

POLICY EVALUATION OF TARIFF RATE QUOTAS

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For complete study, please visit: <https://www.admin.ch/gov/de/start/dokumentation/studien.survey-id-761.html>

0 Executive summary

0.1 Introduction

The present study is the first comprehensive evaluation of the Swiss Tariff Rate Quotas (TRQs), the key instrument for border protection of the agricultural sector in Switzerland. The introduction of the TRQs was a consequence of the WTO Uruguay round, as in the previous period imports of agricultural products were quantitatively restricted by quotas. The international obligations requested to implement a minimal in-quota market access per product group and the possibility of importing unlimited quantities at a higher out-of-quota tariff. The system is currently based on 28 TRQs for imports of livestock, animal and vegetable products which are administered in different manners (auctioning; requirements on domestic purchases; historical imports; first-come, first-served).

The study focuses on the assessment of the system's efficacy and efficiency¹ for selected products. The following products have then been chosen for the evaluation on the basis of their economic relevance, the data availability and their representativeness of the TRQ administration methods:

- **Meat:** beef; pork;
- **Vegetable products:** potatoes; tomatoes; apples; strawberries.

The study has assessed the efficacy and efficiency of the policy with reference to the following technical objectives set out in the intervention logic²: i) to support domestic agricultural production by limiting imports to maintain a price differential between the domestic prices and the international ones; ii) to contribute to agricultural producers' surplus (income support); iii) to contribute to ensuring stable conditions for agricultural production and iv) to allow an adequate provision of domestic markets.

0.2 The TRQ system in Switzerland

For **beef**, Switzerland has a self-sufficiency ratio of more than 80%, with seasonal variations. In-quota imports are mainly prime cuts or fresh and chilled carcasses and occur within the TRQ n.05 which is further subdivided into various sub-quotas; the relevant product category for the present study is "Other meat of bovine animals" included – together with edible offal – in the sub-quota category 05.71. The TRQ is opened by the Swiss Federal Office for Agriculture (FOAG) at the request of Proviande (sector association including producers, processors, traders, distributors and importers), according to market needs. Until 2004, quotas were distributed according to domestic purchases of meat; from 2005 to 2007, a transition of the system towards auctioning of quotas took place, with 33% of the quota auctioned in 2005, 66% in 2006 and 90% starting from 2007. The 10% share of quota distributed according to public market purchases was maintained. Due to a decision of the Federal Parliament, in 2015 this reform was partially withdrawn.

For **pork**, domestic production nearly covers the totality of the market needs; the self-sufficiency ratio is over 90%. Import quota releases occur rarely and are limited to half-carcasses, to better meet the industry's interests to cover a larger part of the value chain domestically. These releases, opened by FOAG at the request of Proviande, mainly serve to stabilize domestic supply and prices. As this global TRQ (n. 06) is shared with poultry meat, there is no difficulty to fulfil the quota (mostly by poultry imports). The TRQ is subdivided into sub-quotas, the relevant one for this study being "Pork half carcasses" (sub-quota category 06.41). Similarly to the case of beef, the only significant change in recent years has concerned the system of quota allocation. Up to 2004, import quotas for pork were distributed according to domestic purchases (slaughters). Starting from 2005, a transition of the system towards the allocation of import quotas via auctioning took place: the share allocated by auctioning was set at 33% in 2005 and increased up to 66% in 2006. Since 2007, the quotas for half-carcasses are fully auctioned.

The seasonal nature of domestic production of **fruit and vegetables** covered by the study (potatoes, tomatoes, apples, strawberries) has implications on the rationale of the related policy measures, which are basically aimed at managing imports in the months when domestic production is placed on the market, and at allowing adequate supply when domestic production is unavailable (this also includes stock depletion in the case of potatoes and apples, which are storable products). The methods and timing of TRQ administration are hence tailored to the duration of the domestic production period and to the storage possibilities of each product. For fresh vegetables and fruits, there is a distinction between a so called managed period and a non-managed period ("two-phase system"). During the period when the imports of a product are not managed, no out-of-quota tariff is applied and all imports occur at the low in-quota rate.

