

Antonia Ngavozafy, David
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New EU-MERCOSUR Association Agreement: Quantitative Impact Assessment of the liberalization through Tariff Rate Quotas

Universidad Complutense de Madrid



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New EU-MERCOSUR
Association Agreement:
Quantitative Impact
Assessment of the
liberalization through
Tariff Rate Quotas

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Conclusion

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Economics of TQ



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- Trade Policy Instrument introduced for the first time at the Uruguay Round Agreement on Agriculture (URAA)
- “Tariff Quotas (TQ) is a *two-tiered tariff*, where in a given period, a lower *in-quota tariff* (t) is applied to the first Q units of imports and a higher *over-quota* (T) is applied to all subsequent imports.” David W. Skully (2001)
 - TQ is not an absolute quota
 - TQ generates a rent stemming from the opportunity to import inside the TQ at a lower cost
 - TQ have both tariff and non-tariff components.

Economics of TQ

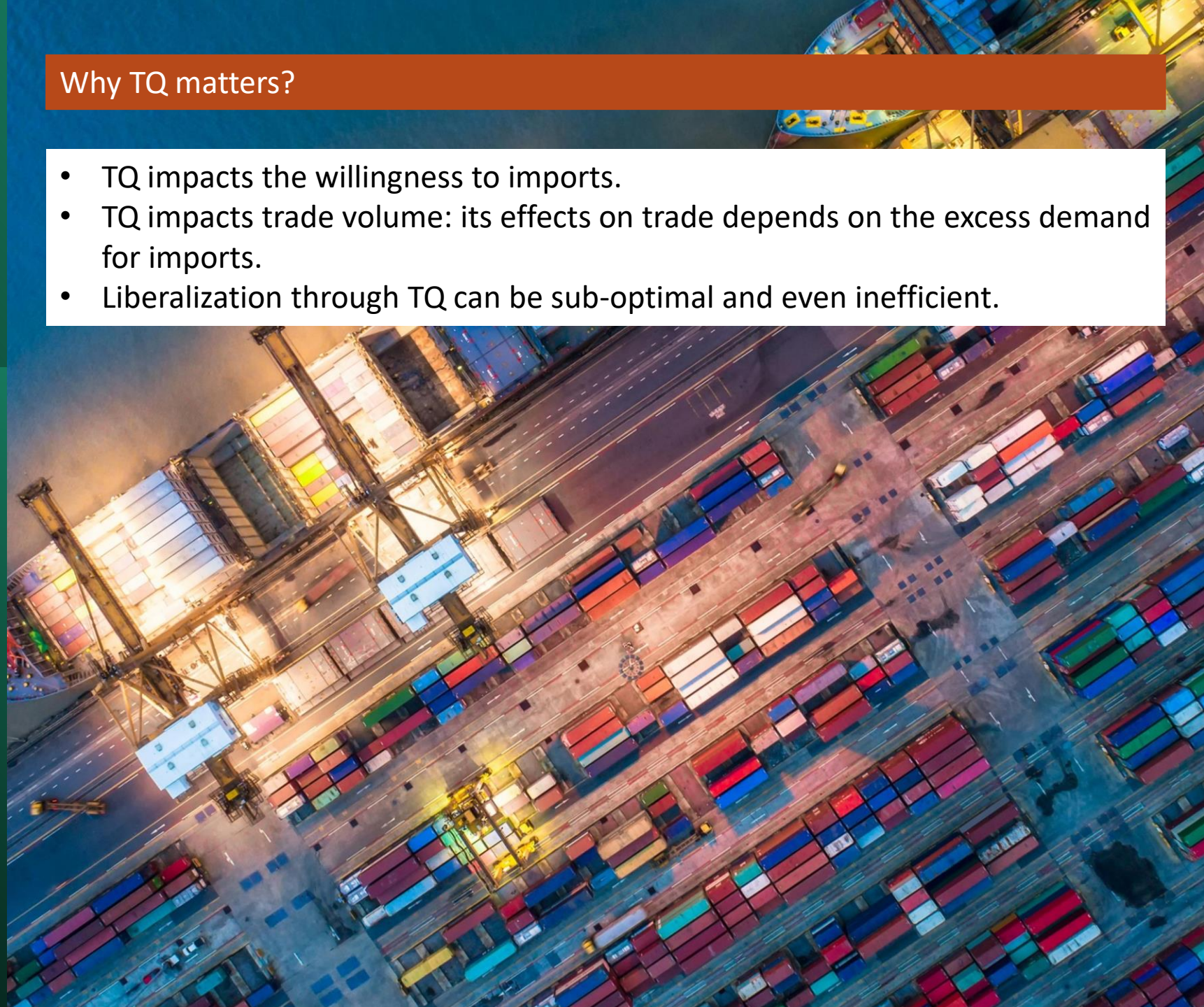
TQ component	Definition	Example*: TQ on Lamb from Argentina exported to EU countries
In-quota Tariff (IR)	The in-quota tariff, aka inside-quota tariff, is the customs duty applicable to any products imported before the quantity limit is filled.	0%
Over-quota Tariff (OR)	The over-quota tariff, aka outside-quota tariff, is the customs duty applicable to any products imported after the quantity limit is filled.	12.8% + 171.3 EUR/100 kg equivalent to 44.33% AVE
Quantity limit (Q)	The quota quantity limit, aka quota volume or contingent. Until this specific quantity of goods is reached, the in-quota tariff applies. Once the contingent is filled, the product can continue to be imported without limitation, but at a higher tariff which is the outside-quota tariff rate.	23,000,000 kilogrammes
Opening period (OP)	The period during which imports are allowed under the TQ mechanism.	Not specified
Country coverage (CC)	The list of countries that can claim an allocation or a portion of the TQ.	All countries
Product coverage (PC)	The list of products eligible for the TQ.	34 NTLC
Administration method (MA)	The method used to manage the TQ allocation. The WTO identifies seven principal methods of TQ administration.	First-come, First-served (FC)

Why TQ matters?

- TQ impacts the willingness to imports.
- TQ impacts trade volume: its effects on trade depends on the excess demand for imports.
- Liberalization through TQ can be sub-optimal and even inefficient.

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TQ under the EU-Mercosur Association Agreements



TQ under the EU-Mercosur Association Agreements

Current policy:

- Mercosur countries does not grant market access to EU27 through TQ.
- EU27 grants TQ to Mercosur countries under the WTO regime (global and country-specific).

Product group	Beneficiary	Quota Volume (Tonne)
Lamb and goat meat (bone in)	Argentina	17006
Lamb and goat meat (bone in)	Uruguay	4759
Lamb and goat meat (boneless)	Argentina	33949
Lamb and goat meat (boneless)	Uruguay	9518
High quality beef and veal (bone-in)	Argentina and Uruguay	48200
Buffalo meat (Boneless)	Argentina	200
Poultry ("70% chickens and "65%" chickens)	Argentina and Brazil	6249
Poultry (Boneless, Frozen)	Argentina and Brazil	2305
Garlic	Argentina	13700
Poultrymeat (salted or in brine)	Brazil	170807
Preparation of poultry, turkey and other fowls meat or offal	Brazil	579192
Raw cane sugar	Brazil	412054
Dried birds' eggs	Argentina	7000
Frozen cuts and breasts of fowls of the species Gallus domesticus	Brazil	9432
Frozen cuts and breasts of fowls of the species Gallus domesticus	Argentina	3300
Frozen cuts, halves and quarters of turkey (bone-in and boneless)	Brazil	4285
Fresh,chilled, frozen bovine meat, thick and thin skirt (High quality	Argentina	30700
Fresh,chilled, frozen bovine meat, thick and thin skirt (High quality	Uruguay	6300
Fresh,chilled, frozen bovine meat, thick and thin skirt (High quality	Brazil	10000
Fresh,chilled, frozen bovine meat (High quality)	Paraguay	1000

Source: Aggregated data from ITC Market Access Map (<https://macmap.org>) and EU Tariff Quota Consultation Database (https://ec.europa.eu/taxation_customs/dds2/taric/quota_consultation.jsp?Lang=en), accessed april 2021

TQ under the EU-Mercosur Association Agreements

Mercosur's TRQ concession under the EU-Mercosur Association Agreement	Number of HS8 code affected (NCM 2012)	Category of TRQ
A quota of 30 000 t for cheeses , with in quota duties and volumes phased out/in over a 10 year period	8	Reciprocal TRQ
A quota of 30 000 t for cheeses , with in quota duties and volumes phased out/in over a 10 year period /E	8	Reciprocal TRQ
A quota of 5 000 t for infant formula , with in quota duties and volumes phased out/in over a 10 year period	3	Reciprocal TRQ
A quota of 10 000 t for milk powder , with in quota duties and volumes phased out/in over a 10 year period	1	Reciprocal TRQ
An quota of 50 000 units distributed across Mercosur countries for motor vehicles , with in-quota duties and out-quota duties phased out over a 9 year period.	10	Transitional TRQ
Quotas of 4760 tons and 17640 tons for chocolates , with in-quota duties and volumes phased out/in over a 9 year period.	2	Transitional TRQ
Quotas of 2030 tons, 150 tons and 4380 tons for white chocolates, chocolate powder and preparations , with in-quota duties and volumes phased out/in over a 14 year period.	6	Transitional TRQ
A quota of 15000 tons for garlic , with in-quota duties phased out in 7-year period and increasing contingent	1	Transitional TRQ
A quota of 7500 tons for preserved tomatoes , with in-quota duties phased out in 9-year period.	1	Transitional TRQ

Source: New EU-Mercosur trade agreement , The agreement in principle, published on 1 July 2019

TQ under the EU-Mercosur Association Agreements

EU's TRQ concession under the EU-Mercosur Association Agreement	Number of HS8 code affected (CN2013)	Category of TRQ
A quota of 54 450 t (cwe – carcass weight equivalent) for fresh beef , phased in in six equal stages, with in-quota duty of 7.5%.	7	Transitional TRQ
A quota of 44 550 t (cwe) for frozen beef, including for processing , phased in in six equal stages, with in-quota duty of 7.5%.	15	Transitional TRQ
A quota of 30 000 t for cheeses , with in quota duties and volumes phased out/in over a 10 year period	43	Reciprocal TRQ
A quota of 30 000 t for cheeses , with in quota duties and volumes phased out/in over a 10 year period /E	1	Reciprocal TRQ
A quota of 3 000 t (egg equivalent) for egg products , phased in over six equal stages, duty-free	5	Transitional TRQ
A quota of 3 000 t (egg equivalent) for egg albumins , phased in over six equal stages, duty-free	2	Transitional TRQ
A quota of 650 000 t for ethanol , phased in in six equal stages. 450 000 t of this quantity are reserved for the chemical industry, duty-free. For the remaining 200,000 t, the in-quota duty for the undenatured ethyl alcohol imported under sub-heading 2207.10 and tariff items 2208.90.91 and 2208.90.99 is 6.4 €/hl. The in-quota duty for the denatured ethyl alcohol imported under sub-heading 2207.20 is 3.4 €/hl.	4	Transitional TRQ

