

The Causal Effects of Tariff-Rate Quota Policies on Agricultural Product Retail Prices

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Abstract

Tariff-Rate Quotas (TRQs) can be administered either to protect domestic industry or to promote imports aimed at alleviating supply shortages and stabilizing consumer prices. Prior empirical studies have predominantly focused on protectionist TRQs; empirical evidence regarding trade-promoting TRQs remains scarce. This paper addresses this gap by examining Korea's voluntary TRQs implemented outside WTO/FTA commitments. We estimate the causal effect on retail prices for 40 agricultural products employing Local Projection Difference-in-Differences, which exploits staggered TRQ introductions and heterogeneous tariff reduction intensities. Averaging across treated products, TRQs do not significantly alter retail prices. However, effects exhibit substantial heterogeneity: for leafy and root vegetables (Group 1), retail prices do not decline, whereas for fruits (Group 2), a 1%p reduction in the tariff rate lowers retail prices by approximately 0.9%, implying a pass-through rate of roughly 90%. Mechanism analysis reveal no significant response in import volumes for either group, thereby ruling out an import quantity channel. Tariff-exclusive import prices remain unchanged, implying that tariff-inclusive import prices decreased and suggesting approximately 100% pass-through at the import stage. Wholesale pass-through diverges between groups: characterized by low import dependence, Group 1 exhibits elevated wholesale prices, indicating that wholesalers capture the tariff reduction gains; in contrast, characterized by high import dependence, Group 2 demonstrates wholesale price declines that transmit the gains from tariff reductions entirely to the retail stage.

Keywords: Tariff-Rate Quota, Price Stabilization, Local Projection Difference-in-Differences, Tariff Pass-through, Agricultural Trade Policy

JEL Classification: F13, F14, Q17, C23

Replication data and code: https://github.com/jayjeo/github_TRQ

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1 Introduction

Tariff-Rate Quota (TRQ) was originally conceived as a compromise policy instrument designed to satisfy market liberalization obligations under WTO and FTA frameworks while simultaneously safeguarding domestic agricultural sectors. However, TRQ can also promote imports through low applied tariff rates and flexible quotas, depending on how it is implemented (Abbott, 2002; Beckman et al., 2021).

Most developed countries have used TRQ as a trade protection instrument under the WTO and FTA frameworks (Loginova et al., 2021; Schaefer and Wolf, 2025). In contrast, India, Japan, and Korea represent cases where TRQ has been used to promote trade. In 2024, India expanded imports of corn and certain vegetable oils by applying reduced tariff rates through TRQ permitted under the WTO framework. Japan and Korea, meanwhile, have operated voluntary TRQ systems independently of the WTO and FTA frameworks. Japan introduced TRQ as an emergency import measure in 2014 to address domestic butter supply shortages that had persisted since 2008. Korea has similarly operated voluntary TRQ for trade-promoting purposes outside WTO and FTA obligations.

Thus, TRQ can serve either trade-restrictive or trade-promoting purposes depending on government implementation. However, existing studies have focused primarily on trade-restrictive TRQ operations under the WTO and FTA frameworks (Loginova et al., 2021; Schaefer and Wolf, 2025), leaving trade-promoting TRQ operations largely unexplored. This study takes advantage of Korea’s unique approach —operating TRQ voluntarily in a trade-liberalizing manner, independent of WTO and FTA obligations—to identify the causal effect of TRQ on consumer prices. Additionally, this study contributes to the literature by clarifying the mechanisms through which TRQ affects retail prices via tariff pass-through rates.

The findings carry important implications for both academic research and Korea’s agricultural and price stabilization policies. In Korea, debates over the price stabilization effects of TRQ have continued for years. As of 2024, TRQ application to agricultural products has expanded substantially: the number of covered products increased from 20 in 2020 to 72 in 2024, and the total tariff reduction scale reached approximately 1.4 trillion KRW, resulting in significant fiscal losses (Jang, 2025). Since approximately 66% of this was implemented for price stabilization purposes, it is important to assess

whether these policies are actually achieving their intended objective of stabilizing consumer prices.

This study analyzes the retail price effects of the TRQ system using causal inference methods, covering 40 agricultural products including cabbage, radish, onion, mango, banana, and pineapple. Because TRQ was introduced at different times across products (staggered event) and tariff rate reductions vary considerably by product (heterogeneous intensity), we employed Local Projection Difference-in-Differences (LP-DiD), which addresses the limitations of conventional Two-Way Fixed Effect DiD (Dube et al., 2025).

The main findings are as follows. In the baseline analysis treating all 11 products as a single treated group, no significant change in retail prices attributable to TRQ was observed. However, reclassifying these 11 products according to their characteristics revealed notable heterogeneity. When the treated group was subdivided into Group 1 (leafy and root vegetables) and Group 2 (fruits), the two groups showed distinct effects. Group 1 exhibited no statistically significant decline in retail prices following TRQ application, while Group 2 showed a statistically significant price decline. At 250 days post-implementation, for example, a one percentage point (%p) tariff rate reduction causally led to a 0.9% decline in retail prices, corresponding to an approximately 90% tariff pass-through rate. Based on these findings, we recommend that when selecting products for TRQ application with ‘price stabilization’ as the policy objective, fruits should be prioritized over leafy or root vegetables.

This study also examined the mechanisms through which TRQ affects consumer prices using import volume, import price, and wholesale price data. The analysis found no significant changes in import volume following TRQ implementation, indicating that the retail price effect did not operate through the import volume channel. In contrast, the import price excluding tariffs (CIF) remained unchanged in both groups, confirming a 100% pass-through rate at the foreign seller stage. This suggests that the retail price effect of TRQ operated through the import price channel.

The wholesale price analysis revealed divergent patterns between the two groups. Group 1 (leafy and root vegetables) showed a significant increase in wholesale prices following TRQ implementation, while Group 2 (fruits) showed a decline. This divergence reflects differences in import dependency and wholesale-stage pass-through rates.

Because Group 1 has low import dependency, changes in import prices had limited influence on the wholesale market, allowing wholesalers to capture the gains from tariff reductions. In contrast, Group 2's high import dependency meant that tariff-inclusive import price reductions were fully passed through from wholesalers to retailers, ultimately enabling consumers to capture approximately 90% of the tariff reduction benefits.

Data and code for replication of this study are available at the following link: https://github.com/jayjeo/github_TRQ. This study is organized as follows. Section 2 examines the purposes and applications of TRQs in major economies. Section 3 describes the data collection and construction process. Section 4 explains the methodology for identifying TRQ treatment status and the calculation of applied tariff rates used to measure treatment intensity. Section 5 presents the empirical analysis of the causal effects of TRQs on retail prices. We first present the baseline LP-DiD analysis results with all 11 treated products integrated as a single group, followed by LP-DiD analysis results for the treated group disaggregated into Group 1 (5 leafy and root vegetable products) and Group 2 (6 fruit products). Section 6 investigates the mechanisms through which TRQs affect retail prices. Finally, Section 7 summarizes the main findings and discusses their policy implications.

2 Tariff-Rate Quota Application in Major Economies

The TRQ system can be administered in divergent manners contingent upon governmental policy objectives (Abbott, 2002; Skully, 2001a,b). It may be operated with the primary aim of producer protection, or alternatively, with the objective of stabilizing consumer prices.

The Swiss government establishes annual quotas for agricultural products (excluding meat and dairy) at levels exceeding import demand. This approach addresses insufficient domestic production capacity while fulfilling minimum WTO commitment quotas. However, during periods when domestic agricultural products are actively marketed, the TRQ system exceptionally transitions to a 'producer protection' objective. According to Loginova et al. (2021), during protection periods, Swiss vegetable prices were, on average, more than 20% higher than those in neighboring countries, with certain products exhibiting price differentials exceeding 50%. Nevertheless, their findings

indicate that not all agricultural products demonstrated such price increases.

The Canadian government has administered its TRQ for dairy products with a ‘trade-restrictive’ objective. However, in January 2022, a dispute settlement panel established under the United States-Mexico-Canada Agreement (USMCA) determined that Canada’s dairy TRQ allocation procedures contravened its market access commitments under the USMCA. Consequently, Canada revised its TRQ system to achieve compliance with market access obligations as mandated by the dispute settlement panel. Schaefer and Wolf (2025) demonstrated that this modified system resulted in additional trade increases in certain dairy products.¹

In India, TRQs are administered under domestic legislation —specifically the *Customs Tariff Act* and the *Foreign Trade Act*— with the primary objectives of alleviating supply shortages and stabilizing prices. In June 2024, the Indian government responded to food inflation by establishing quotas and reducing or eliminating tariffs on products such as processing corn, sunflower oil, and soybean oil. This case demonstrates that TRQ systems can also serve as instruments to promote imports.

Japan employs the WTO TRQ system to protect its domestic dairy industry by permitting only limited imports of dairy products such as butter. However, given that WTO quota allocations alone are insufficient to alleviate supply shortages, the Japanese government has implemented a supplementary policy authorizing additional imports beyond the WTO quota when necessary. This policy is administered through the Agriculture & Livestock Industries Corporation (ALIC).

Previous studies have predominantly examined the WTO TRQ system as an instrument for minimizing trade liberalization commitments. However, TRQs serve functions that extend beyond mere import restriction measures; they are employed in diverse ways contingent upon each country’s policy objectives and market conditions. Korea frequently implements TRQs as a mechanism for stabilizing agricultural prices. Drawing upon Korea’s experience, this study empirically investigates the effects of TRQs on agricultural retail prices.

