

## 13.7: Quotas and Dumping

### Learning Objectives

After reading this section, students should be able to ...

1. explain the effects of quotas and dumping on global prices

### Quotas

A quota imposes limits on the quantity of a good that can be imported over a period of time. Quotas are used to protect specific industries, usually new industries or those facing strong competitive pressure from foreign firms. U.S. import quotas take two forms. An absolute quota fixes an upper limit on the amount of a good that can be imported during the given period. A tariff-rate quota permits the import of a specified quantity and then adds a high import tax once the limit is reached.

Sometimes quotas protect one group at the expense of another. To protect sugar beet and sugar cane growers, for instance, the United States imposes a tariff-rate quota on the importation of sugar—a policy that has driven up the cost of sugar to two to three times world prices.<sup>1</sup> These artificially high prices push up costs for American candy makers, some of whom have moved their operations elsewhere, taking high-paying manufacturing jobs with them. Life Savers, for example, were made in the United States for ninety years but are now produced in Canada, where the company saves \$10 million annually on the cost of sugar.<sup>2</sup>

An extreme form of quota is the embargo, which, for economic or political reasons, bans the import or export of certain goods to or from a specific country. The United States, for example, bans nearly every commodity originating in Cuba.

Quotas reduce the quantity, and therefore increase the market price, of imported goods. Their economic effect is therefore similar to that of tariffs, except that the tax revenue gain from a tariff will instead be distributed to those who receive import licenses. This explains why economists often suggest that import licenses be auctioned to the highest bidder or that import quotas be replaced by an equivalent tariff.

### Dumping

A common political rationale for establishing tariffs and quotas is the need to combat dumping: the practice of selling exported goods below the price that producers would normally charge in their home markets (country of origin), and often below the cost of producing the goods. Dumping is said to occur when imports sold in a foreign market are priced at either levels that represent less than the cost of production in that country plus an 8% profit margin or at levels below those prevailing in the producing countries. Usually, nations resort to this practice to gain entry and market share in foreign markets, but it can also be used to sell off surplus or obsolete goods. Dumping creates unfair competition for domestic industries, and governments are justifiably concerned when they suspect foreign countries of dumping products on their markets. They often retaliate by imposing punitive tariffs that drive up the price of the imported goods. For example, in 2003, the International Trade Commission allowed the U.S. Dept. of Commerce to raise duty rates on shrimp from India, China, Brazil, Vietnam, Ecuador, and Thailand, when the Southern Shrimp Alliance protested that the six countries were dumping shrimp in the U.S.

According to Clarke and Wilson (2009), there are considered to be three types of dumping activity: sporadic dumping, which occurs when unsold inventories are disposed of in export markets, while predatory dumping helps a global firm to gain market access and undercut the competition. Persistent dumping is a permanent approach that is undertaken when production and labor costs are much lower in the home country (Onkvisit and Shaw, 1993).

### References

1. Chris Edwards, "The Sugar Racket," CATO Institute, Tax and Budget, June 2007, [http://www.cato.org/pubs/tbb/tbb\\_0607\\_46.pdf](http://www.cato.org/pubs/tbb/tbb_0607_46.pdf) (accessed August 24, 2011).
2. See George Will, "Sugar Quotas Produce Sour Results," Detroit News, February 13, 2004, <http://www.detnews.com/2004/editoria.../all-62634.htm> (accessed October 17, 2004).

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