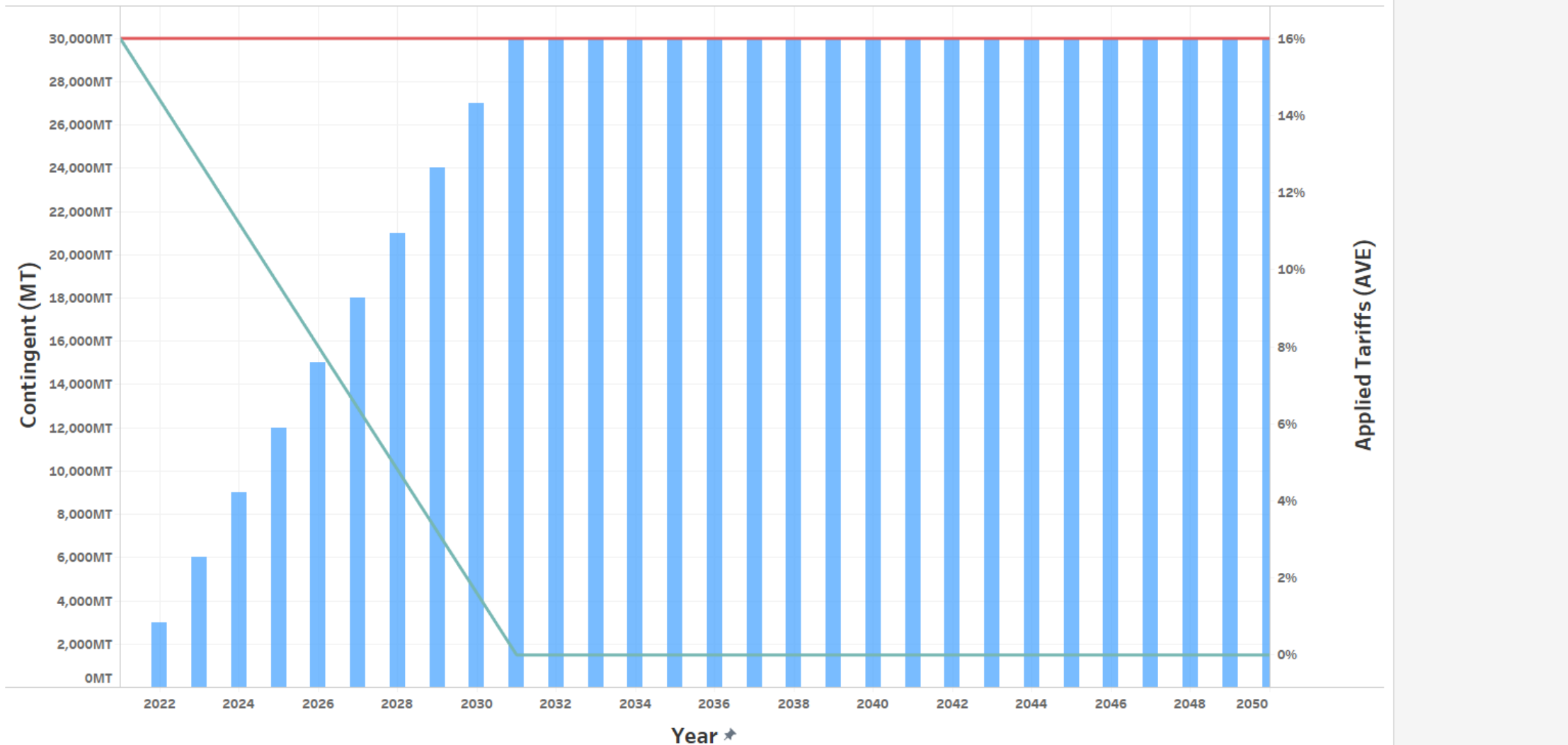
TQ under the EU-Mercosur Association Agreements

EU's TRQ concession under the EU-Mercosur Association Agreement	Number of HS8 code affected	Category of TRQ
A quota of 15 000 t for garlic , with in quota duties and volumes phased out/in over a 7 year period	1	Transitional TRQ
A quota of 45 000 t for honey phased in over six equal stages, duty free	1	Transitional TRQ
A quota of 5 000 t for infant formula , with in quota duties and volumes phased out/in over a 10 year period	1	Reciprocal TRQ
A quota of 1 000 000 t for maize phased in in six equal stages, duty free	4	Transitional TRQ
A quota of 10 000 t for milk powder , with in quota duties and volumes phased out/in over a 10 year period	13	Reciprocal TRQ
A quota of 2 000 t for other sugars (Headings 1702 and 1806) with a 50% MFN tariff preference	16	Transitional TRQ
A quota of 25 000 t (cwe) for fresh and chilled, frozen and prepared pigmeat phased in in six equal stages. The in-quota duty shall be 83 €/t	42	Transitional TRQ
A quota of 90 000 t (cwe) for boneless poultry meat, including poultry preparations , phased in in six equal stages, duty free	25	Transitional TRQ
A quota of 90 000 t (cwe) for bone-in poultry meat phased in in six equal stages, duty free	85	Transitional TRQ
A quota of 60 000 t for rice phased in in six equal stages, duty free	32	Transitional TRQ
A quota of 2 400 t (pure alcohol equivalent) for rum in bulk, phased in over six equal stages, duty free,	2	Transitional TRQ
A quota of 1 000 t for sweetcorn , duty free	3	Transitional TRQ
A quota of 1 500 t for maize starch and manioc starch with a 50% MFN tariff preference (83 €/t)	2	Transitional TRQ
A quota of 600 t for starch derivatives , phased in in six equal stages, duty free	11	Transitional TRQ
A quota of 10 000 t for sugar for refining for Paraguay, duty free + lowering the in-quota of the EU WTO quota for Brazil from 98 €/t to zero for 180 000 t	2	Transitional TRQ

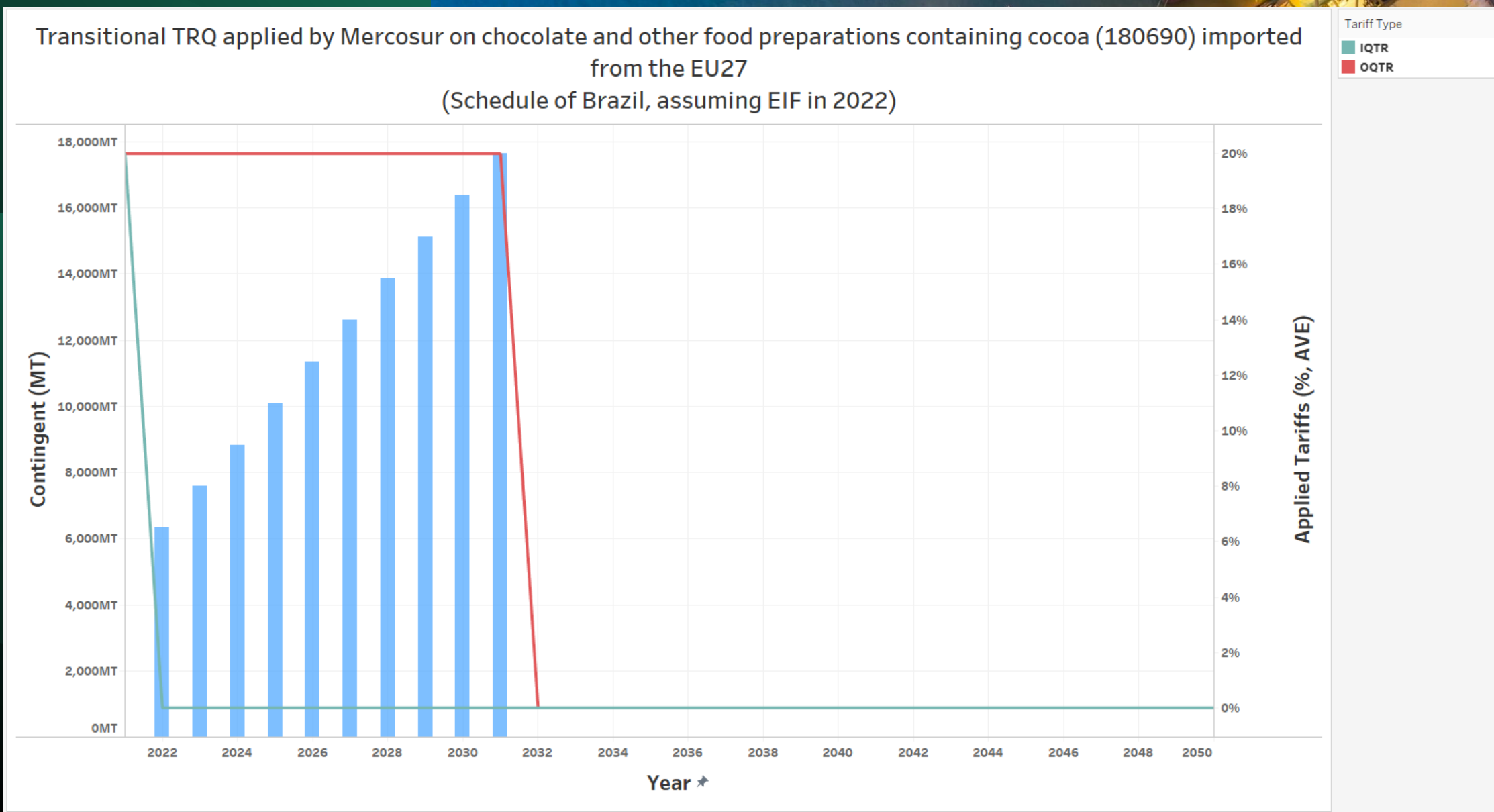
Source: New EU-Mercosur trade agreement, The agreement in principle, published on 1 July 2019

TQ under the EU-Mercosur Association Agreements

Reciprocal TRQ applied by Mercosur on cheese (040690) imported from the EU27
(Schedule of Brazil, assuming EIF in 2022)