¹The results demonstrated that market access improvement effects were observed only for certain basic dairy products, with exports of fluid milk and cream to Canada increasing by approximately 325% and 257%, respectively. In contrast, exports of ‘products composed solely of natural milk components’ and ice cream decreased by approximately 58% and 38%, respectively. This demonstrates that different quota levels and demand conditions across products resulted in heterogeneous trade restriction effects.

3 Data Construction

The dataset constructed in this study comprises a product-level daily panel spanning from January 1, 2021, to March 31, 2025, encompassing 40 agricultural products. Of these, 11 have been subject to TRQ treatment at some point during the observation period (treated): mango, cherry, kiwifruit, banana, avocado, pineapple, napa cabbage, radish, cabbage, onion, and carrot. The remaining 29 have never received TRQ treatment (never-treated).²

This study employs retail prices for the main analysis (Section 5), and utilizes wholesale and import prices to elucidate the mechanism through which TRQ causally affects retail prices (Section 6).

Data pertaining to TRQ application status, commencement dates, termination dates, and treatment intensity by product —constituting the most critical explanatory variables in the regression analysis— were compiled from publicly available information in accordance with the *Regulations on the Application of Quota Tariffs under Article 71 of the Customs Act*. A comprehensive explanation is provided in Section 4.

This study rigorously calculated ‘applied tariff rates’ by product and month. The derivation of applied tariff rates necessitates complex calculations based on various tariff agreements and Basic tariff rates for each country, product, and month—a task requiring specialized expertise in customs administration. A detailed explanation is provided in Section 4.3.

For agricultural products, climatic conditions constitute an exogenous determinant of supply. Average climatic data for Korea were obtained on a daily basis through the *Korea Meteorological Administration API Hub*, specifically encompassing temperature, humidity, precipitation, and sunshine duration.

Oil prices, which are also exogenously determined, exert a decisive influence on retail prices. This study obtained daily oil price data in USD from *Yahoo Finance*, adjusted these values using the Consumer Price Index to derive real oil prices, and subsequently converted them to KRW using exchange rate data.

²Dried red pepper, sweet potato, perilla leaf, oyster mushroom, green onion, peanut, lemon, garlic, water dropwort, cherry tomato, pear, red pepper, apple, lettuce, king oyster mushroom, ginger, watermelon, spinach, young napa cabbage, young summer radish, cucumber, scallion, bean, tomato, bell pepper, adzuki bean, green pepper, and squash.

3.1 Removing Seasonality

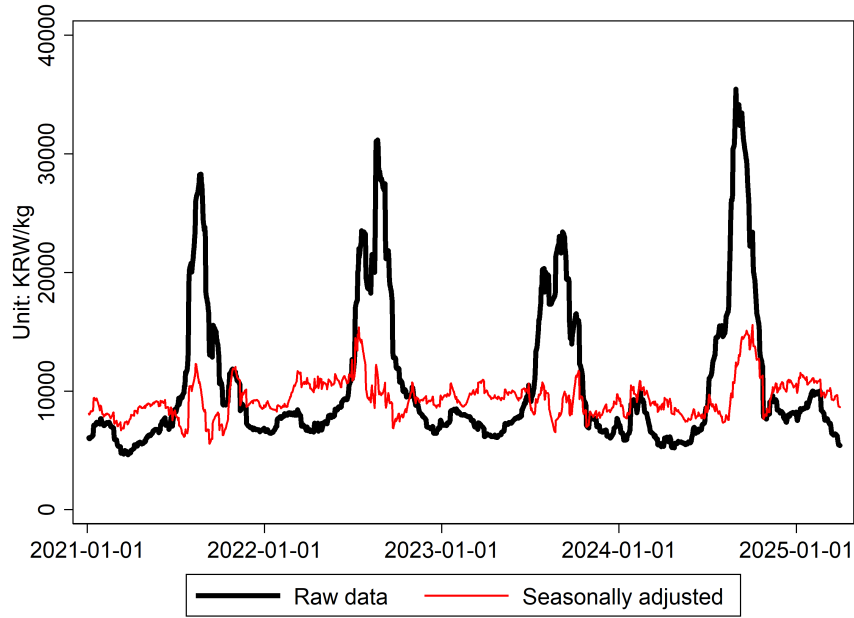
Daily series in our raw data exhibit strong and multi-layered seasonality (e.g., week-of-year, day-of-week, holiday effects, and non-fixed annual cycle (with some years comprising 52 weeks and others 53)). When the timing of TRQ policy implementation coincides with periods of seasonal fluctuation, distinguishing whether price movements are attributable to policy effects or to recurring seasonal patterns becomes problematic. Moreover, standard official seasonal-adjustment tools (e.g., X-12/X-13-ARIMA-SEATS) are not directly applicable to weekly or daily frequencies due to non-fixed annual cycles and overlapping seasonal components; detailed implementation issues are documented in Appendix A.

Accordingly, this paper removes seasonality via a regression-based adjustment employing calendar dummy variables and Fourier terms (Pierce et al., 1984). For daily data, we include day-of-week dummies and model annual seasonality using Fourier (sine/cosine) terms, again controlling for major and moving holidays with dedicated dummies; the seasonally adjusted series is obtained by subtracting the estimated seasonal components from the raw data.

We adopt this approach because it is (i) feasible at weekly and daily frequencies, (ii) sufficiently flexible to accommodate multiple seasonal cycles and moving-holiday effects, and (iii) analytically stable for policy evaluation: seasonal factors are estimated as fixed calendar effects, thereby reducing the risk that trend changes or treatment-induced shocks are inadvertently smoothed away—a concern with non-parametric decompositions in DiD applications. Furthermore, this method has been practically validated in official contexts; for example, the *U.S. Bureau of Labor Statistics (BLS)* employs a closely related week-dummy/Fourier moving-regression strategy (MoveReg) for seasonally adjusting weekly unemployment insurance claims, supporting both the credibility and consistency of our adjustment strategy (Mollins and Lumb, 2024).

Figure 1 presents an example of the original series and seasonally adjusted results for spinach retail prices.

Figure 1: Seasonally Adjusted Retail Price (Spinach)



3.2 Retail, Wholesale, and Import Prices

Daily retail prices by product were obtained from *Nongnet*, daily wholesale prices by product from *KAMIS* (*Korea Agricultural Marketing Information Service*), and monthly import prices and volumes by product³ from *KATI* (*Korea Agro-Trade Information*). All price data were standardized to KRW/kg.⁴

A particularly noteworthy pattern is that while import prices and wholesale prices exhibit virtually no difference, the transition from wholesale to retail prices involves an average price increase of approximately twofold. Figure 8 in Appendix C presents pineapple as an illustrative example, displaying import prices, wholesale prices, and retail prices. It should be noted that because import prices could only be constructed on a monthly basis, they appear less volatile in the figure compared to wholesale and retail prices.

³CIF basis, excluding tariffs.

⁴When raw data were provided in units of KRW per an item or KRW per head, actual market surveys were conducted to measure the weight per an item or per head, which was subsequently converted to KRW/kg. This standardization enables all econometric analysis results to be interpreted consistently in KRW/kg units and facilitates direct comparison among retail prices, wholesale prices, and import prices.

4 Tariff-Rate Quota Treatment and Intensity

The daily TRQ treatment commencement dates, termination dates, and treatment intensity by product (HS code) constitute the core explanatory variables of this study. These data were constructed utilizing publicly available information pursuant to the *Regulations on the Application of Quota Tariffs under Article 71 of the Customs Act*.

4.1 TRQ Treatment Status

The TRQ treatment status for the 11 treated products is presented on a daily basis in Table 1, where border lines indicate monthly boundaries. In the table, white cells denote periods without TRQ treatment (*not-treated status*), whereas black cells denote periods with TRQ treatment (*treated status*). For example, the TRQ for cherries commenced on April 5, 2024, and terminated on December 31, 2024. Due to space constraints, data prior to 2022 are not presented; however, this study constructed daily TRQ treatment status for all products from 2015 onward. From 2015 to 2022, TRQ implementations were exceedingly rare, with a marked increase beginning in 2024.

Table 1: TRQ Treatment Status

	2022												2023												2024												2025									
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8		
Napa Cabbage																																														
Cabbage																																														
Radish																																														
Onion																																														
Pineapple																																														
Carrot																																														
Cherry																																														
Kiwifruit																																														
Avocado																																														
Mango																																														
Banana																																														

An important consideration is that there are intermittent instances where TRQs terminated due to quota exhaustion. For products with established quotas, TRQs apply

only to quantities that have received recommendations from the recommending authority. However, since this study could not verify recommendation status for individual import transactions, TRQ-applied quantities were calculated under the assumption that quotas are exhausted sequentially from the commencement date of the TRQ implementation period. For example, carrots have been subject to TRQ implementation four times since 2015: (1) May 10, 2024 ~ September 30, 2024, (2) October 29, 2024 ~ December 31, 2024, (3) January 1, 2025 ~ February 28, 2025, and (4) March 1, 2025 ~ April 30, 2025. Connecting these periods reveals they are continuous except for September 30 ~ October 29, 2024.