¹ The term efficacy refers to whether the policy measure has reached its objectives, while the term efficiency refers to the size and distribution of the costs and benefits while reaching these objectives.

² The intervention logic is defined as a set of hypothetical causal relations that describe how a policy measure (intervention) is expected to attain its objectives.

Imports of **potatoes** are needed when the Swiss harvest is late or when quality isn't good enough. Usually, the stocks last until the beginning of the subsequent campaign, and therefore only early potatoes are imported in most years. Only table potatoes are of interest for this study; no varieties or types are distinguished; the only differentiation is with respect to packaging: while the in quota tariff is the same, for out-of-quota imports potatoes in bulk, sacks or open containers have a different tariff number than other packaging. Potatoes and potato products are imported under TRQ n.14, which is further divided into sub-quotas; since 2009 the quota has been opened for the period from January to May. Additional quota shares are opened according to market needs. For this purpose, the FOAG releases additional shares on request of the umbrella organization³ Swisspatat.

Tomatoes are imported under TRQ n.15 and “round tomatoes” is the only category covered in the present study. From October 21st to April 30th, tomatoes can be imported at the in-quota tariff: there is no out-of-quota tariff applied (the quota is “not managed”); the managed period lasts from May 1st to October 20th. For round tomatoes, the period in which the TRQ is effectively administered is shorter, and lasts from June 1st to September 30th. During the managed period, the quota can be opened biweekly at the request of any importer, if the umbrella organization agrees and makes a request to the FOAG; the volume released is sufficiently high to make sure that the requested quantities can be imported. The quota shares are distributed according to the market shares of the previous year, which include domestic purchases as well as imports.

For **apples**, Switzerland has a large domestic supply, with surpluses on the domestic demand. Nevertheless, there are import needs due to seasonal variations and quality reasons, as well as to ensure availability of various apples varieties on the domestic market. As a consequence, the regulation of imports via TRQs is based on a two-phase system, as for other fresh fruit and vegetables. The “out of season period”, when the TRQ for apples is not managed, only lasts for one month each year (from June 15th to July 14th). It can be extended in case of important shortages in stored apples or – more frequently – when the start of the Swiss harvest is later than the 15th of July: in that case, the FOAG usually prolongs the non-managed period and does not distribute import quotas, which means that all imports can be made at the in-quota tariff. Apples are imported under TRQ n. 17, and there is a tariff distinction between open packing and other packings. Quotas are allocated with respect to purchases during the previous year, including domestic production as well as imports; however, as imported quantities are much smaller than domestic production, the allocation mainly depends on domestic purchases.

The production period of most domestic **strawberries** is only three and a half months long (from May 15th to August 31st); this is the period when their TRQ (n. 19) is managed. Outside this period, imports at the in-quota tariff are not limited. Within the managed period, the regulation is designed to meet the time-specific needs. Quota openings can take place twice a week, and the decisions are based on consumption data of the previous year and current information on production. Similarly to apples, time slots within the managed period may be defined where imports at the in-quota tariff are not limited (prolongations of non-managed period). During the managed period, the quota can be opened biweekly at the request of importers, if the umbrella organization agrees and makes a demand to the FOAG. The opened volume can be higher than what is needed to supply the market, to make sure that the requested quantities can be imported.

For products covered by the evaluation, TRQs are usually filled or even overfilled (that is, additional imports are authorized at the in quota duty, in excess to the quota notified at the WTO).

0.3 Summary of study methodology

Study methodology was based on both **quantitative and qualitative approaches**.

Quantitative analysis and econometric methods are used - within the limits given by the availability of suitable datasets – for an empirical assessment of the influence of TRQs on a number of aspects which are especially relevant for providing an answer to evaluation questions 1.1, 1.2, 2.1, 2.2, 2.3 and 3.1 (for a complete list of evaluation questions see boxes at § 0.4).