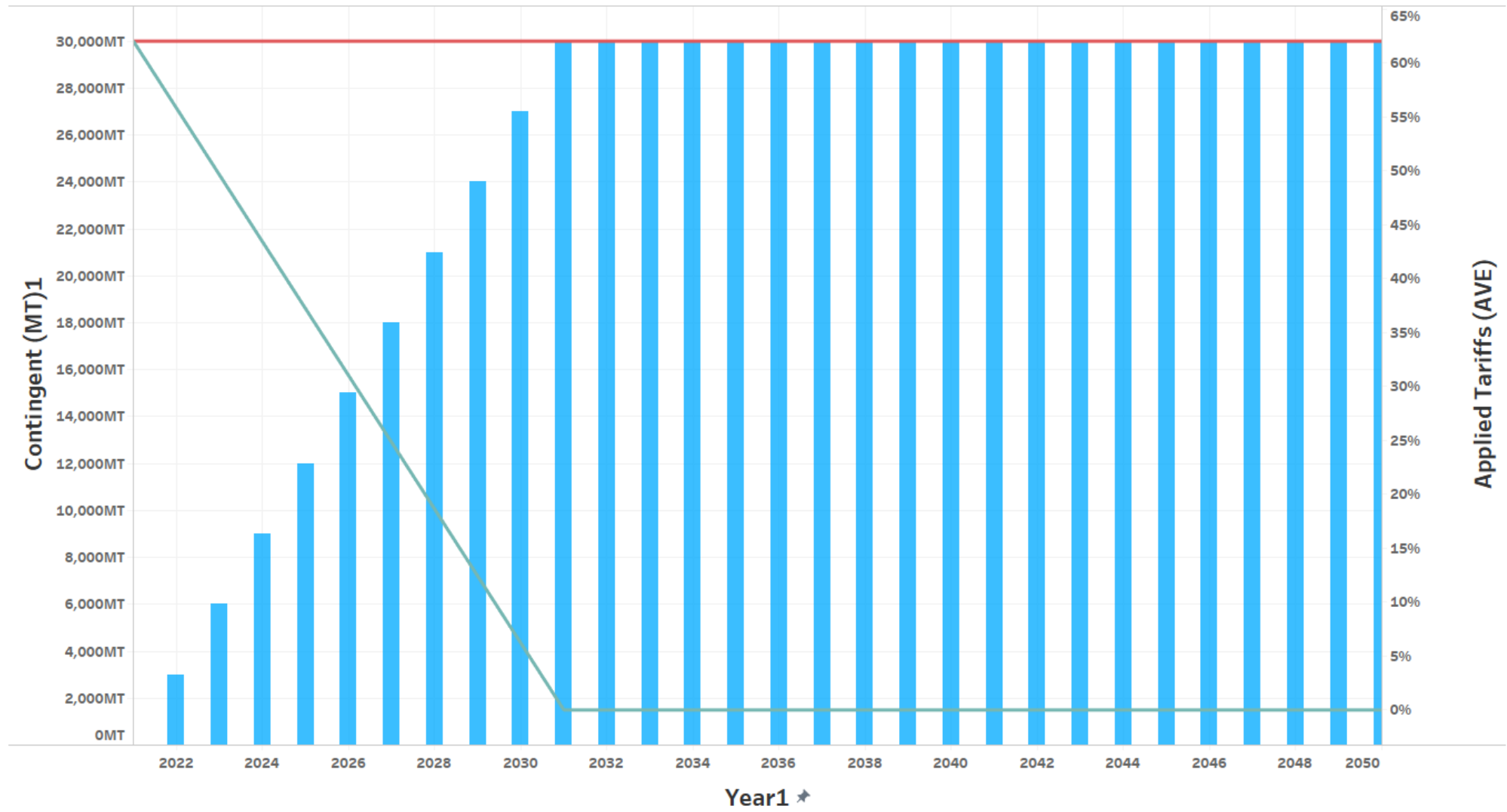
TQ under the EU-Mercosur Association Agreements



TQ under the EU-Mercosur Association Agreements

Reciprocal TRQ applied by EU27 on cheese (040690) imported from the Mercosur
(Assuming EIF in 2022)

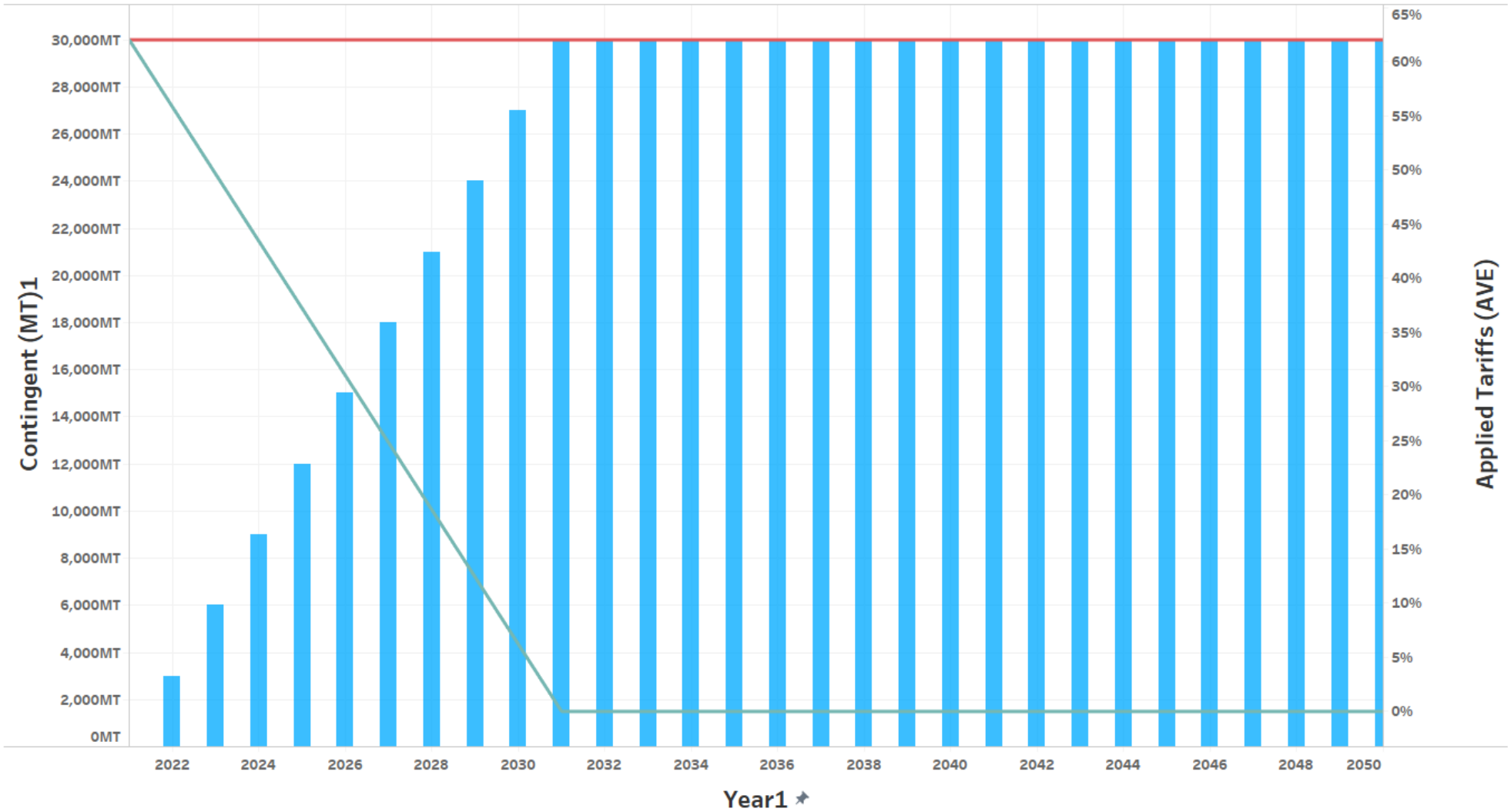
Tariff Type1
IQTR
OQTR



TQ under the EU-Mercosur Association Agreements

Reciprocal TRQ applied by EU27 on cheese (040690) imported from the Mercosur
(Assuming EIF in 2022)

Tariff Type1
IQTR
OQTR



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Model and Assessment strategies



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Standard CGE model with 8 regions and 36 sectors.

- Baseline scenario (a world without EU-Mercosur AA).
- FTA scenarios where the treaty is implemented at different points in time:
 - on the date of entry into force (EIF),
 - five (EIF + 5),
 - ten (EIF + 10),
 - and 15 years later (EIF +15).
- TRQ is incorporated through their AVE estimates.
- No NTM.
- GTAP 10 database
- The quantitative impacts of the agreement are obtained by comparing the projections under the baseline and the FTA scenarios.

Model and Assessment strategies

No.	GTAP_code	Description
1	EU_27	European Union without the UK
2	BRAZIL	Brazil
3	ARGENTINA	Argentina
4	URUGUAY	Uruguay
5	PARAGUAY	Paraguay
6	USA	United States
7	CHINA	China
8	ROW	Rest of the World

No.	String	Code	Description	Group	Aggregated from GTAP sectors
1	c_cer	CER	Cereals	Agricultural and agro-industry products	1, 2, 3, 5, 23
2	c_v_f	V_F	Vegetables, fruits, nuts	Agricultural and agro-industry products	4
3	c_sgr	SGR	Sugar	Agricultural and agro-industry products	6, 24
4	c_ocr	OCR	Plant & animal fiber, others	Agricultural and agro-industry products	7, 8, 12, 14
5	c_cmt	CMT	Bovine and other ruminant meats	Agricultural and agro-industry products	9, 19
6	c_oap	OAP	Other animal products	Agricultural and agro-industry products	10
7	c_mil	MIL	Dairy products	Agricultural and agro-industry products	22
8	c_frs	FRS	Forestry	Agricultural and agro-industry products	13
9	c_gas_	GAS	Gas, coal, oil extraction or distribution	Manufacturing	15, 16, 17, 18, 47
10	c_omt	OMT	Live animals, meat and animal products	Agricultural and agro-industry products	20
11	c_vol	VOL	Vegetable oils and fats	Agricultural and agro-industry products	21
12	c_ofd	OFD	Food products nec	Agricultural and agro-industry products	25
13	c_b_t	B_T	Beverages and tobacco products	Agricultural and agro-industry products	26
14	c_tex	TEX	Textiles	Manufacturing	27
15	c_wap	WAP	Wearing apparel	Manufacturing	28
16	c_lea	LEA	Leather products	Manufacturing	29
17	c_l_p	L_P	Wood products	Manufacturing	30, 31
18	c_pch	PCH	Petroleum, coal and other chemical products	Manufacturing	32, 33
19	c_bph	BPH	Pharmaceutical products	Manufacturing	34
20	c_rpp	RPP	Rubber and plastic products	Manufacturing	35
21	c_omf_	OMF	Other manufactures	Manufacturing	36, 45
22	c_mmp	MMP	Metals and metal products	Manufacturing	37, 38, 39
23	c_elq	ELQ	Electronic products	Manufacturing	40
24	c_oma	OMA	Other machinery	Manufacturing	41, 42
25	c_mvh	MVH	Motor vehicles and parts	Manufacturing	43
26	c_otn	OTN	Transport equipment	Manufacturing	44
27	c_ose	OSE	Other services	Services	48,50,52,55,62,63,64,65
28	c_cns	CNS	Construction	Services	49
29	c_afs	AFS	Hotels and Restaurants	Services	51
30	c_wtp	WTP	Maritime Transport	Services	53
31	c_atp	ATP	Air Transport	Services	54
32	c_cmn	CMN	Communication	Services	56
33	c_ofi	OFI	Banking	Services	57
34	c_ins	INS	Insurance	Services	58
35	c_obr	OBR	Business Services	Services	59, 60
36	c_ros	ROS	Personal Services	Services	61