Importantly, each of the four TRQ implementations has a separate quota. For instance, period (1) had a quota of 40,000 tons, whereas period (2) had 18,000 tons. Taking period (1) as an example and calculating actual import volumes, the quota was exceeded on September 8. Specifically, cumulative imports from May calculated in August 2024 amounted to 36,800 tons, whereas cumulative imports from May calculated in September totaled 49,400 tons—clearly exceeding 40,000 tons. Therefore, from September 8 until the termination of the quota period on September 30, although the TRQ system remained in effect, the TRQ rate benefits could no longer be received. By calculating quota exhaustion status and timing for all products in this manner, the white cells appearing mid-period for cabbage and carrots in Table 1 become evident.

Consequently, Table 1 displays alternating white and black cells. A configuration in which white cells appear first chronologically and, once transitioning to black, never revert to white is termed ‘absorbing’ (Bach et al., 2025). In contrast, configurations permitting reversion from black to white are termed ‘non-absorbing’ (Dube et al., 2025), which allows for indefinite white-black-white-black repetition. This study further defines a restricted case within non-absorbing structures—permitting at most a single white-black-white sequence—as ‘semi-non-absorbing.’

This study employs the non-absorbing format presented in Table 1 without modification for the main analysis (baseline). After acknowledging the limitations of this non-absorbing data format, additional analysis results are provided in Section 5.5 using a semi-non-absorbing data format for robustness checks.

Hereafter, a rigorous distinction is drawn between the terms ‘treatment’ and ‘implementation.’ This terminological delineation is imperative to preclude conceptual

ambiguity. Notably, even in instances where the TRQ scheme has been formally ‘implemented,’ exceeding the quota results in a ‘not-treated status’ —a condition wherein the tariff reduction benefits are not effectively realized.

4.2 TRQ Treatment Intensity

In causal analysis employing LP-DiD, two approaches exist for utilizing TRQs as an explanatory variable. The first approach employs only the TRQ treatment status as a binary variable (0, 1). The second approach utilizes the intensity of the tariff rate reduction shock resulting from the TRQ system as a continuous variable. The shock intensity is defined as the ‘applied tariff rate’ minus the ‘TRQ rate.’ The applied tariff rate refers to the tariff rate that would actually be imposed in the absence of TRQs.

For example, for napa cabbage, the applied tariff rate at the time of TRQ implementation was 27% and the TRQ rate was 0%, yielding a shock intensity from the TRQ system of 27%p. In contrast, for kiwifruit, the applied tariff rate at the time of TRQ implementation was 6.5% and the TRQ rate was 5%, resulting in a shock intensity of 1.5%p. Consequently, the rigorous and accurate calculation of the applied tariff rate constituted one of the core tasks of this study.

Furthermore, failure to control for applied tariff rate as a covariate introduces omitted variable bias. Applied tariff rate serves as an important reference factor for policymakers when determining whether to implement TRQ, and it also determines the tariff reduction intensity resulting from TRQ implementation. Therefore, applied tariff rate directly affects TRQ. Concurrently, applied tariff rate directly affects retail prices during periods when TRQ is not applied. Thus, this variable constitutes an essential control variable that should not be omitted.

4.3 Applied Tariff Rate

This subsection introduces the concept and function of the applied tariff rate, which serves as a key determinant of TRQ treatment intensity. The applied tariff rate represents the baseline tariff that would have been imposed in the absence of TRQ treatment. By measuring the differential between this rate and the TRQ rate, we estimate the magnitude of retail price decline per 1%p tariff reduction attributable to TRQ policy effects.

4.3.1 Derivation of the Applied Tariff Rate

Tariff rates applicable to imported goods comprise various rates by HS code, including Basic Tariff Rates and Preferential Tariffs under the Free Trade Agreement (FTA). The priority order of rate application is governed by *Article 50 of the Customs Act*. Even for identical products, the actual rate applied may vary depending on the country of origin, product specifications, and importer circumstances. Because multiple rates may apply to a single HS code, accurately identifying the baseline tariff rate in the absence of TRQ using a single rate alone is infeasible. Thus, an indicator such as the ‘applied tariff rate’ is necessary to account for both the range of applicable rates and observed import patterns.

In this study, import performance data were utilized to determine the ‘most favorable tariff rate’ applicable to each country’s monthly imports, following the tariff rate priority hierarchy established under the *Customs Act*. Monthly applied tariff rates were subsequently derived by computing weighted averages based on each country’s monthly import volumes. Although this approach does not permit direct verification of whether Preferential Tariff Rates were actually applied in individual transactions, it provides a meaningful estimation of tariff burden levels that closely approximate reality by incorporating both the structural characteristics of the tariff system and observed import patterns.

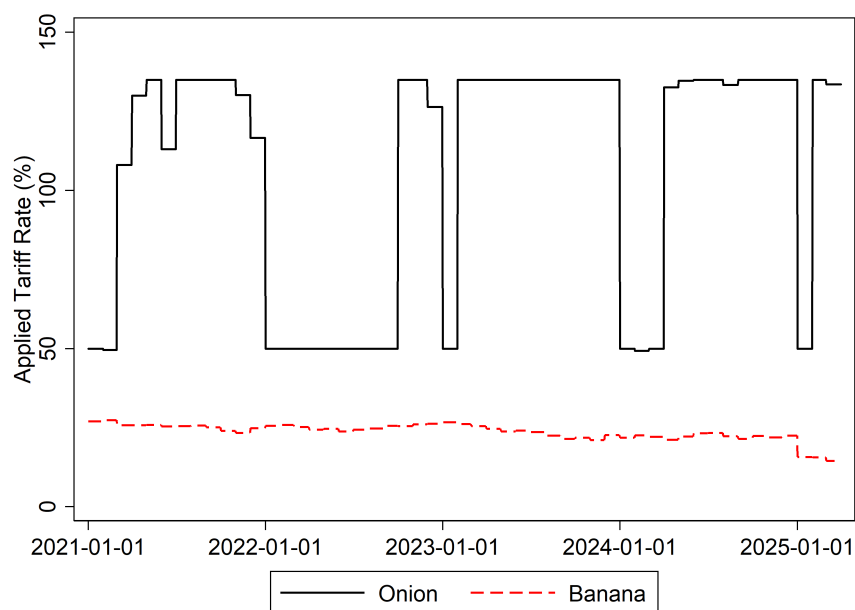
To calculate the applied tariff rate, this study utilized country-specific monthly import weight data by product from the *KATI (Korea Agricultural Trade Information)*. The analysis encompasses a total of 40 products, with data collected for the period from January 2021 to March 2025 based on each product’s HS code.

Since the data are organized by country, different tariff rates may apply to the same product depending on the exporting country. Accordingly, the applicable tariff rate for each country was first determined following the ‘Tariff Rate Priority Structure’ presented in Appendix B. The monthly ‘applied tariff rate’ was then calculated as a weighted average of the country-specific confirmed tariff rates, using each country’s import volume for the corresponding month as the weight. By repeating this calculation process for all months from January 2021 to March 2025, panel data of monthly applied tariff rates by product were constructed.

For example, as of July 2024, the country-wise import share for banana under HS

code 0803.90-0000 was highest for the Philippines, followed by Vietnam and Ecuador. Ecuadorian banana is not subject to first-priority rates (such as Anti-Dumping Duty, Retaliatory Duty, or Countervailing Duty), and Ecuador is not an FTA partner country; therefore, the review begins from third-priority rates. Since fourth- through sixth-priority rates do not apply and the third-priority WTO Tariff Concession Rate (90%) exceeds the seventh-priority Basic Tariff Rate (30%), the Basic Tariff Rate is ultimately applied. Vietnamese banana is subject to a 0% tariff under the Korea-Vietnam FTA, while Philippine banana, which accounts for approximately 61% of imports, is subject to the 30% Basic Tariff Rate. Calculating the weighted average of these country-specific tariff rates by import volume share yields an ‘applied tariff rate’ of approximately 23.3% for banana in July 2024. Meanwhile, with the Korea-Philippines FTA entering into force on December 31, 2024, the applied tariff rate for banana has declined to approximately 14~15% as of the first quarter of 2025, as illustrated in Figure 2.

Figure 2: Applied Tariff Rate (Banana, Onion)



Fresh unpeeled onion is not subject to first-priority rates; thus, the review begins from second-priority rates. Notably, Chinese onion accounts for the majority of total import volume but receives no Tariff Concession Benefits under FTA agreements, and therefore third-priority rates apply. The third-priority rate is the WTO Tariff Con-

cession applicable to agricultural, forestry, and livestock products with established Market Access Quota. Imports within the Market Access Quota are subject to the Recommended Tariff Rate of 50%, while imports exceeding the quota are subject to the non-recommended rate of 135%. Consequently, the monthly applied tariff rate for onion varies depending on whether the Market Access Quota is exceeded. This explains why Figure 2 illustrates that the applied tariff rate for onions exhibits substantial variation between 50% and 135%. Values that deviate from precisely 50% or 135% reflect the influence of onion imports originating from countries other than China.

5 Causal Analysis

This study measured the causal impact of TRQ policies on consumer prices employing a DiD model. TRQs represent a staggered adoption situation wherein policy implementation timing differs across products. In such cases, an event-study DiD model must be employed, which realigns the time axis based on each product’s policy implementation timing.

However, the traditional event-study DiD approach that applies the Two-Way Fixed Effect DiD method after simply realigning the time axis produces biased estimates due to the following problem. In non-absorbing⁵ situations where the policy commences and subsequently terminates, products are utilized as controls after policy termination, which is methodologically problematic. Products to which the policy was previously applied cannot function as appropriate controls because lagged effects may persist even after policy termination. For example, cherries had TRQs applied from April 5 to December 31, 2024; utilizing cherry retail prices in February 2025 as a control would be inappropriate because the effects of TRQs applied during 2024 may persist into February 2025.⁶

⁵A detailed explanation of this terminology is provided in Section 4.

