the market access commitments negotiated.
- It should be transparent, minimising transactional costs for traders.
- Historically, the quotas are allocated through a slew of processes including auction, first-come, first-served, licence and finally, import by trading entities.

Source: Business Line



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