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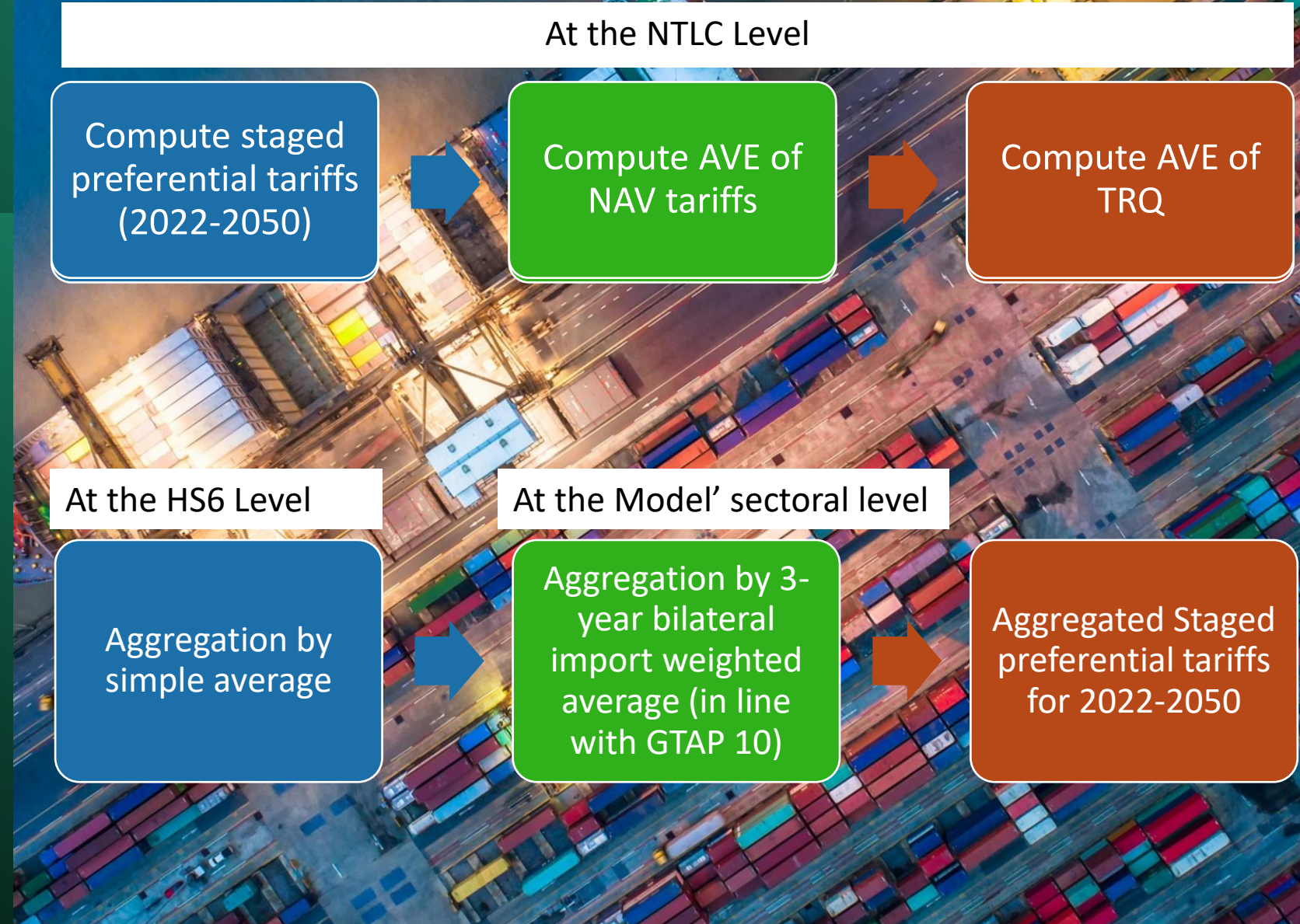
- Baseline scenario (a world without EU-Mercosur AA).
 - Projection to 2019 by updating Mercosur and EU's applied tariffs using MACMap Tariff Database.
 - FTA scenarios where the treaty is implemented at different points in time:
 - Actual Tariff reduction schedules as stated in the agreement.
 - No broad assumption of the tariff elimination schedules as in other studies.
- > More accurate estimation of the liberalization extent.

Model and Assessment strategies – Staging of Preferential tariffs

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New EU-MERCOSUR Association Agreement: Quantitative Assessment of its Impacts on Global Trade in Agricultural Commodities

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To evaluate the extent of TRQ, we opt for an estimation of their AVE for each of the NTLC impacted by considering three possible equilibria situation:

- Regime-1: Demand with supply below the quota
→ marginal tariffs (AVE) = IQTR
- Regime-2: Demand with supply at the quota
→ marginal tariffs (AVE) = IQTR + quota premium
- Regime-3: Demand with supply over the quota.
→ marginal tariffs (AVE) = OQTR

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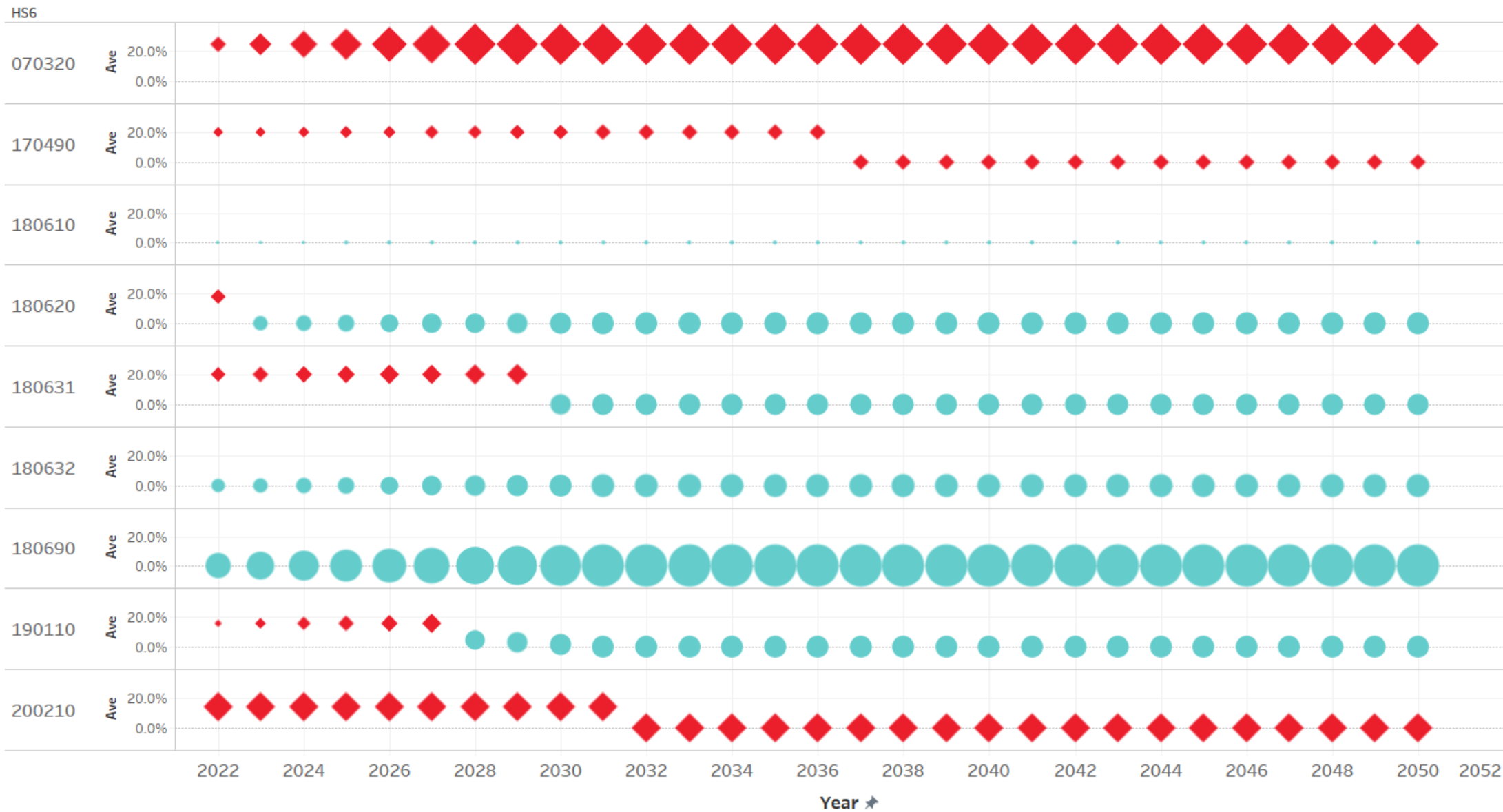
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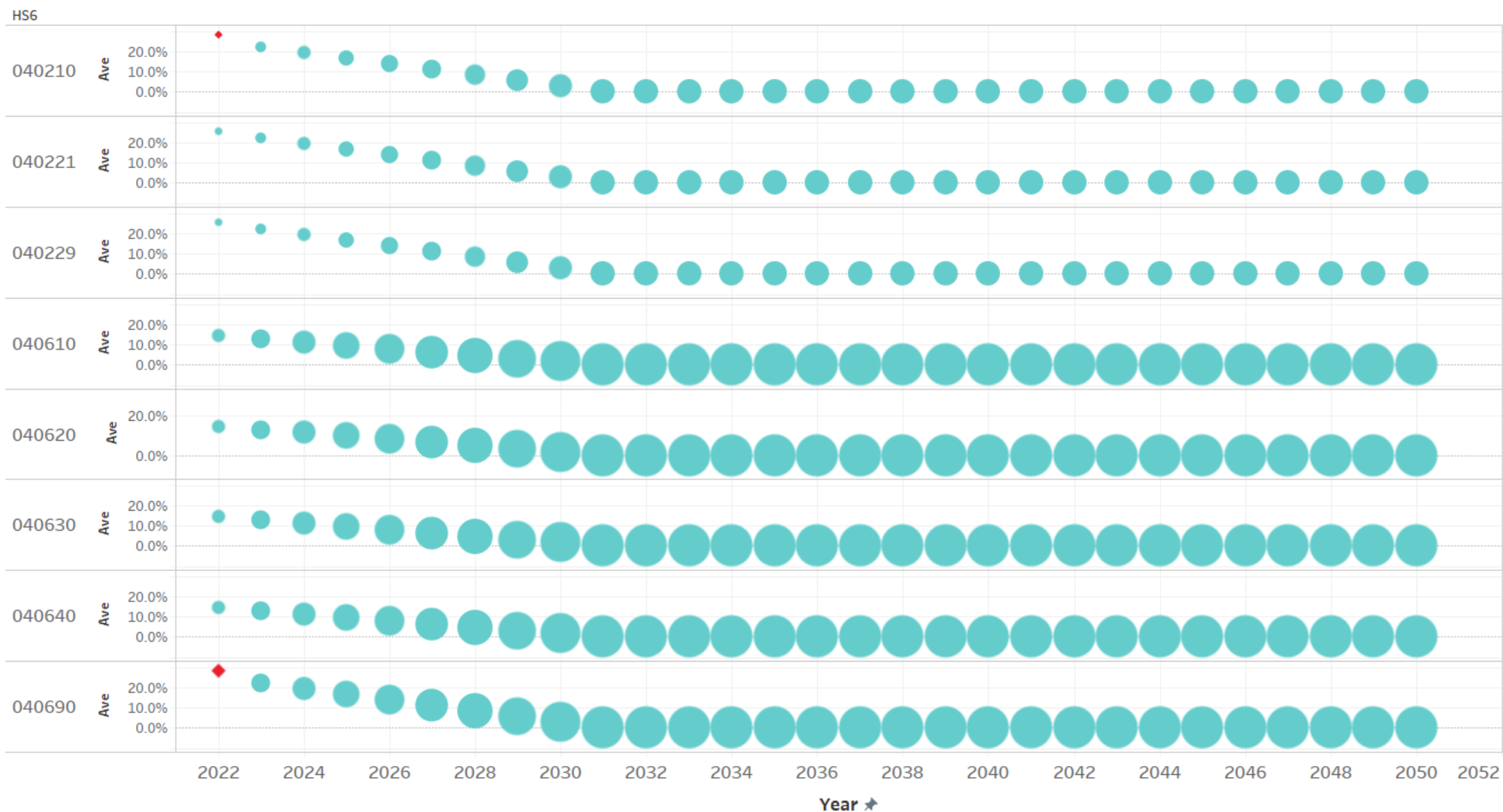
Results



TRQ regimes throughout the implementation of the EU-Mercosur AA, Schedule of Mercosur countries (Assuming EIF in 2022)