⁶The problem of biased estimates arising from inappropriate comparisons using groups with prior treatment history as controls has been documented in several recent studies (Goodman-Bacon, 2021; Callaway et al., 2024). To address this issue, Sun and Abraham (2021), De Chaisemartin et al. (2022), Callaway et al. (2024), Gardner (2022), and Dube et al. (2025) have proposed improved techniques. However, some of these methodologies retain certain limitations. For example, Sun and Abraham (2021)’s method has the limitation of being unable to accommodate continuous treatment intensity. Additionally, the Two-Stage DiD technique proposed by Gardner (2022) can accommodate continuous treatment intensity but possesses other limitations. Specifically, while it resolves the negative weighting problem identified by Goodman-Bacon (2021), the issue of inconsistent control group composition remains. The

This study employs the Local Projection Difference-in-Differences (LP-DiD) method to address these problems. LP-DiD resolves the aforementioned bias problems by utilizing only ‘clean controls’ when estimating effects at each lead or lag. Specifically, when estimating the effect at a particular time t , products with prior treatment history before that time are excluded from the control group, and only not-yet-treated products or never-treated products are employed as controls. This approach blocks composition effects arising from previously treated products being mixed into the control group, ensures comparison between pure control and treated groups, and fundamentally prevents bias from contaminated comparisons.

5.1 Classification of Quota Exhaustion Periods

As presented in Table 1 in Section 4.1, certain products such as carrots and cabbage experienced periods when quotas were exhausted. During these periods, although the TRQ system remains in effect, the tariff reduction benefits corresponding to the TRQ rate cannot be obtained. Accordingly, this study classified such ‘quota exhaustion periods’ as *not-treated status* in the baseline analysis⁷. The rationale for this classification and robustness checks using alternative classifications are presented in detail in Section 5.5.

5.2 Local Projection Difference-in-Differences Analysis Results

This study derives a total of four analysis results employing the LP-DiD method. First, the 11 products that have received TRQ treatment are integrated into a single treated group for analysis. Second, the 11 products are divided into two treated groups comprising 5 and 6 products, respectively, and analyzed separately; the criteria for this division are detailed in Section 5.3.

first stage employs only untreated groups as controls, but the second stage utilizes all data collectively, creating a contaminated control problem. That is, groups that have already been treated or will soon be treated are included in the control group, undermining the validity of comparisons and potentially diluting or distorting effect estimates.

⁷Being classified as *non-treated status* does not imply that products during these periods become controls. Following the ‘clean control’ principle explicated earlier, products that have received treatment even once in the past can never become controls again. Ultimately, such products are regarded as missing observations.

Both the first and second methods described above are further subdivided into two approaches for analysis. (i) Analysis is conducted by specifying ‘TRQ treatment status’ as a binary variable (*treated status*= 1, *not-treated status*= 0). (ii) A more refined analysis is performed by specifying treatment intensity from TRQs as a continuous variable. The results from the first approach measure the percentage change in retail prices attributable to TRQ treatment itself, irrespective of the magnitude of tariff rate reduction from TRQs. The results from the second approach measure by what percentage retail prices change for every 1%p reduction in tariff rates due to TRQs.

Causal identification in DiD models depends entirely on the parallel trends assumption. Whether causal meaning can be attributed to DiD analysis results depends on whether this assumption holds, regardless of which variant of DiD technique is employed. Below, the LP-DiD results for each of the four cases are presented graphically, and the pre-treatment parallel trends verification along with coefficient interpretation is discussed. It should be noted that in all four LP-DiD analyses, error terms were clustered by product to mitigate serial correlation.

5.2.1 Estimation Using Tariff-Rate Quota Treatment Status (Binary)

This subsection first addresses the case where the treated group is combined into a single group of 11 products. The regression equation for applying LP-DiD is given by Equation (1) below.

$$\Delta^h \ln P_{it} = \beta^h (D_i \cdot \Delta D_{it}) + T_t + X_{it} + \varepsilon_{it}^h, \quad -500 \leq h \leq 273. \quad (1)$$

In Equation (1), i and t denote product and time (day), respectively. P_{it} in the dependent variable represents retail price in units of KRW/kg. Following Dube et al. (2025) rigorously, the dependent variable is transformed to $\Delta^h \ln P_{it}$, defined as $\ln P_{i,t+h} - \ln P_{i,t-1}$. This represents the difference between the log-retail price at h periods after (or before) the event and the log-retail price immediately preceding the event. h denotes the relative time point, with the TRQ treatment commencement date set as $h = 0$. For instance, 300 days prior to TRQ commencement corresponds to $h = -300$. The maximum range of data obtained and utilized in this study is $-500 \leq h \leq 273$. Meanwhile, since the equation already takes a first difference with respect to time using Δ , the product fixed effect dummy (I_i) is eliminated. T_t is the time fixed effect dummy,

referring to absolute calendar dates rather than relative time points aligned by TRQ implementation timing.

The key explanatory variable is $D_i \cdot \Delta D_{it}$, where $D_i = 0$ indicates products that have never received TRQ treatment (control group) and $D_i = 1$ indicates products that have received TRQ treatment at least once (treated group). $\Delta D_{it} = 1$ if the product is at the time point when the TRQ commences, and $\Delta D_{it} = 0$ otherwise. That is, $\Delta D_{it} = 1$ only when the product is in the treated group, the TRQ was not treated at time $t - 1$, and the TRQ commenced at time t . For example, if a product is in the treated group and the TRQ was already treated at time $t - 1$ and continues at time t , then $\Delta D_{it} = 0$. For control group products, $\Delta D_{it} = 0$ unconditionally.

The core of LP-DiD is utilizing only ‘clean controls’ as the control group. To adhere to this principle, preprocessing must be performed on the original data prior to regression, although this preprocessing is not visible in Equation (1) above. For all time periods t and each h , observations are employed as clean controls regardless of whether they belong to the treated group if all of the following conditions are satisfied: (i) if $h \geq 0$, the product must not have received TRQ treatment even once during the period $t \sim t + h$; (ii) if $h < 0$, the product must not have received TRQ treatment even once during the period $t - h \sim t$; (iii) the product must not have received TRQ treatment even once during the period $-\infty \sim t$. According to this rule, all products not in the treated group serve as controls for all h across all time periods t . Additionally, even products belonging to the treated group may satisfy the above rules in certain cases, in which case they serve as controls. For example, cherries satisfy all three conditions when $t = (2024-1-1)$ and $h = -500$. Onions also satisfy all three conditions when $t = (2025-2-1)$ and $h = +50$.

X_{it} represents various control variables, specified as follows:

$$X_{it} = A_{it} + I_i \cdot O_t + I_i \cdot W1_t + I_i \cdot W2_t$$

In the equation above, A_{it} denotes the ‘applied tariff rate.’ Since the applied tariff rate refers to the effective tariff rate in the absence of TRQs, it does not introduce endogeneity problems in the LP-DiD model by definition. Additionally, during the pre-TRQ-treatment period, applied tariff rates that vary by time and product directly affect retail prices by determining import volumes, which in turn transmit to domestic retail

prices. Thus this variable plays an important role in controlling for pre-treatment parallel trends. Conversely, during periods of TRQ treatment, the TRQ rate—rather than the applied tariff rate—governs import volumes. Consequently, including the applied tariff rate as a covariate does not induce endogeneity; rather, omitting it introduces omitted variable bias.

O_t denotes the oil price converted to KRW. Oil prices affect retail prices; however, TRQ treatment cannot induce oil price fluctuations, so oil prices are not endogenous in the LP-DiD model. That is, including oil prices as a control variable does not create a bad control problem. Oil prices may exert heterogeneous effects on retail prices across products. For example, for onions, oil prices affect retail prices through vehicle transportation costs from domestic production areas to Seoul (the capital of Korea), whereas cherries, being highly perishable and unsuitable for maritime transport, are predominantly imported by air, so oil prices affect retail prices through air freight costs. To account for these heterogeneous effects across products, the oil price variable was interacted with a product dummy.