Quantitative analyses for the purposes of the assessment have been carried out on a series of aspects. The most important ones are:

1. Definition of sets of criteria, indicators and (where applicable) benchmarks for the purposes of quantitative analysis.
2. Processing of raw data to obtain datasets which are suitable for the application of the foreseen methodology.
3. Illustration of the evolution of relevant variables / indicators over the period considered for the assessment (2000-2014), through series of graphical representations.
4. Preliminary appraisal through visual inspection of graphical representations.
5. Analysis of the statistical properties of the relevant time series through a battery of econometric tests aimed at detecting: the presence and nature of auto-correlation; presence of unit roots (non-stationarity); presence of ARCH effects (indicating variation in price volatility); presence of seasonality; presence of structural breaks.

³ An umbrella organisation is an inter-branch organisation which includes all the participants into a product's supply chain, from producers to retailers. Its objective is usually to provide a means of allowing dialogue between actors in the supply chain and in promoting best practices and market transparency.

6. Wherever the features of the available datasets allow their application, econometric estimations are performed in order to assess the influence of policy variables with respect to supply/demand variables, to the relationships between the external and the domestic prices and between prices along the supply chain. The isolation of the domestic market is assessed by looking for a long-run relationship linking the external and the domestic prices through vector autoregressive (VAR) models (in the levels or in the first differences). These relationships are estimated by explicitly including policy variables in the model, either as exogenous or endogenous regressors.

In the study methodology, quantitative descriptive analysis and econometric methods are **complemented by qualitative approaches**. Qualitative approaches are used as a main investigation tool to analyse theoretical background of the study, as a “backup assessment method”, when it emerges that some datasets lack the features required for the application of the proposed econometric methods or in order to add depth and detail to the quantitative explanation of the observed phenomena. The most important aspects where qualitative analysis was performed are:

1. Study of the intervention logic of TRQs and of the related administration systems.
2. Theoretical analysis of the functioning mechanisms of TRQs.
3. Study of the supply chain and in particular of its structure, its organisation and its functioning mechanisms.

Qualitative analyses have been based on different approaches (system approach, critical factor analysis) and data sources (desk research, literature review and interviews to knowledgeable subjects).

0.4 Conclusions

Generally speaking, the results of the analysis carried out to answer the specific evaluation questions (detailed below) indicate that whereas **some of the policy objectives of TRQs are reached and therefore the policy can be considered partly effective, it is clearly inefficient**. In addition to **the volume of the TRQs and the height of the out-of-quota duty**, also **TRQ administration methods have an important role in this respect**. However, some relevant elements for a thorough evaluation of the system were found to be missing (for instance, there is a **lack of data** on actual Swiss producer prices for fruit and vegetable products).

Conclusions on the efficacy of existing TRQs system

Preliminary questions

Q.1.1 What is the impact of TRQs on imports, production and consumption?

Q.1.2 What is the impact of TRQs on import and domestic prices at the various stages of the food chain?

Questions on efficacy

Q. 2.1 What is the contribution to existing price differentials between domestic and world prices? Is this difference lower than the out-of-quota tariff?

Q. 2.2 What is the contribution to stable domestic prices?

Q. 2.3 What is the contribution to allow an adequate provision of domestic markets?

The replies to preliminary question 1.1 highlighted that **TRQ and TRQ administration have an evident impact on imports of all the six products covered by the assessment** since the out-of-quota duties are usually extremely high and the volume of imports strongly depends on the releases of import quotas. Quotas are released only when the domestic production is not sufficient to cover domestic demand and this is consistent with the intention of the legislator to complement domestic supply with imports when necessary. As for the impacts of TRQ administration on domestic production and demand, the assessment found that **it is more the TRQ administration which is carefully tailored to adapt to the conditions and the dynamics of production and demand** (two-phase system to take into account seasonality of production for fruit and vegetables, less quota releases wherever a structural oversupply is detected, careful definition of the timing and volume of the quota releases for meat in order to ease the domestic market without putting pressure on prices, etc.), **rather than TRQ administration having an impact on domestic production and consumption**.