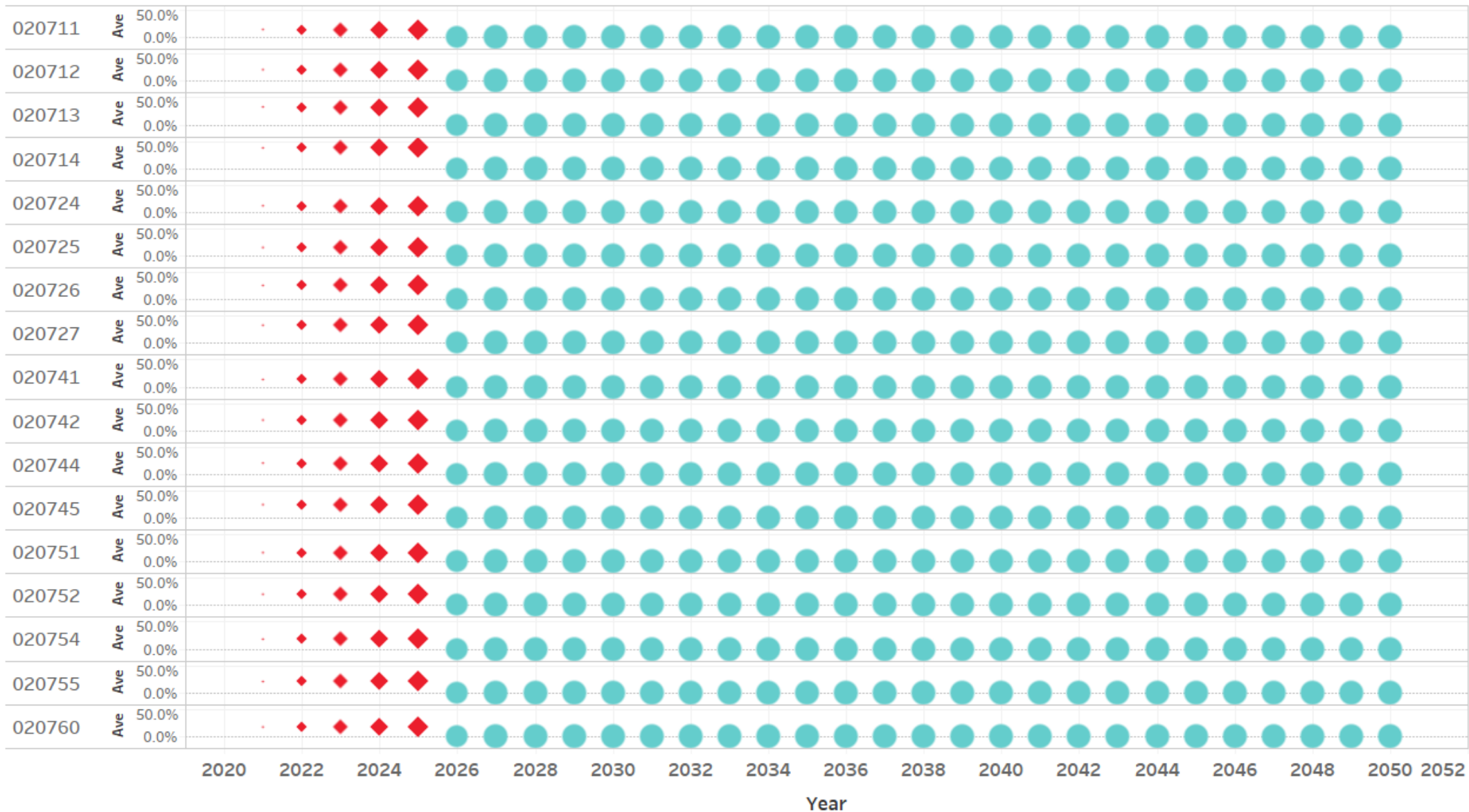


TRQ regimes throughout the implementation of the EU-Mercosur AA, Schedule of Mercosur countries (Assuming EIF in 2022)



TRQ regimes throughout the implementation of the EU-Mercosur AA, Schedule of the EU towards Brazil (Assuming EIF in 2022)

HS6



Regime
● 1 - Below Quota
◆ 3 - Over Quota

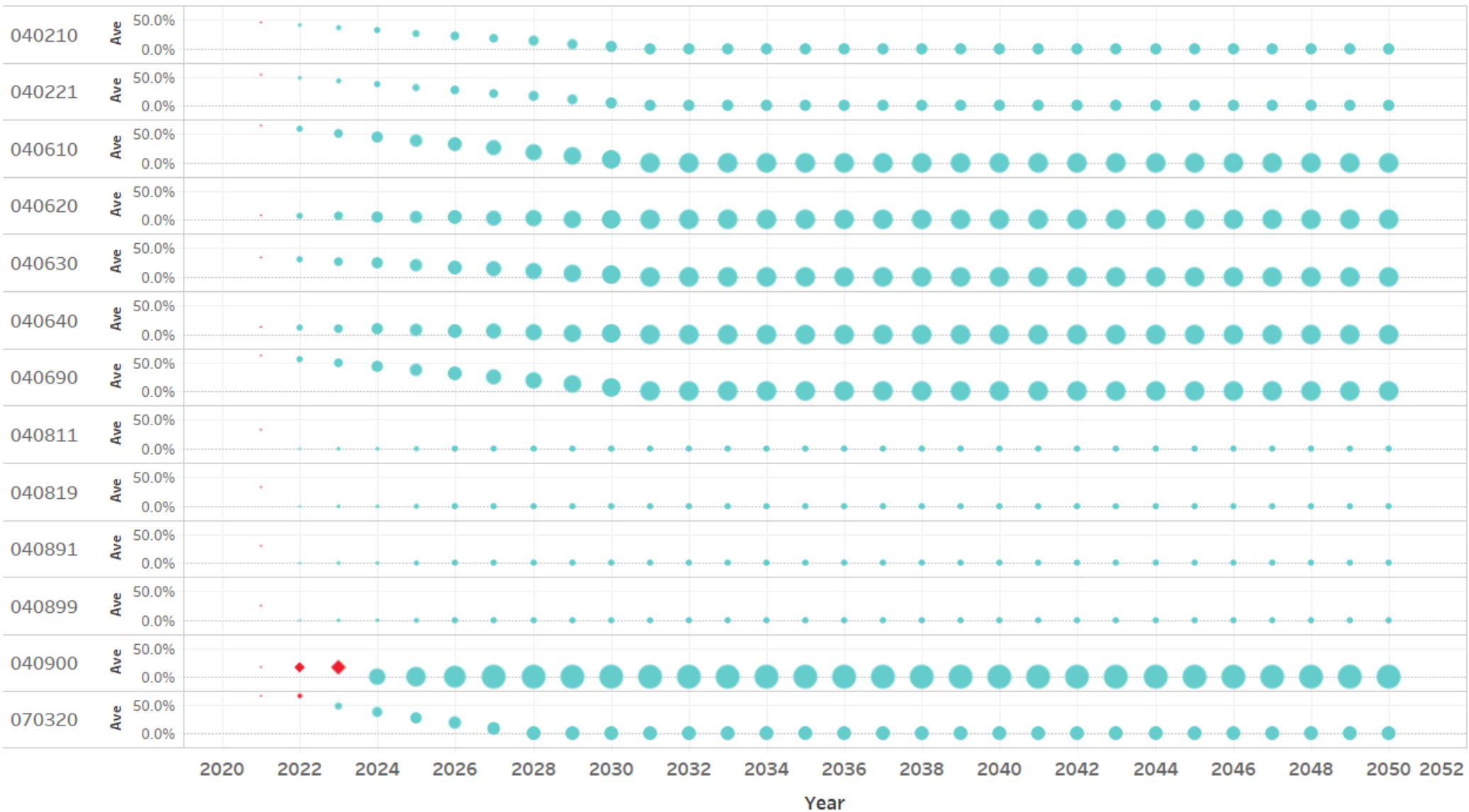
Regime
■ 1 - Below Quota
■ 3 - Over Quota

Contingent

● 0
● 20000
● 40000
● 60000
● 80000
● 90000

TRQ regimes throughout the implementation of the EU-Mercosur AA, Schedule of the EU towards Brazil (Assuming EIF in 2022)

HS6



Regime
● 1 - Below Quota
◆ 3 - Over Quota

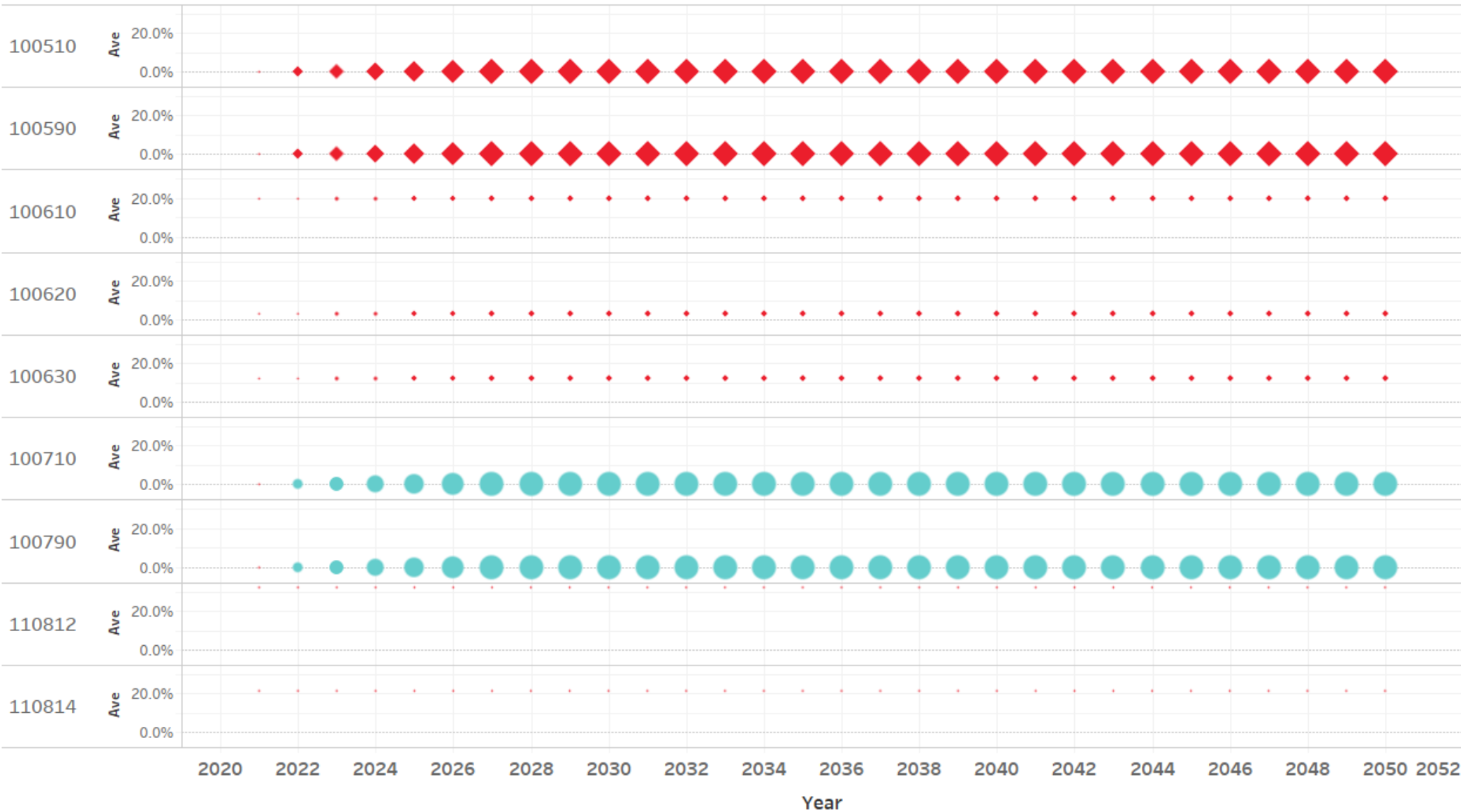
Regime
■ 1 - Below Quota
■ 3 - Over Quota