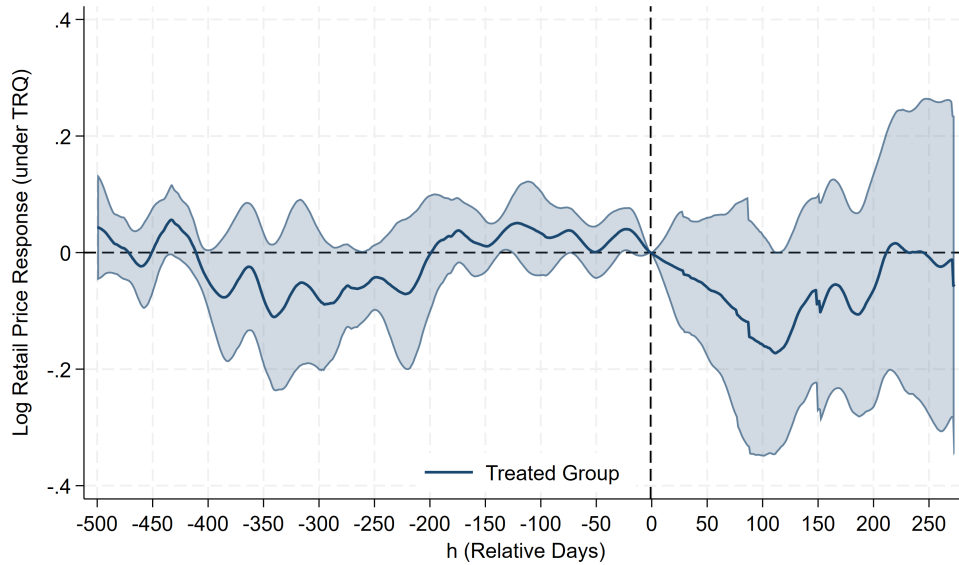
$W1_t$ and $W2_t$ are climate variables, inspired by the methodology of [Roberts and Schlenker \(2013\)](#), who employed climate variables as Instrumental Variables to estimate price elasticities of demand and supply. $W1_t$ represents the average climate value over the preceding 100 days from the current date, specifically including daily temperature, humidity, precipitation, and sunshine duration in Korea. Climate values at recent time points ($W1_t$) are exogenous as they are naturally determined. Climate is unpredictable and affects agricultural cultivation as a force majeure, causing supply fluctuations that consequently affect retail prices. Additionally, supply disruptions due to climate may influence the government's decision to implement TRQs. However, TRQ treatment cannot conversely affect naturally occurring climate. Therefore, including climate variables as control variables does not create a bad control problem; rather, excluding them would induce bias due to omitted variables. Thus, climate variables constitute essential control variables.

$W2_t$ represents the value of $W1_t$ from one year prior, specifically the average climate value from 465 to 365 days ago. Previous year's climate serves as a key decision-making indicator when producers plan current year production. According to [Roberts and Schlenker \(2013\)](#), when previous year's climate conditions were unfavorable, producers adopt a strategy of increasing planting quantities to achieve target production.

Therefore, previous year's climate variables affect current year supply, which in turn forms a pathway directly affecting retail prices. Additionally, previous year's climate variables may exert a certain influence on current year TRQ implementation decisions. For example, when previous year's climate conditions were favorable, producers determine planting quantities based on this, and if current year climate deteriorates, supply shortages occur, leading to TRQ implementation—a logical mechanism exists. Ultimately, following the same logic as current year recent climate variables, previous year's climate variables also function as important control variables in the analytical model.

The results of estimating Equation (1) are presented in Figure 3. The estimated coefficients for pre-TRQ periods ($-\infty \sim -1$ days) are not statistically significant at the 5% significance level, confirming that the pre-treatment parallel trends assumption is satisfied. However, the estimated coefficients for post-TRQ periods ($+1 \sim +\infty$ days) are also not statistically significant. This indicates that the 11 treated products on average did not exhibit retail price reduction effects from TRQ treatment.

Figure 3: Single Treated Group Results for TRQ Treatment Status (Baseline)

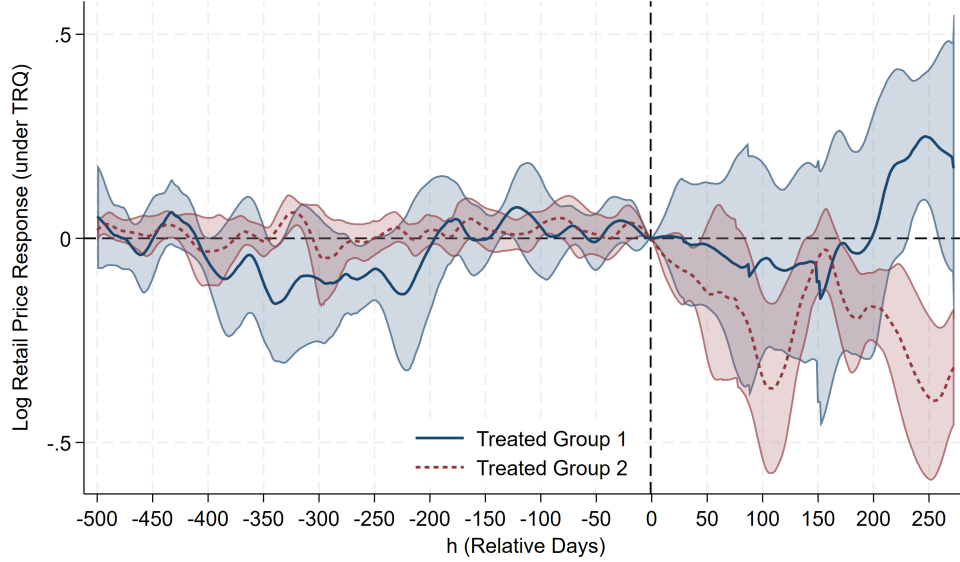


Subsequently, the 11 treated products were partitioned into Group 1 (5 leafy and

root vegetables⁸) and Group 2 (6 fruits⁹), with separate LP-DiD analyses conducted for each; the criteria for this partition are detailed in Section 5.3. Equation (1) was estimated for each group paired with the same 29 control products (never-treated), with results presented in Figure 4. Importantly, these separate estimations yield results identical to simultaneous estimation of Equation (2) below, where β_1^h and β_2^h denote the coefficients for Group 1 and Group 2, respectively.

$$\Delta^h \ln P_{it} = \beta_1^h (D1_i \cdot \Delta D1_{it}) + \beta_2^h (D2_i \cdot \Delta D2_{it}) + T_t + X_{it} + \varepsilon_{it}^h, \quad -500 \leq h \leq 273. \quad (2)$$

Figure 4: Two Treated Groups Results for TRQ Treatment Status (Baseline)



The analysis results reveal noteworthy heterogeneous effects between the two treated groups. First, both Group 1 and Group 2 satisfied the pre-treatment parallel trends assumption. For the post-implementation period, however, Group 1, consisting of leafy and root vegetables, exhibited estimated coefficients that were not significant for periods other than 230~260 days following TRQ implementation, and were significantly positive during the 230~260 day period. In contrast, Group 2, consisting of fruits, exhibited no significant retail price changes until approximately 90 days following TRQ

⁸Napa cabbage, cabbage, radish, onion, and carrot.

⁹Cherry, kiwifruit, avocado, mango, banana, and pineapple.

implementation, but statistically significant price reduction effects emerged from 90 days onward (with the exception of the 145 ~ 175 day period). For example, the retail price response at 250 days following TRQ implementation was estimated at -0.39 , indicating that retail prices for Group 2 declined by approximately 39% due to TRQ implementation.

5.2.2 Estimation Using Tariff-Rate Quota Treatment Intensity (Continuous Variable)

The preceding Section 5.2.1 estimated LP-DiD using only TRQ treatment status without considering treatment intensity. Therefore, the interpretation pertains to the retail price reduction effect ‘when TRQs are treated.’ This section estimates LP-DiD incorporating TRQ treatment intensity. The interpretation in this case is the magnitude of retail price change for every 1%p reduction in tariff rates due to TRQs.

The regression equation for this implementation is given by Equation (3) below. This equation is identical to Equation (1) except for the addition of G_i on the right-hand side. G_i represents the intensity of the TRQ policy, defined as ‘applied tariff rate – TRQ rate,’ which varies by product. Detailed values are provided in Table 2. For example, bananas had an applied tariff rate of 24.2%, which was reduced to 0% due to TRQ implementation, resulting in a tariff rate reduction intensity of 24.2%p¹⁰

$$\Delta^h \ln P_{it} = \beta^h \left(G_i \cdot D_i \cdot \Delta D_{it} \right) + T_t + X_{it} + \varepsilon_{it}^h, \quad -500 \leq h \leq 273. \quad (3)$$

The results of estimating Equation (3) with the intensity variable, integrating 11 products into a single treated group, are presented in Figure 5. This exhibits a pattern similar to Figure 3, which considered only TRQ treatment status. Pre-treatment parallel trends are satisfied, and no statistically significant retail price decline is observed following TRQ implementation.

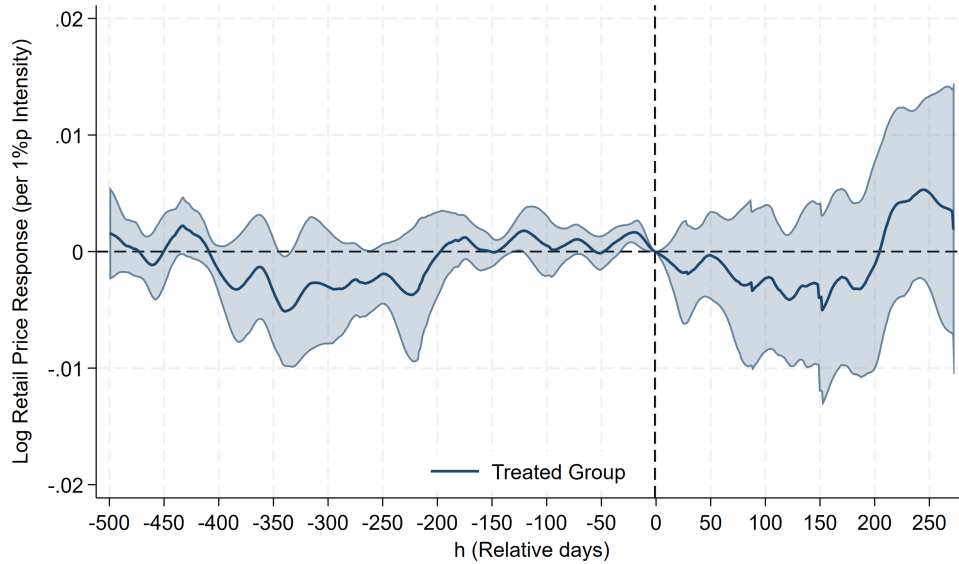
Figure 6 presents the analysis results with the treated group divided into Group 1 and Group 2, measuring retail price changes per 1%p TRQ reduction. Pre-treatment

¹⁰By design of LP-DiD, the value of G_i must be time-invariant. To satisfy this requirement, a fixed applied tariff rate value for each product was calculated by averaging the applied tariff rates over the 365 days preceding the TRQ implementation start date for each product. This approach mitigates the influence of short-term fluctuations attributable to single-point applied tariff rates and enhances the reliability of policy effect analysis. Notably, the applied tariff rates for days following the TRQ start date were excluded from the average due to endogeneity concerns. Utilizing historical values of the applied tariff rate that were determined prior to TRQ implementation avoids the risk of endogeneity.

