

TARIFF RATE QUOTAS WITH ENDOGENOUS MODE OF COMPETITION: THE CASE OF THE EU IMPORT REGIME FOR BANANAS

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Abstract

Tariff Rate Quotas (TRQs) are among the most frequently used trade policy instruments by developed countries to limit preferential access to products from developing countries. One of the core issues in multilateral and preferential negotiations between developed and developing countries is how to liberalize agricultural trade when TRQs are in place. The paper uses a two-stage capacity constrained model, in which the mode of competition is endogenous and the constraint is flexible, to investigate the impact of TRQs and to identify the tariff equivalent. The model shows that the tariff equivalent changes according to the prevailing mode of competition under the TRQ. The model is used empirically to address the issue of the 2006 tariffication of the TRQ for EU banana imports from Latin American exporters. The results suggest that under the TRQ firms competed on quantity and that, for a wide range of parameter values, the tariff which would have left imports unchanged was higher than the one introduced by the EU.