Contingent

● 0
● 10000
● 20000
● 30000
● 40000
● 45000

TRQ regimes throughout the implementation of the EU-Mercosur AA, Schedule of the EU towards Brazil (Assuming EIF in 2022)

HS6



Regime

- 1 - Below Quota
- 3 - Over Quota

Regime

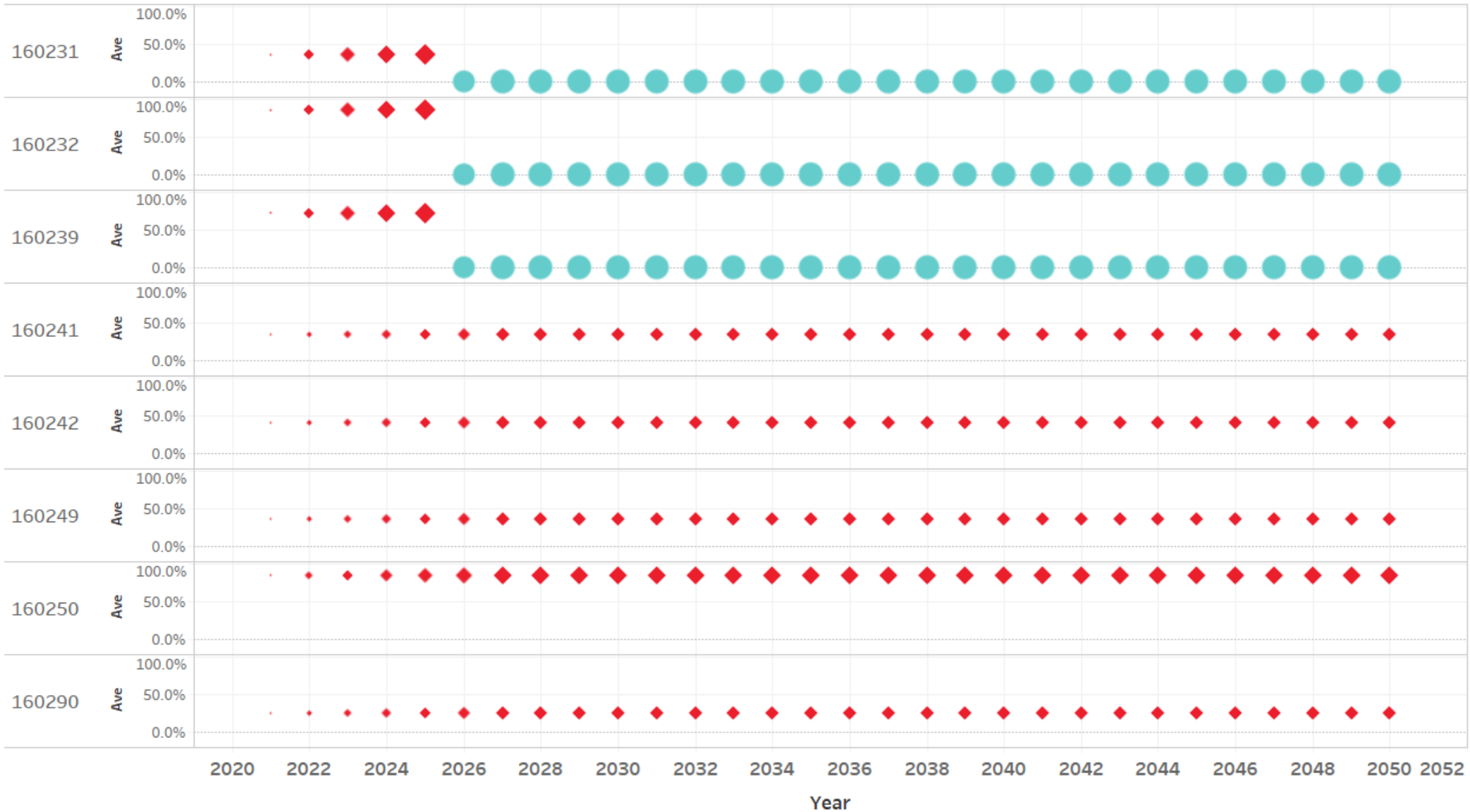
- 1 - Below Quota
- 3 - Over Quota

Contingent

- 0
- 200000
- 400000
- 600000
- 800000
- 1000000

TRQ regimes throughout the implementation of the EU-Mercosur AA, Schedule of the EU towards Brazil (Assuming EIF in 2022)

HS6



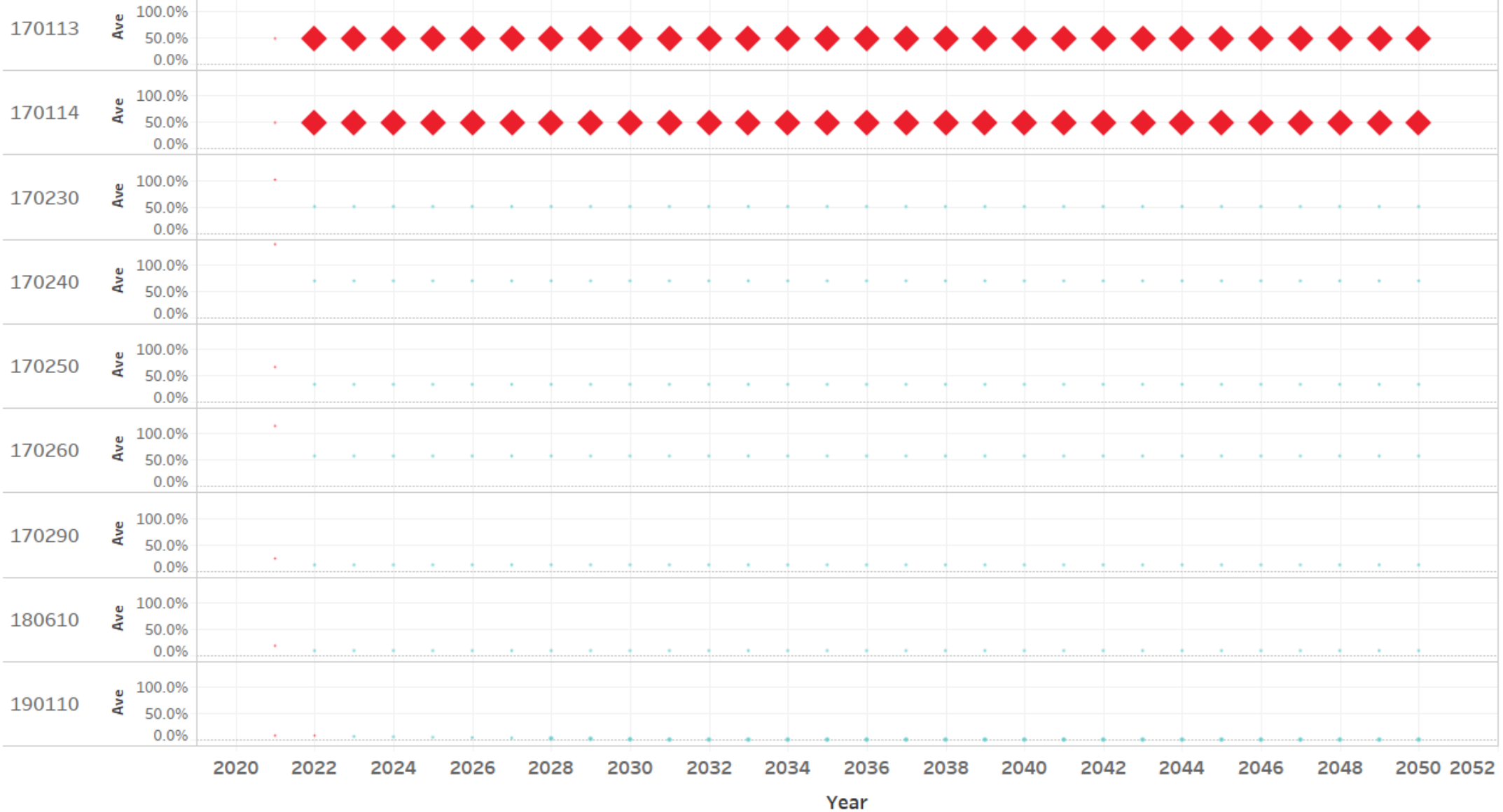
Regime
● 1 - Below Quota
◆ 3 - Over Quota

Regime
■ 1 - Below Quota
■ 3 - Over Quota

Contingent
● 0
● 20000
● 40000
● 60000
● 80000
● 90000

TRQ regimes throughout the implementation of the EU-Mercosur AA, Schedule of the EU towards Brazil (Assuming EIF in 2022)

HS6



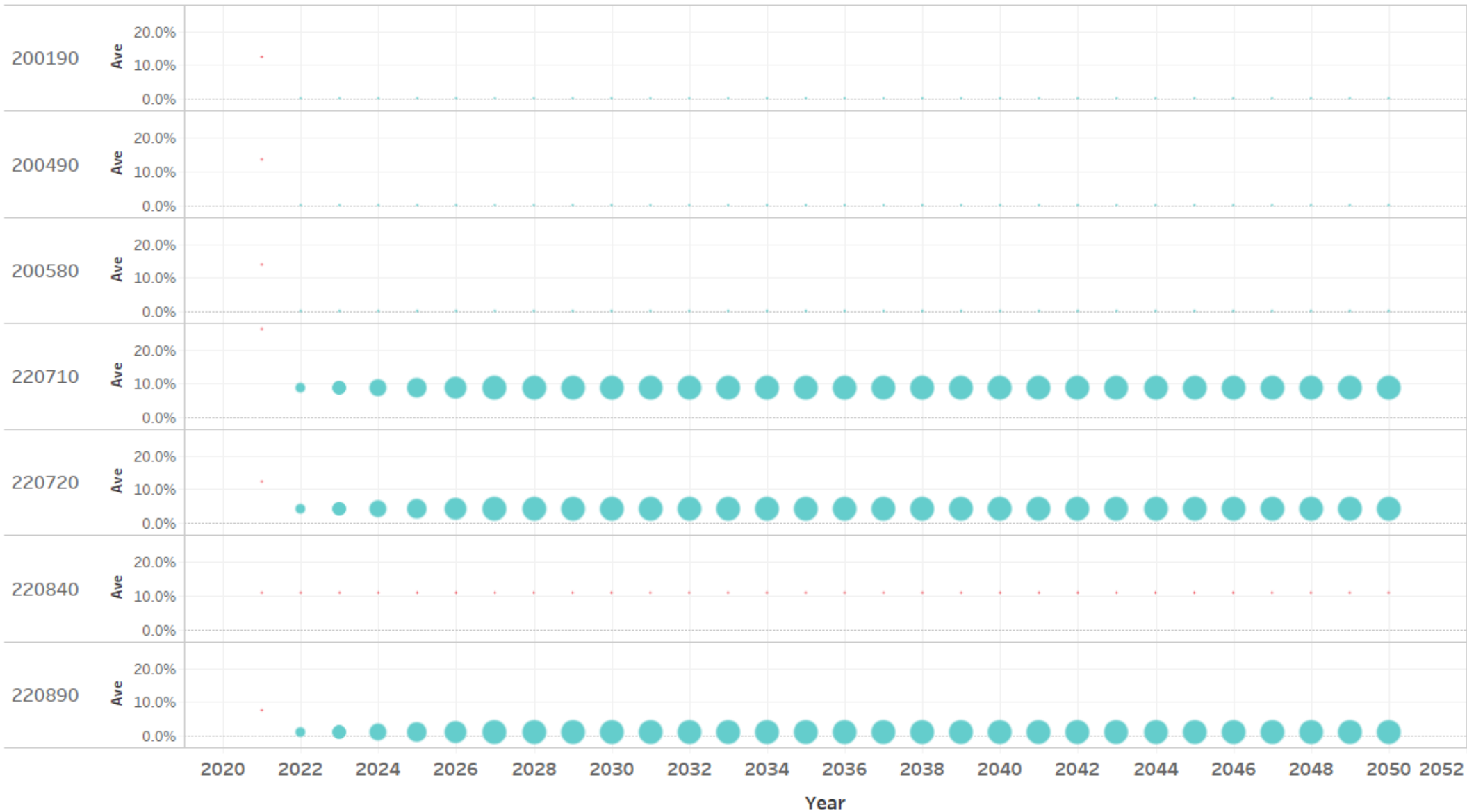
Regime
● 1 - Below Quota
◆ 3 - Over Quota