Table 2: TRQ Treatment Intensity

Product	Applied Tariff Rate (%)	TRQ Rate (%)	Treatment Intensity (%p)
Napa cabbage	27.0	0	27.0
Cabbage	27.0	0	27.0
Radish	30.0	0	30.0
Onion	79.9	0	79.9
Carrot	28.7	0	28.7
Cherry	0.3	0	0.3
Kiwifruit	6.5	5	1.5
Avocado	8.0	0	8.0
Mango	15.8	0	15.8
Banana	24.2	0	24.2
Pineapple	29.5	0	29.5

Figure 5: Single Treated Group Results for 1%p TRQ Intensity Reduction (Baseline)



parallel trends are satisfied for both groups, with minor exceptions in Group 1. Group 1, consisting of leafy and root vegetables, exhibited no statistically significant retail price reduction effect following TRQ implementation; rather, it exhibited a brief increase effect during days 240~260. The absence of retail price reduction effects in Group 1 can be interpreted through several factors. First, the tariff pass-through rate to consumers may be close to 0%. That is, distribution entities—including producers, importers,

wholesalers, and retailers— may have absorbed all the gains from tariff rate reductions. Second, although the government introduced TRQs to suppress price increase trends for Group 1 products, TRQs may have been ineffective and price increases may have persisted.

Figure 6: Two Treated Groups Results for 1%p TRQ Intensity Reduction (Baseline)



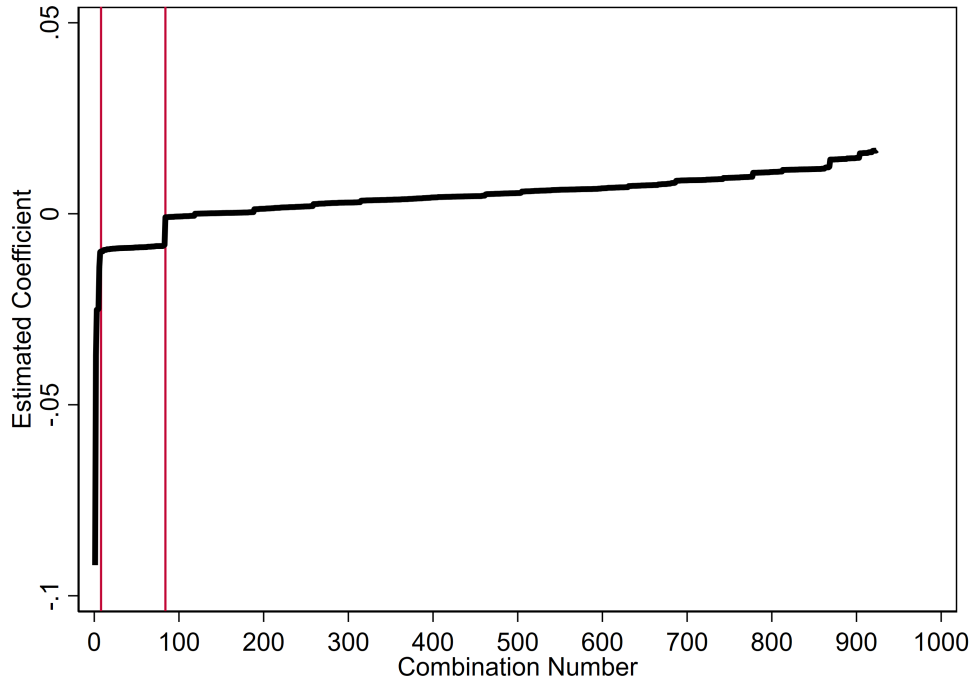
In contrast, Group 2, consisting of fruits, exhibited no significant retail price changes until approximately 200 days following TRQ implementation, but price reduction effects emerged from 200 days onward. For example, the estimated coefficient multiplied by 100 at 250 days was calculated as -0.904 , indicating that a 1%p tariff rate reduction due to TRQs causally induced a 0.904% decline in retail prices.¹¹ This indicates a tariff pass-through rate to consumers of approximately 90%, implying that distribution entities captured only approximately 10% of the gains from tariff rate reductions while passing the remainder on to consumers.

¹¹The more rigorously calculated value is -0.896% . In a log-linear specification, the exact semi-elasticity of P_{it} with respect to a one-percentage-point increase in G_i is computed as $(e^{\beta^h} - 1) \times 100$. Accordingly, with $\beta^h = -0.009$, we obtain $(e^{-0.009} - 1) \times 100 \approx -0.896\%$.

5.3 Rationale for Treatment Group Stratification

As presented above, this study divided the 11 products into groups of 5 and 6 to form two treated groups. This subsection explicates the division criteria and procedures in greater detail. The procedure is as follows. The 11 treated products were partitioned into all 462 possible 5 : 6 splits¹², with each split assigning one subset to Group 1 and the other to Group 2. For each configuration, the coefficient at $h = 250$ was calculated using Equation (1). This yielded coefficient values for a total of $462 \times 2 = 924$ groups, with each group consisting of a list of 5 or 6 products. These calculated coefficient values were sorted in ascending order, and Figure 7 presents the results.

Figure 7: Coefficient Values for All Possible Group Combinations



Among the coefficients sorted in ascending order, the coefficients for combinations ranked 1st through 8th exhibit values substantially smaller than -0.01 , qualifying as outliers. For example, a coefficient value of -0.07 corresponds to a tariff pass-through rate of 700%, which is deemed unrealistic as it is a level rarely observed in practice. Meanwhile, as evident in the figure, relatively stable negative coefficients persist from

¹² ${}_{11}C_5 \times 2$

the 9th through 83rd positions, after which the coefficient increases sharply to approximately 0 at the 84th position and transitions to positive coefficients. Accordingly, this study regarded combinations ranked 9th through 83rd as ‘effective treated groups’ where TRQs significantly reduce retail prices.

Subsequently, the products in each group ranked 9th through 83rd were classified into fruits versus leafy and root vegetables, and the overall frequency was tallied. The results indicated that fruit products appeared 342 times while leafy and root vegetable products appeared 97 times, indicating that approximately 78% of the total were fruits. In particular, the combination closest to the median and mean values in the coefficient distribution for this interval (9th~83rd) is the 44th group, which is characterized by all constituent products being exclusively fruits.

In summary, the retail price reduction effect from TRQ treatment can be interpreted as generally stronger for fruits. Based on these findings, this study selected the 44th group, composed entirely of fruits, as the representative combination for the fruit treated group and conducted all preceding and subsequent empirical analyses centered on this group. The resulting group compositions are: Treated Group 1 comprises napa cabbage, cabbage, radish, onion, and carrot (leafy and root vegetables), whereas Treated Group 2 comprises cherry, kiwifruit, avocado, mango, banana, and pineapple (fruits).

5.4 Local Projection Difference-in-Differences Analysis at 250 Days Following Tariff-Rate Quota Implementation

Table 3 consolidates all LP-DiD analysis results at 250 days following TRQ implementation. These results employ the same regression equations utilized in the figures examined in Section 5.2. Coefficient values and standard errors in the table are multiplied by 100 for improved readability.

Columns 1, 2, and 3 in this table present results considering only TRQ treatment status, using Equation (1). The full treated group (Column 1) was not significant even at the 10% significance level. In contrast, Treated Group 1 (Column 2) was significantly positive even at the 1% significance level. Treated Group 2 (Column 3) was significantly negative at the 1% significance level.

Columns 4, 5, and 6 present results considering TRQ treatment intensity, using Equation (3). These findings are consistent with the graphical results presented in

Table 3: LP-DiD at 250 Days Following TRQ Implementation

	(1)	(2)	(3)	(4)	(5)	(6)
	TRQ Treatment Status			TRQ Treatment Intensity (1%p)		
	Full	Group 1	Group 2	Full	Group 1	Group 2
TRQ Shock	-0.785 (13.922)	24.745*** (8.616)	-38.985*** (10.320)	0.505 (0.427)	0.880** (0.325)	-0.904*** (0.171)
Observations	30578	28917	28555	30578	28917	28555
R^2	0.600	0.600	0.574	0.601	0.600	0.574
Adjusted R^2	0.583	0.582	0.555	0.583	0.582	0.555
Within R^2	0.551	0.546	0.519	0.551	0.547	0.519

Standard errors clustered by product to mitigate serial correlation

Calculated at 250 days following TRQ implementation

Coefficient values and standard errors multiplied by 100 for improved readability

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Section 5.2.2; the full treated group and Treated Group 1 showed no significant price reduction effects, whereas Treated Group 2 exhibited significant price declines.