The replies to preliminary question 1.2 detected **impacts of TRQ and TRQ administration on domestic prices for most of the products covered by the assessment** (the only exceptions being potatoes and apples because of the very limited importance of imports for these products with respect to domestic production), allowing higher prices with respect to foreign markets. Impacts on prices were **usually found to be in general consistent with those which would be expected in the light of the policy rationale**.

However, while the policy rationale is centred on higher **domestic producer** prices (with special attention to the period in which seasonal products – tomatoes, strawberries - are placed on the market), the analysis showed higher prices at all the levels of the supply chain, and **especially at wholesale and retail stages**. For **meat**, quota releases are typically made when high domestic consumer prices signal a tight situation on the domestic market (low supply with respect to domestic demand), in order to complement domestic supply with imports. An interesting result is that, contrary to what would be expectable, **domestic prices at all levels remain high during periods of quota releases**, confirming that the release of import quotas is carefully managed in a way to ensure that there is no pressure on domestic prices. Potatoes are imported in general from January to May, when the TRQ is open. For fruit and vegetable products, following the seasonal character of TRQ administration, consumer prices are higher during the managed period; in this case the analysis is however limited by the availability of only reference prices at wholesale and producer levels. **Asymmetric vertical price transmission**, suggesting the presence of imbalances in bargaining power to the advantage of downstream stages of the supply chain, and especially of retailing, was detected in the supply chains of beef and pork. This implies that high consumer prices obtained by TRQ administration are only partially transmitted to producers' prices.

As for efficacy proper, the replies to question 2.1 highlighted the presence of **significant to substantial price differentials between the domestic prices and the foreign prices at most/all stages of the supply chain for all the six products covered by the assessment** (for fruit and vegetable products, since most of the price series are only available during the campaign, it was possible to monitor this gap only in the managed period). The assessment of price differentials against the out-of-quota tariffs posed some important challenges, and suffered from a number of limitations in the available evidence base (in particular the features and length of the available price series). This notwithstanding, additional elements emerging from replies to other study questions (above all the limited/negligible extent of out-of-quota imports for all the six products studied, which indicated that the TRQ system did not allow to satisfy the increase in domestic demand via out-of-quota imports) allowed to conclude with reasonable confidence that **price differentials between domestic and foreign prices are usually lower than the out-of-quota tariff**.

The elements emerged from the replies to question 2.2, albeit non-conclusive, suggested that the **TRQs and their administration have probably contributed to the greater stability of domestic prices vis-à-vis foreign prices**, which was **detected for all the six products at nearly all the stages of the supply chain** (the only significant exceptions being consumer prices of beef and strawberries); once again, for fruit and vegetable products this analysis is severely limited by the fact that only indicative prices are available for the wholesale and producer stages of the domestic supply chain.

Finally, question 2.3 investigated the contribution of the TRQs and TRQ administration in allowing an **adequate provision of domestic markets**, a rather complex concept which was defined as a combination of:

- i. the absence of product shortages (which would be signalled by a lower frequency of price spikes in Switzerland than in external markets);
- ii. a balanced origin composition of imports (which should better guarantee supply security than an extremely polarised one, relying on a single dominant country);
- iii. the absence of conditions (i.e. underutilised import quotas, especially when at the same time important transfers of the same occur among operators, significant volumes of out-of-quota imports by operators that are “locked out” of the in-quota import trade) which could suggest the occurrence of market rationing by importers.

Also in this case, the assessment posed some challenges, and suffered from limitations deriving mainly from the features and length of the available price series. The key conclusions can be summed up in as follows:

- No elements emerged which could unequivocally suggest the occurrence of shortages for the six products covered in the assessment.
- The products showing a highly polarised origin composition of imports (half-carcasses of swine and, to a lesser extent, potatoes and strawberries) were found to be in a situation of oversupply (pork), or saw a non-critical role of imports in supplying the domestic market (potatoes), or did not show any other elements suggesting potential threats in terms of supply security (strawberries).
- The **threat of market rationing by the leading importers**, with consequent risk of sub-optimal provision of the domestic market, was **detected for potatoes and (especially) for tomatoes**, although it might potentially concern all products, since import quota releases (in terms of both volume and timing) are decided by market operators to avoid negative impacts on domestic prices.