Regime
■ 1 - Below Quota
■ 3 - Over Quota

Contingent
● 0
● 50000
● 100000
● 150000
● 180000

TRQ regimes throughout the implementation of the EU-Mercosur AA, Schedule of the EU towards Brazil (Assuming EIF in 2022)

HS6



Regime

- 1 - Below Quota
- ◆ 3 - Over Quota

Regime

- 1 - Below Quota
- 3 - Over Quota

Contingent

- 0
- 200000
- 400000
- 650000

Results

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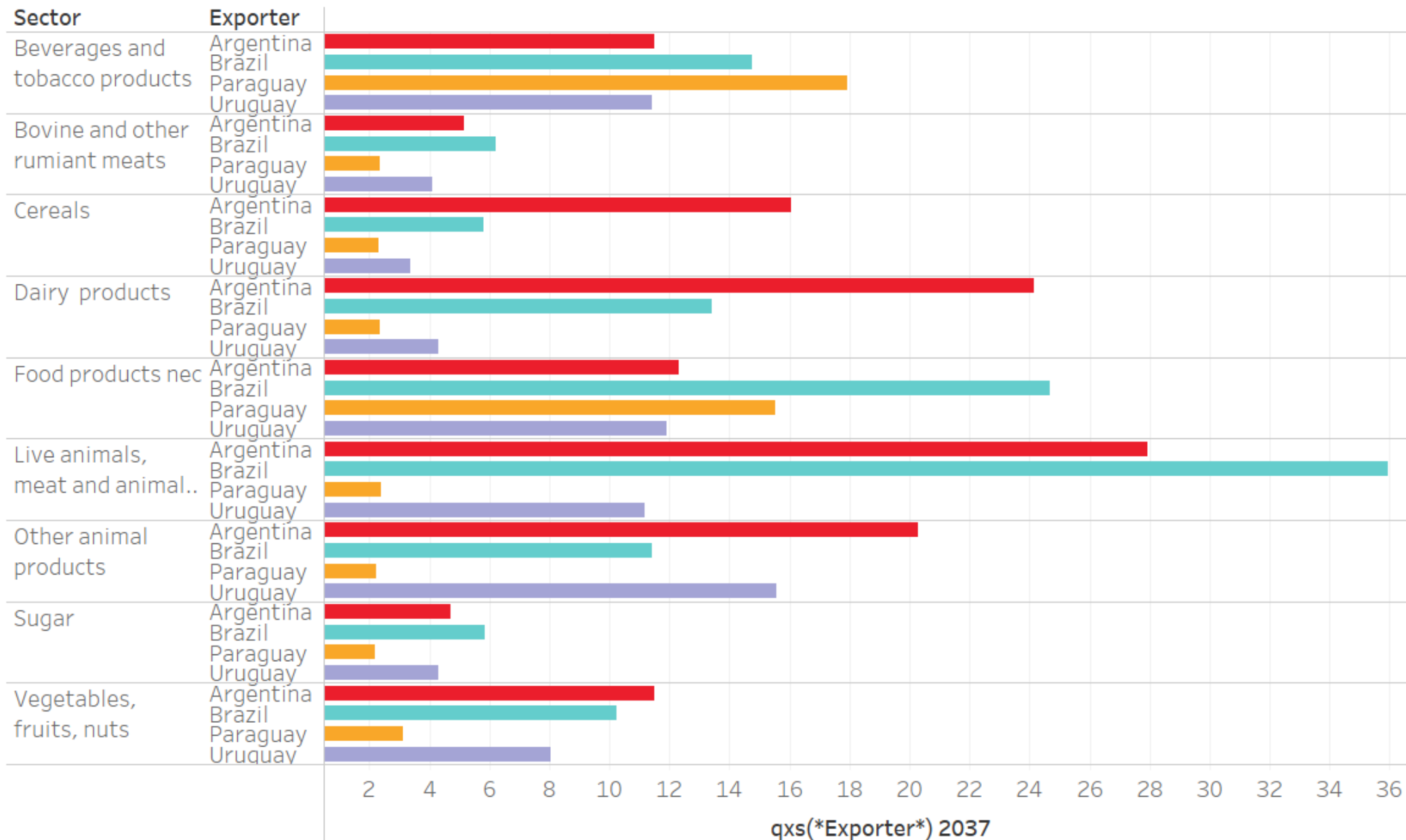
Changes in real GDP (in percent) due to EU-Mercosur AA

Country	At EIF (2022)	At EIF +15 years (2037)
EU_27	0	0.02
Brazil	0.05	0.34
Argentina	0.04	0.36
Uruguay	0.07	0.88
Paraguay	0.04	0.18
United States	0	0
China	0	0
Rest of the World	0	0.01

Note: Results report GTAP qgdp

Source: Authors' CGE modelling results using GTAP10 database

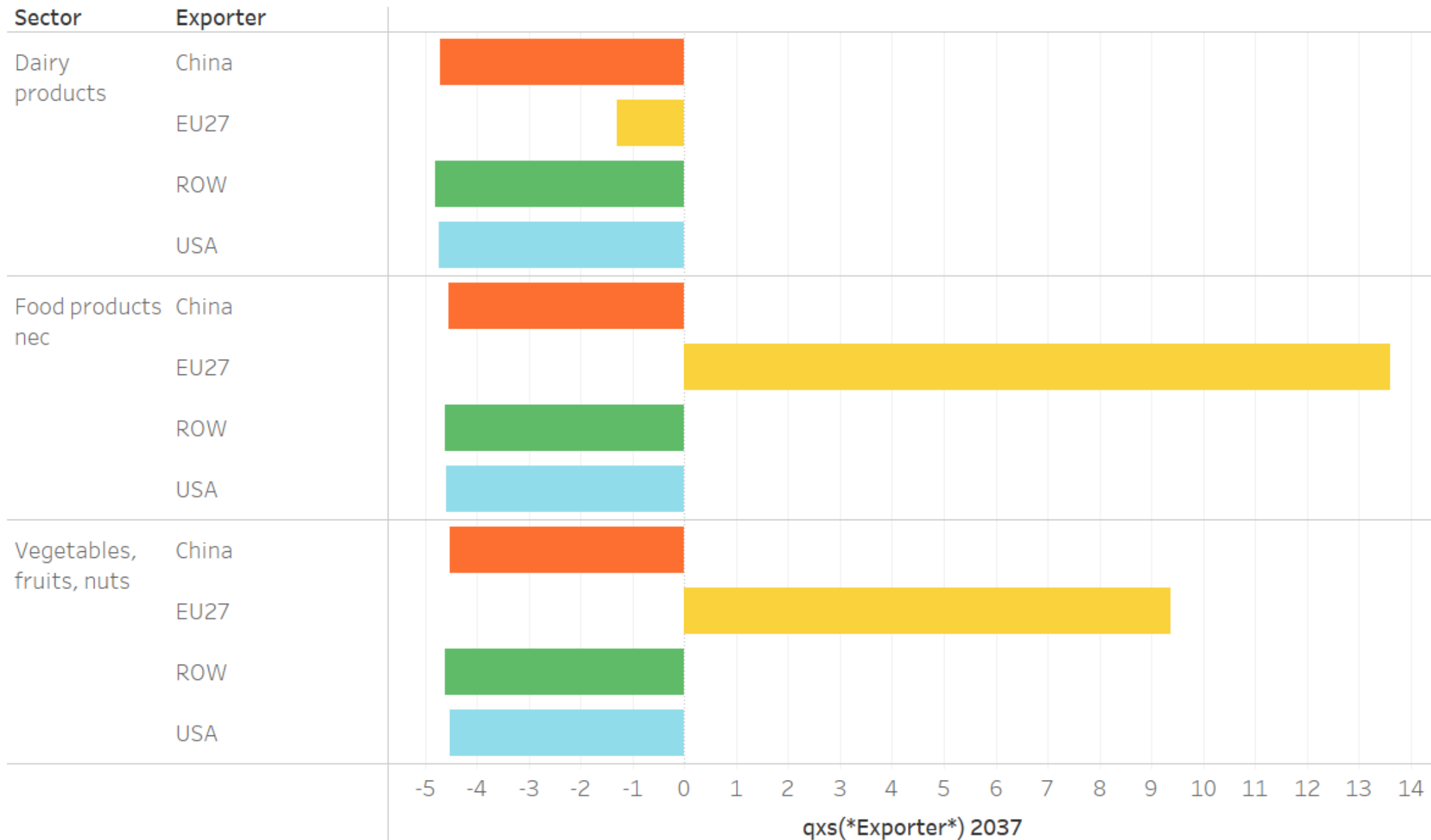
Percent changes in Traded Quantities to the EU at EIF + 15