5.5 Robustness Check

This section presents results based on alternative data preprocessing, while retaining the LP-DiD regression equations from Section 5.2. As Table 1 illustrates, certain products, such as carrot and cabbage, experienced quota exhaustion during specific periods. Although the TRQ system remains formally in effect during such periods, the tariff reduction benefits associated with the TRQ rate are unavailable to importers. The baseline analysis in Section 5.2 therefore classified these periods as *not-treated status*, consistent with this economic reality (corresponding to the white cells in Table 1). This principled approach, however, introduces several complications.

First, we examine cases where products belonging to the treated group are ‘utilized as controls’ under certain circumstances. For treated group products, regardless of whether quota exhaustion periods are classified as *treated status* or as *not-treated status* per the original data, quota exhaustion periods can never become controls. This is attributable to the clean control principle —products already belonging to the treated group have a history of receiving treatment over extended periods, even if they no longer receive TRQ benefits due to quota exhaustion. Therefore, from the perspective of being ‘utilized as controls,’ it is inconsequential which approach is adopted.

Table 4: TRQ Treatment Status (Carrot)

	2022												2023												2024												2025									
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8		
Carrot																																														

A problem emerges when considering the treated products themselves. Classifying quota exhaustion periods as *not-treated status* (white cells in the table), consistent with the original data, precludes the tracking of cumulative long-term treatment effects for these products. Taking carrots presented in Table 4 as an example, we cannot observe the 153-day effect from October 29, 2024 to March 31, 2025. This is because for this period to be recognized as a treated group under the LP-DiD method, the entire period from October 29, 2024 to March 31, 2025 must be *treated status* (black cells in Table 1 or 4) without exception. However, because quota exhaustion periods were classified as *not-treated status* per the original data, the periods December 20~31, 2024 and February 20~28, 2025 are not in *treated status* (i.e., very small white gaps appear in the table). Yet concluding that TRQs were not maintained long-term due to these minor interruptions is not logical. Therefore, quota exhaustion periods should be exceptionally classified as *treated status*.

A further complication arises from the treated products' perspective. Classifying quota exhaustion periods as *not-treated status* per the original data implies that when the TRQ system resumes after quota exhaustion (e.g., January 1, 2025 for carrot), this date is effectively recognized as a de novo treatment initiation —as though the product had never previously received TRQ coverage. Consequently, price changes are computed from this resumption date as if treatment were commencing anew.

This too is logically problematic. Recognizing January 1, 2025 as a new treated group merely because there was a very minor interruption period (*not-treated status*) immediately prior is not desirable. The January 1, 2025 time point has already had extended TRQ treatment periods in the past, and their effects have already accumulated. Conversely, if quota exhaustion periods had been exceptionally classified as *treated status*, the January 1, 2025 time point would never be recognized as a TRQ system commencement date under LP-DiD principles (because $\Delta D_{it} = 0$ in Equation (1)). Therefore, this case also provides grounds for why quota exhaustion periods should be

exceptionally classified as *treated status*.

To summarize, this section presents robustness results from LP-DiD estimation using the same regression equations as the baseline analysis in Section 5.2, with the key distinction that quota exhaustion periods are reclassified as *treated status*. This robustness check adopts a different approach from Loginova et al. (2021), who employed a DiD model. In their approach, the treated period was defined as ‘the harvest season when domestic production is concentrated (protection period)’ —the period during which the Swiss government implements TRQs. These protection and non-protection periods alternate annually. Over their 5-year analysis period, they classified all protection periods as *treated status* and all non-protection periods as *not-treated status* without exception. This had its own valid reasoning: because the data under analysis had protection periods on an annual cycle, the non-protection periods were sufficiently long. Therefore, protection periods newly commencing after one year could be recognized as completely new treated groups.

5.5.1 Single Treated Group Results for TRQ Treatment Status

To conserve space, all figures from the Robustness Check section are presented in Appendix C. Figure 9 in Appendix C presents single treated group results for TRQ treatment status only, irrespective of the intensity of tariff rate reduction from TRQs. This is nearly identical to the baseline Figure 3, the result from Section 5.2. Pre-treatment parallel trends are satisfied, and no post-treatment effect is observed.

5.5.2 Two Treated Groups Results for TRQ Treatment Status

Figure 10 in Appendix C is identical to the preceding figure but presents results with the treated group divided into two. The two groups are identical to those employed in the baseline analysis in Section 5.2. This figure is nearly identical to the baseline Figure 4; however, whereas the baseline figure exhibited a brief absence of retail price reduction effect around 150 days following TRQ implementation, Figure 10 in Appendix C demonstrates the retail price effect being sustained continuously.

5.5.3 Single Treated Group Results for 1%p TRQ Intensity Reduction

Figure 11 in Appendix C is almost entirely identical to the baseline Figure 5.

5.5.4 Two Treated Groups Results for 1%p TRQ Intensity Reduction

In the baseline Figure 6, Treated Group 2 briefly exhibited no retail price reduction effect around 150 days post-TRQ implementation; however, Figure 12 in Appendix C demonstrates a steady decline without such exceptions. Meanwhile, the retail price reduction effect for Group 2 at 250 days post-TRQ implementation was estimated at -0.904 in Figure 6, whereas it is estimated at -0.969 in Figure 12 in Appendix C. This indicates that for every 1%p reduction in tariff rates due to TRQ treatment, retail prices decline by approximately 0.90~0.96%. That is, we can infer that the tariff pass-through rate to consumers lies between 90~96%.

6 Mechanism of Retail Price Decline

This section examines the transmission channels through which TRQ affects retail prices. The impact of tariff policy on retail prices has generally been understood through two pathways. The first is a channel whereby tariff reductions expand domestic supply through ‘increased import volume,’ thereby lowering prices. The second is a channel whereby the ‘decline in tariff-inclusive import price’ resulting from tariff reductions lowers wholesale prices, ultimately leading to decreases in retail prices (Song et al., 2025; Fajgelbaum et al., 2020).

The price mechanism, in particular, centers on estimating the tariff pass-through rates of sellers at each transaction stage (import, wholesale, and retail). This approach enables observation of the extent to which each market participant captured gains from tariff reductions. This study analyzed Equation (3) using non-absorbing data, with import prices, import volumes, and wholesale prices as dependent variables, following the same methodology as the main analysis. Here, the import price refers to the Cost, Insurance, and Freight (CIF) price, which comprises the cost of goods plus maritime freight and insurance to the destination port, excluding tariffs. These data are provided monthly by *KATI*. Utilizing tariff-exclusive import price enables observation of changes in gains captured by foreign sellers.

One clarification is warranted: in the analysis employing import volume as the dependent variable, the tariff-exclusive import price was included as a control variable in addition to the control variables specified in Equation (3). This specification was

adopted to control for the pathway through which TRQ affects import volume via import prices (TRQ→import price→import volume). Since this pathway corresponds to the import price mechanism, it was necessary to isolate the pure effect of the import volume mechanism. Specifically, letting P_{it}^{Import} denote the tariff-exclusive import price, $\Delta^h \ln P_{it}^{Import}$ was employed as a control variable, following the same definition as the dependent variable in this analysis.

Figure 13 in Appendix C presents the LP-DiD results from Equation (3) with import volume as the dependent variable, while Figure 14 in Appendix C displays results with tariff-exclusive import price as the dependent variable. Both specifications satisfy the pre-treatment parallel trends assumption, and no significant changes are observed for either Treated Group 1 or Treated Group 2 in the post-TRQ period. This result implies that no pathway existed through which TRQ reduced retail prices by amplifying import volumes and thereby stimulating domestic competition.

In contrast, the unchanged tariff-exclusive import price implies that foreign sellers did not capture gains by raising their selling prices even when TRQ was implemented. This suggests that the pass-through rate at the foreign seller stage can be estimated at 100%. Based on this result, we can further infer that the ‘tariff-inclusive’ import price declined due to TRQ. This finding applies to both Treated Group 1 and Treated Group 2.

Meanwhile, Figure 15 in Appendix C presents the analysis results with wholesale price as the dependent variable. The pre-treatment parallel trends assumption does not hold perfectly. However, given that it holds to a reasonable extent, the underlying mechanism can be inferred. This figure demonstrates that for each 1%p reduction in tariff rates due to TRQ, Treated Group 1 (comprising leafy and root vegetables) exhibited a significant increase in wholesale prices of approximately 1% from day 200 onward, whereas Treated Group 2 (comprising fruits) displayed a decrease in wholesale prices of approximately 1%.

Examining Treated Group 1 first, wholesale prices increased despite the decline in ‘tariff-inclusive’ import prices. The cause of this phenomenon can be attributed to the difference in import dependency between Treated Groups 1 and 2. The import dependency estimates presented in Table 5 were estimated using indirect sources such as news reports due to the unavailability of domestic production data, rendering precise

Table 5: Import Dependency by Product (%)

Treated Group 1 (Leafy or Root Vegetables)					
Napa Cabbage	Cabbage	Radish	Onion	Carrot	
1	5	1	5	50	
Treated Group 2 (Fruits)					
Cherry	Kiwifruit	Avocado	Mango	Banana	Pineapple
95	65	100	100	99	100

calculation difficult. With the exception of carrot and kiwifruit, the table indicates that Treated Group 1 generally exhibits extremely low import dependency, while Treated Group 2 demonstrates the opposite pattern. Based on this evidence, the wholesale price increase in Treated Group 1 can be interpreted as follows: because import volumes were inherently small, the decline in tariff-inclusive import prices due to TRQ may have exerted minimal influence on wholesalers' pricing decisions.