Summary of conclusions on efficacy

The main conclusions on the efficacy of TRQs can be sketched as follows:

1. Concerning the support of domestic production, the analysis shows that imports are only allowed when domestic production is not sufficient to cover domestic demand, consistent with the intention of the legislator. Both TRQs (due to the height of out-of-quota duty) and TRQ administration (timing and frequency of quota releases) have an evident impact on imports of all the six products covered by the assessment. In this respect, it is more the TRQ administration which is precisely tailored to adapt

- to the conditions and the dynamics of production and demand, rather than TRQ administration having an impact on domestic production and consumption.
2. TRQs helped keeping domestic prices higher than foreign ones at all the levels of the supply chain. TRQ administration also contributed to allow higher prices even in periods of quota releases. These contribute to support producers' income⁴. However:
 - a. While the policy rationale is centred on higher domestic producer prices, the analysis showed higher prices at all the levels of the supply chain, and especially at wholesale and retail stages.
 - b. Asymmetric vertical price transmission in the beef and pork market suggests the presence of imbalances in bargaining power to the advantage of the downstream stages of the supply chain, so that increases in consumer prices are only partially transmitted to the producers' prices.
 - c. Price differentials between domestic and foreign prices at all the stages of the supply chains are usually lower than the out-of-quota tariff (no arbitrage through out-of-quota imports is basically possible).
 - d. For fruit and vegetable products, the analysis is however limited by the availability of reference prices only.
 3. On price stability, TRQs and their administration have probably contributed to the greater stability of domestic prices vis-à-vis foreign prices, for all the six products at nearly all the stages of the supply chain. Also here, for fruit and vegetable products, the analysis is however limited by the availability of reference prices only.
 4. On providing an adequate provision to domestic markets, albeit no elements suggest the occurrence of shortages for the six products, the threat of market rationing by leading importers (with sub-optimal provision of the domestic market) is concrete especially for potatoes and tomatoes, but might potentially concern all products.

Questions on efficiency

Q. 3.1 Which costs and benefits result for the various actors involved (economic welfare of producers, importers, processors, distributors, retailers, consumers, government), taking into account the relevant characteristics of world and domestic markets? In particular, what can be said about the impact on farmers vs the impact on the downstream industry? Which rents arise, and how are they distributed?

Q. 3.2 Which is the impact of TRQs and of their administration method on the structure of imports (effect on the price and volume composition of shipments, structure of importers)?

Q. 3.3 Does the Swiss market structure (not perfect competition) influence the distribution of costs, benefits, rents?

Q. 3.4 What is the impact of TRQs on the development of the market structure of the food chain / on the vertical chain of production? Do they promote the formation of non-competitive market structures? To which extent?

The assessment in relation to question 3.1 showed that there is a rent associated with TRQs, since domestic prices are kept higher than foreign ones by border protection. A series of limitations prevented from the quantification of rent / total surplus deriving from TRQs. Different studies and articles have provided general indications on the order of magnitude of the rent: the OECD⁵ estimated the gain of producer surplus in approximately CHF 1.01 billion, while – due to efficiency losses associated to border protection measures – the total cost for Swiss consumers is estimated around CHF 1.7 billion. The Swiss price monitor⁶ provides an indication of the extra-cost for Swiss consumers as between CHF 2 and 3 billion. According to the present study, **the downstream sectors – and the retail stage in particular – have had an advantage over producers in capturing the rent created through the TRQs and their administration for most of the products covered by the assessment**. This can be concluded for a number of reasons: different dynamics of domestic prices at the two extremes of the supply chain (producer: flat / consumer: increasing); asymmetries in price transmission (for meat); dominance of the leading retailers and limited importance of independent operators; fairly static arena of importers and no producers active in import trading. A possible exception to this emerged for potatoes (where, even in a market dominated by the two leading retailers, producers might hold a relatively bigger share in import trading in comparison with the other products) and for beef and pork (where the introduction of an auction-based import quota allocation has allowed the Swiss government to capture a part of the rent generated by the administration of the TRQ). **Swiss consumers were found to be negatively affected** (in terms of higher retail prices paid, or of foregone savings from lower prices that would prevail in absence of TRQs and TRQ administration) **by the presence of the TRQs and their administration for all the products covered by the assessment**. For beef and strawberries the potential rent accruing to the intermediate stages of the food chain has increased over time thanks to the diverging dynamics of domestic consumer price (increasing) and producer price (rather flat) over the respective foreign ones.