Exporter

- Argentina
- Brazil
- Paraguay
- Uruguay

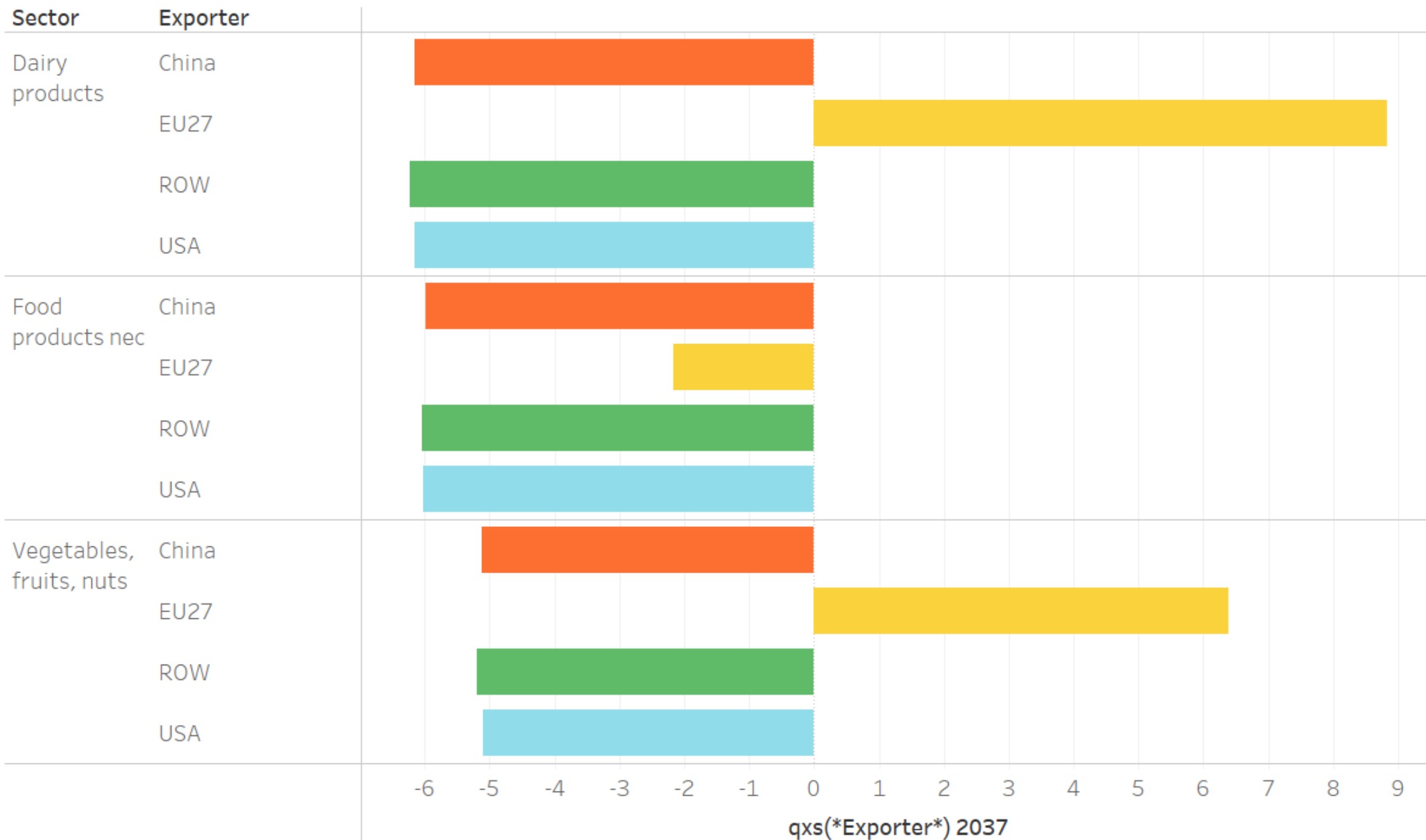
Percent changes in Traded Quantities to Argentina at EIF + 15



Exporter

- China
- EU27
- ROW
- USA

Percent changes in Traded Quantities to Brazil at EIF + 15

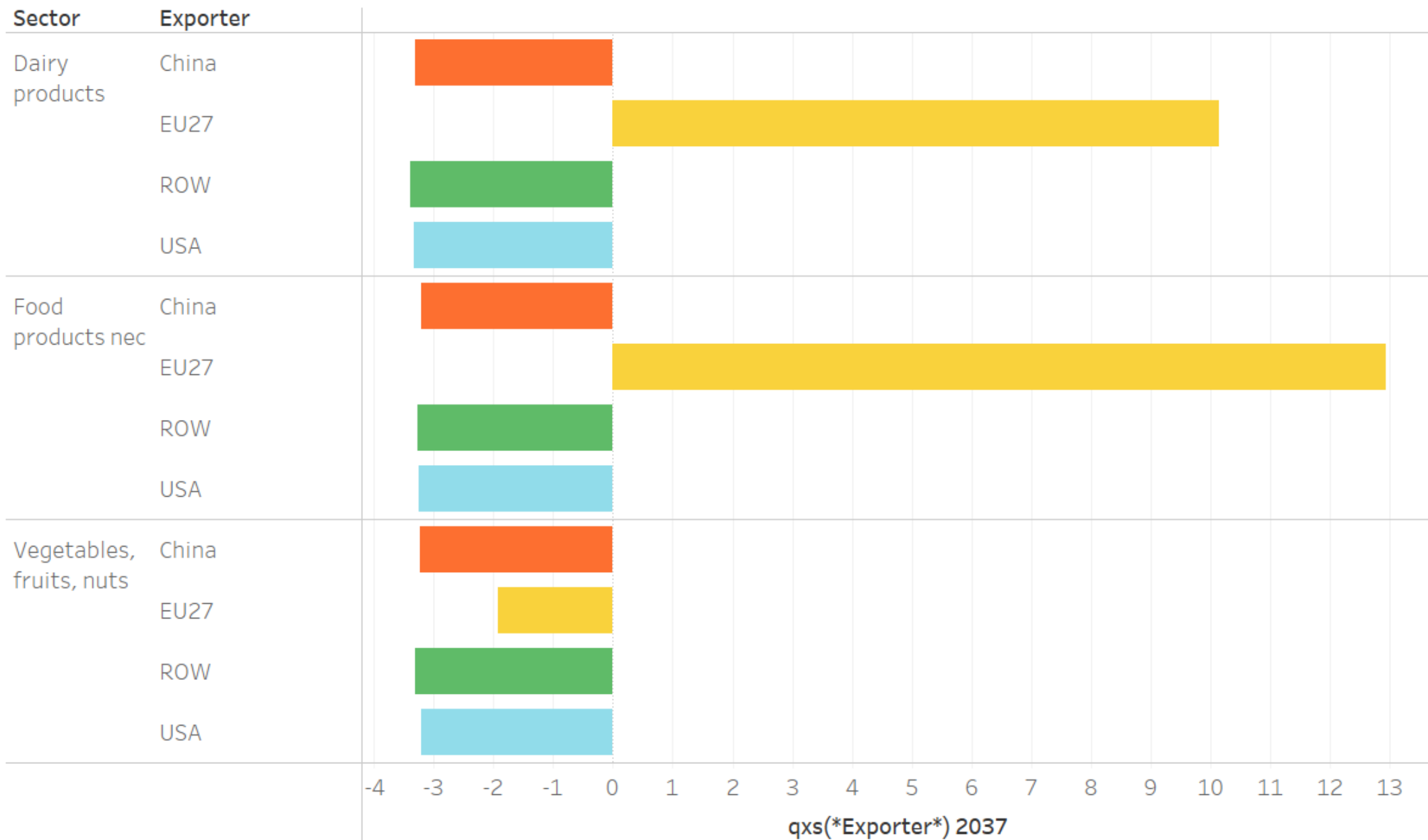


Exporter

- China
- EU27
- ROW
- USA

qxs(*Exporter*) 2037

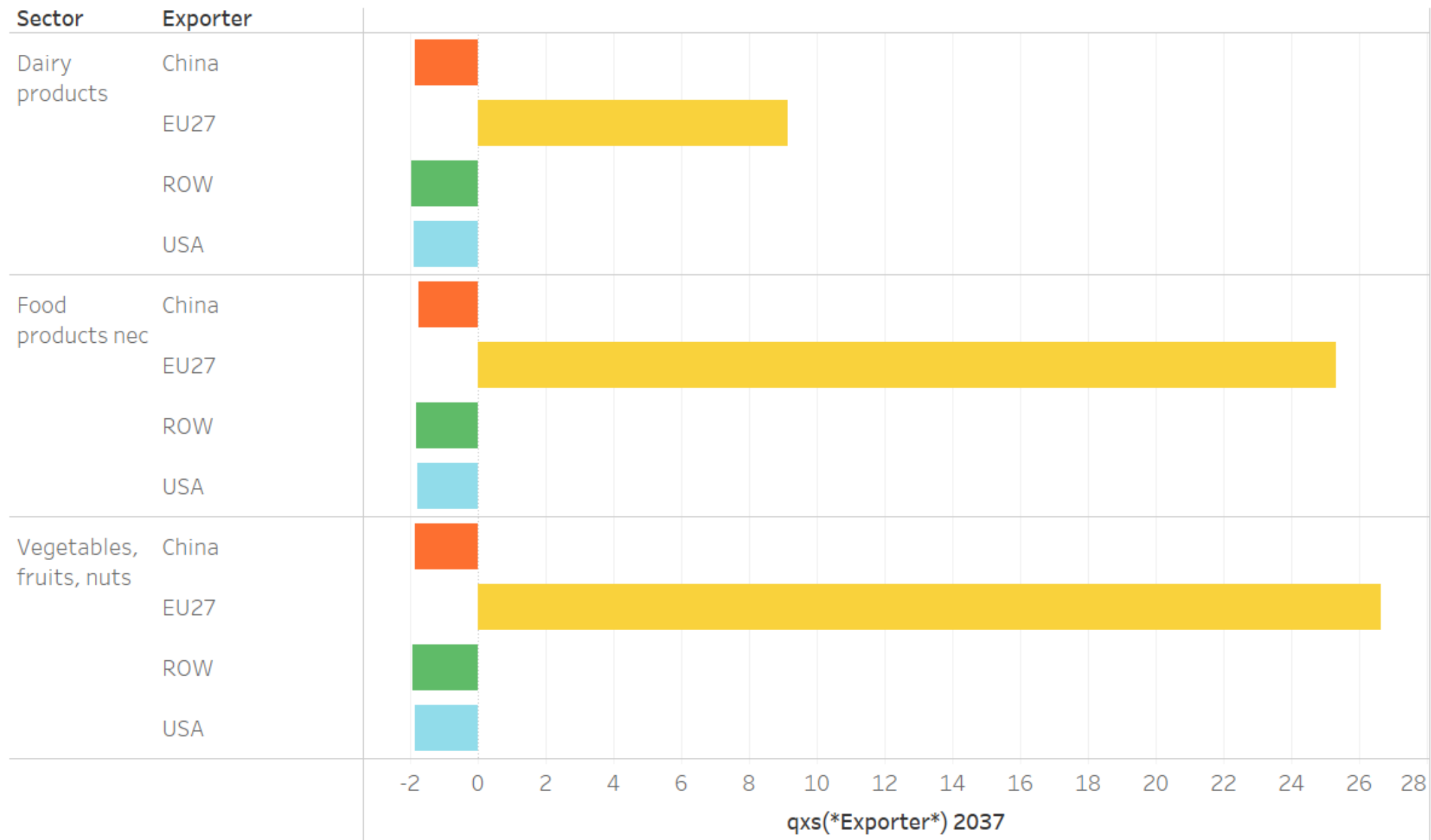
Percent changes in Traded Quantities to Uruguay at EIF + 15



Exporter

- China
- EU27
- ROW
- USA

Percent changes in Traded Quantities to Paraguay at EIF + 15



Exporter

China

EU27

ROW

USA

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Conclusion

- The efficiency of trade liberalization through TRQ depends on several factors:
 - The tariff-quota components
 - The demand
 - The administration method
- Trade Liberalization through TRQ is inefficient when the pre-agreement supply quantities are over the committed contingents.
- Trade liberalization through TRQ is sub-optimal but remains a second-best option to liberalize sensitive and very sensitive products when the committed quota are large enough to allow the maximum number of exporters to benefit from the quota rent.

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Contact: ngavomam@ucm.es

Interactive view of charts

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