Non-Tariff Barriers

• Generally, as countries lower tariff barriers, non-tariff barriers (NTBs) have been on the increase

• Some Types of NTBs:
  1) Import Quotas
  2) VERs
  3) Licenses
  4) Domestic Content Provisions

Quotas

• Limit the quantities (or value) of goods entering the country
• Viewed as more prohibitive than tariffs
  – Prohibited by the WTO
  – Quotas being replaced by “Tariff Rate Quotas”
    • Certain amount of a good is let in at low (or no) tariff, but once a certain amount is reached, substantially high tariff placed on the good.
Quotas

• Flexible tools
  – Can be imposed against all countries (global quota) or just a few

• Common for quotas to be given on the basis of a license
  – License may be sold or given away

Example of Quota

Market for motorcycles

Price in world: $1000  Price in US: $15,000

US: 50,000 consumed per year/ 10,000 produced domestically

Suppose that the Quota is set at 20,000 motorcycles per year

Result: Price will rise up to the point where only 20,000 will be imported

With the quota, what happens to domestic production?
To equilibrium price?

What is the welfare effect of the quota?
Quota

Free-trade (Pre-Quota) CS = CS\textsubscript{FT} = (a+b+c+d+e+f+g+h+i)

PS\textsubscript{FT} = j

GR\textsubscript{FT} = 0

So net welfare = -(b+d)

With the Quota,

CS\textsubscript{Q} = a+b+c+d

PS\textsubscript{Q} = j+e

GR\textsubscript{Q} = g+h

Area (g+h) is called quota rent – per unit additional profit because of quota

Who gets to keep this area?

Quota Rents

3 things the government can do with the quota rents

1) Auction license off
2) Give license to domestic firms
3) Give license to foreign firms

What do we know about the welfare effects of each method?

Quota Rents

1) Auction license – competitive bidding for the license - how much are competitors willing to pay?

Here, Government revenue under quota is equal to revenue under tariffs. However, governments don’t often auction licenses off.

2) Give license to domestic firms (ex. 1960s – oil quotas given to US Oil companies) 

Producer surplus increases in this situation

3) Give license to foreign firm – now domestic deadweight loss

Is area (f+g+h+i) – this is similar to a VER
Quotas versus Tariffs

- Why choose a Quota over a Tariff?

1) Alternate effects on protected industry

2) Changing market forces

3) Administrative difficulty

4) Political Concerns