⁴ Note that a detailed analysis of costs and revenue composition falls outside the scope of the study.

⁵ OECD Review of Agricultural Policies for Switzerland, 2015

⁶ Newsletter 04/16, www.preisueberwacher.admin.ch/pue/it/home/documentazione/informazioni-ai-media/newsletter/2016.html

The reply to question 3.2 highlighted the following **impacts of TRQs and of their administration method on the structure of imports**:

- i. Effects on **quality/price composition of imports for all products except apples** (where no significant impact on imported varieties and corresponding prices was found), promoting the import of specific typologies of products (high quality beef, half-carcasses of swine, early potatoes) or strictly regulating import volumes, with very low volumes of imports and peaks in import unit value⁷ during the management period (tomatoes and strawberries).
- ii. Effects on **origin composition of imports for beef** (where the absence of origin-specific quota allocations resulted in a very diversified group of exporting countries) **and strawberries** (where the preferential quota for EU origins resulted in the prevalence of few EU countries as foreign suppliers).
- iii. Effects on the **structure of imports and of the arena of operators active in import trading for all the six products** covered by the assessment, mainly determined by the possibility of trading import quotas among operators.

The practical relevance of the switch to auctioning of import quotas on the structure of the arena of operators active in importing and in-quota trading of beef and pork, was found to have been very limited. Service companies and some of the companies they operate on behalf of, which had been the key subjects in the system prior to 2005, succeeded in maintaining such a role also after the switch to auctioning (also thanks to the aforementioned possibility of trading import quotas among operators); this limited the effects of the switch to auctions in rebalancing the market power among importers. The introduction of auctions as administration method for meat allowed the entrance of new importers in the market: despite this, their relevance in terms of import rights (and of actual imports) has been low (it should also be noted that the presence of service companies constitutes a challenge in tracing what the various operators behind them actually import). Finally, it cannot be excluded that – in concentrated markets like meat– service companies providing pooling of demand, risk minimization and centrally managing the necessary administrative process for quota allocation, might further facilitate player coordination in import strategies in addition to what promoted by TRQs (see below). These companies act on behalf of many individual operators – some of very large dimensions – and their role in redistribution of quotas among their members is not clear: in this context, the potential impact on the overall market structure of these entities might be relevant. As per the potential effects on producers, no elements emerged from the analysis suggesting neither negative nor positive impacts of the switch to auctioning on producer prices and rents.

The replies to questions 3.3 and 3.4 are inter-linked with replies to questions 3.1 and 3.2.

The reply to question 3.3 highlighted that **the non-perfect competition characterising the structure of the Swiss market for the products considered in the evaluation has had an influence on rent distribution**: this conclusion, particularly evident for beef and pork where the econometric analysis on price transmission was feasible, also applies to fruit and vegetable products, on the basis of indirect findings of analysis carried out to answer previous questions. For all the six products covered by the assessment, the downstream stages of the food supply chain resulted to be those who are better positioned to capture the highest share of the rent.

Finally, the reply to question 3.4 (which focuses on the assessment of the reversed causal relationship tackled by question 3.3) concluded that **the TRQ administration system of all the six products covered in the assessment** formally encourages / allows the exchange of information and – more practically – of import quotas, and the cooperation among players within the respective supply chains. Although market structure and concentration depend on many other factors than TRQs, and even if no direct proof could be obtained for, *ceteris paribus*, a lower degree of concentration in the absence of TRQs, such self-regulated, well-coordinated and consensus-based processes **almost certainly fosters more or less formalised alliances and partnerships among the operators themselves, thus influencing the overall structure of the market**. The need to find agreements - both within the same stage of the supply chain and with the other stages - on volumes and timing of quota releases, the possibility to exchange quotas obtained through auctions (for meat) or to have a second round of trade to fine-tune a company's import rights (for fruit and vegetable products), suggest that in an already concentrated market as the Swiss one, concertation and dialogue are crucial for an effective management of import activities; in such a context, the market structure, both in its formalised and in its practical form, can be impacted, and the incentives to a more aggressive competition can be limited. The resulting effects of these elements are almost certainly the promotion of non-competitive market structures, with an overall decrease in the efficiency of the system.

In general, the **most critical aspects of the TRQ administration system** highlighted by the assessment are the following:

- i. Its remarkable **complexity**, especially as far as **certain aspects of its functioning** (e.g. original allocations of import quotas; trade of import quotas among operators) are concerned.
- ii. The fact that **crucial decisions for TRQ administration** (timing and volume of releases of import quotas) **are de facto decided by the concerned operators**, through a coordinated, consensus-based process: in an agro-food system like the Swiss one, characterised by two leading retailers holding substantial shares in various markets, and with significant upstream vertical integration, this could result in further reinforcement of dominant positions with potentially negative effects on the overall efficiency of the system. In addition, the strategies of the various actors involved in the decisional process are by nature

⁷ Import unit value is calculated as the ratio between the value (in CHF) and the volume (in Kg net) of imports of a tariff line relevant for the allocation of import quota releases in a specified period (usually a month); it is basically the weighted average of imported values.

undisclosed: the functioning of the TRQ system is therefore not completely transparent to external observers / the general public.

Summary of conclusions on efficiency

The main conclusions of the analysis concerning TRQs efficiency can be summarized as follows:

1. A consolidated result of the relevant economic literature is that TRQs create rents to producers thanks to the border protection they offer; however, the net welfare effect is negative. The OECD and the Swiss price monitor have provided indications on the order of magnitude of the rent. According to the OECD analysis, the losses for consumers are higher than the benefits accruing to producers and to the governmental budget.
2. The downstream sectors have had an advantage over producers in capturing any rents created through the TRQs and their administration system for most of the products covered by the assessment. This is due to the conditions of imperfect competition in the intermediate stages of the food chain.
3. TRQs and their administration system influenced the quality composition of imports and their price.
4. The introduction of an auction-based import quota allocation has allowed the Swiss government to capture a part of the rent generated by the administration of the TRQ. The practical effects of the switch to auctioning of import quotas on the structure of the arena of operators active in importing and in-quota trading of beef and pork have been very limited.
5. In addition to this, the following considerations can be made:
 - a. As mentioned above, the non-perfect competition characterising the structure of the Swiss market for the six products studied has influenced rent distribution, with the retail and wholesale stages capturing the largest part of the rent.
 - b. At the same time, the TRQ administration system almost certainly fosters more or less formalised alliances and partnerships among the operators themselves, thus influencing the overall structure of the market.

Conclusion on proposed changes to improve efficacy and efficiency

In light of the answers provided under Q1 – Q3, which changes could be recommended in the existing TRQs system to improve its efficacy and efficiency?

Question 4 explicitly refers to potential changes in the existing TRQs system to improve its efficacy and efficiency; in this context, it is worth noting that while the study highlighted a general good level of efficacy of the system – albeit with some areas of concern – the assessment of the efficiency of the system revealed serious limits.

The modification of specific elements of the existing system (e.g. overall simplification of the system; possible reduction of out-of-quota tariffs; introduction of limits and/or obligations regarding trade of import quotas and their filling) would only bring minor improvements; if more substantial improvements of the system's efficiency are to be reached, more profound changes should be considered.