In contrast, because Treated Group 2 exhibits high import dependency, the decline in tariff-inclusive import prices directly affected wholesale prices, and wholesalers reduced wholesale prices by an amount equivalent to the tariff-inclusive import price reduction. That is, wholesalers did not capture any gains from TRQ, and the pass-through rate at the wholesale stage can be inferred to be 100%, consistent with the import stage. Based on the main analysis results presented in Figure 6, this interpretation largely extends to retailers as well. Specifically, retailers reduced retail prices on a close to one-to-one basis corresponding to wholesale price reductions, and consequently, the pass-through rate at the retail stage is approximately 90%.

In summary, the absence of retail price declines for products in Treated Group 1 (comprising root and leafy vegetables) following TRQ implementation can be attributed to their inherently low import share and the capture of gains at the wholesale stage. In contrast, the proportional decline in retail prices for products in Treated Group 2 (comprising fruits) in response to TRQ can be explained by tariff pass-through rates approaching 100% at each stage across various suppliers, resulting in consumers ultimately capturing approximately 90% of the tariff reduction benefits.

7 Conclusion and Policy Implications

This study empirically analyzes the effect of Korea's TRQ system, implemented to promote trade, on retail prices using causal inference methods. The analysis encompasses a total of 40 agricultural products, including cabbage, radish, onion, mango, banana, and pineapple. Given the staggered adoption of TRQs across products at different time points and the considerable variation in the magnitude of tariff rate reductions across products, this study employs LP-DiD that addresses the limitations inherent in the conventional Two-Way Fixed Effects DiD approach (Dube et al., 2025).

Additionally, through the expertise of licensed customs specialists, we precisely calculated the 'applied tariff rate' for each product under the counterfactual scenario in which TRQ had not been implemented. By computing the difference between these derived applied tariff rates and the TRQ rates, we constructed a key variable for measuring 'tariff reduction intensity.' This approach enabled estimation of the percentage change in retail prices corresponding to each 1%p reduction in tariff rates.

This study yielded the following findings. When all 11 products subject to TRQ treatment were analyzed as a single treated group, the price stabilization effect of TRQs was not statistically significant. This suggests that heterogeneous responses across products may have been offset during the averaging process, demonstrating that disaggregated analysis of the treated group is essential for precisely understanding TRQ policy effects.

Accordingly, this study reclassified the 11 treated products into two subgroups based on product characteristics. Group 1 comprised leafy and root vegetables: napa cabbage, cabbage, radish, onion, and carrot. Group 2 comprised fruits: cherry, kiwifruit, avocado, mango, banana, and pineapple. The group division did not rely on intuitive classification. Instead, we estimated retail price responses at 250 days following TRQ introduction for all possible combinations of dividing the 11 products into groups of 5 and 6, then selected the group with the greatest representativeness among those exhibiting the largest price reduction effects.

The LP-DiD analysis results for the two groups revealed notable heterogeneity. Group 1 (leafy and root vegetables) exhibited no retail price reduction effect from TRQ, whereas Group 2 (fruits) displayed minimal price changes immediately following TRQ

implementation until a certain period, after which statistically significant declines were observed. Specifically, at 250 days after TRQ implementation: (i) retail prices declined by 39% attributable to TRQ treatment, and (ii) a 1%p tariff rate reduction induced by TRQ caused a 0.9% decline in retail prices. This finding implies that the tariff pass-through rate for fruits is approximately 90%, suggesting that only 10% of the gains from tariff reductions were captured during the distribution process, while the remainder was transmitted to consumer prices.

These empirical results demonstrate that the price stabilization effects of the TRQ system do not manifest uniformly across all products but are inherently differentiated depending on product characteristics and distribution structures. From a policy perspective, if the TRQ system is to be utilized for ‘consumer protection’ rather than ‘producer protection,’ the findings of this study suggest that prioritizing application to fruits with high import dependence and high tariff pass-through rates would be more effective than broad application to leafy and root vegetables.

Additionally, this study identified the transmission channels through which TRQ affects retail prices by utilizing import volume, import price, and wholesale price data. The analysis revealed no statistically significant changes in import volume following TRQ implementation, indicating that the retail price effect through the import volume channel was not confirmed. In contrast, the import price excluding tariffs (CIF) exhibited no variation in either group, confirming that the pass-through rate at the foreign exporter stage is 100%. This finding suggests that the retail price effect of TRQ operated through the import price channel.

The wholesale price analysis yielded divergent results between the two groups. For Group 1, comprising leafy and root vegetables, wholesale prices increased significantly following TRQ implementation, whereas Group 2, comprising fruits, exhibited a declining pattern. This divergence is attributable to differences in import dependency and wholesale-stage pass-through rates. Group 1’s low import dependency limited the influence of import price changes on the wholesale market, and wholesalers appear to have captured the gains from tariff reductions. In contrast, Group 2’s high import dependency, combined with the substantial pass-through of tariff reductions from wholesalers to retailers, ultimately enabled consumers to capture approximately 90% of the tariff reduction benefits.

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A Appendix: Removing Seasonality

The removal of seasonality from product-level price and sales volume time series data constitutes a fundamental task in this study. Agricultural products exhibit pronounced seasonal patterns, and when the timing of TRQ policy implementation coincides with periods of seasonal fluctuation, distinguishing whether price movements are attributable to policy effects or to recurring seasonal patterns becomes problematic. Consequently, the reasonableness of the seasonality removal procedure directly influences the analytical outcomes of this study.

The complete removal of seasonality from weekly or daily data presents considerably greater complexity than from monthly data. The non-fixed annual cycle (with some years comprising 52 weeks and others 53) and the presence of multiple seasonal cycles (e.g., day-of-week patterns and annual patterns in daily data) preclude the direct application of standard seasonal adjustment tools. Indeed, official methodologies widely employed for seasonal adjustment —such as X-12-ARIMA and X-13-ARIMA-SEATS— were designed for monthly or quarterly data and assume fixed 12-month or 4-quarter cycles (Mollins and Lumb, 2024). As a result, X-12 and X-13 programs cannot be applied to weekly or daily frequency data; seasonal adjustment of weekly data necessitates workarounds such as aggregating the data to monthly frequency (Bandara et al., 2025). However, such aggregation entails the loss of detailed information on weekly variation and is therefore inconsistent with the objectives of this study.

STL decomposition (Seasonal-Trend decomposition using Loess) is a non-parametric method capable of extracting seasonality by specifying the desired period, and has been extensively applied to weekly and daily data (Cleveland et al., 1990).¹³ However, because STL employs non-parametric smoothing techniques, there exists a risk that trends or policy shocks in the data may be partially absorbed during the seasonal decomposition process. This limitation can be critical in policy effect evaluation using DiD models —if treatment effects are removed during the seasonality removal stage, policy effects may be distorted in the subsequent Difference-in-Differences (DiD) analysis.¹⁴

¹³Furthermore, MSTL (Multiple STL) is an extended method capable of simultaneously decomposing multiple seasonal factors, such as 7-day cycles and annual cycles (Bandara et al., 2025).

¹⁴Additionally, STL-based methods assume that seasonal cycles are fixed, and therefore cannot fully resolve the week-53 problem or cycle variations attributable to leap years (Mollins and Lumb, 2024).

To address these limitations, this study adopted a regression-based seasonal adjustment approach utilizing dummy variables and Fourier terms. The Fourier method removes seasonality by expressing seasonal variation as a combination of sine and cosine functions. While representing annual seasonal patterns with a single periodic function is difficult, combining multiple Fourier terms (sine and cosine functions) with different frequencies enables the approximation of complex seasonal variations. By fitting data with a regression model incorporating these Fourier terms, annual seasonal effects can be estimated as smooth wave patterns, and seasonally adjusted time series can be obtained by subtracting these estimated seasonal factors from the original data.

Specifically, for weekly data, cyclical patterns were removed using week-of-year fixed effects (52 weekly dummies plus week-53 adjustment), whereas for daily data, day-of-week dummies (Monday through Sunday) and annual seasonal effects were modeled and extracted using Fourier terms (Pierce et al., 1984). Major holidays and public holidays were controlled through separate dummy variables. This regression approach is highly effective at systematically removing seasonal patterns that recur in identical form every year. Since it estimates the average effect of each week or day of the week and removes it from the original data, seasonal factors are theoretically eliminated from the adjusted time series.

The utility of this method for seasonal adjustment of weekly data is particularly evident from the case of the *U.S. Bureau of Labor Statistics (BLS)*. When seasonally adjusting indicators such as weekly unemployment insurance claims, the BLS developed and has employed *MOVEReg*—a week dummy-and-Fourier-based moving weighted regression method—instead of traditional X-13 techniques (Mollins and Lumb, 2024). This approach removes week effects and moving holiday effects through regression analysis, thereby overcoming the limitation that X-13 could not be applied to weekly data. Consequently, the regression approach represents a practically validated solution for removing weekly seasonality, and the same principle can be applied to daily data for removing day-of-week and annual effects, ensuring methodological consistency.

An additional advantage of the dummy variable and Fourier regression approach

In practice, applying STL with an annual 52-week cycle assumes that exactly the same cycle repeats every year, which may leave subtle seasonal residuals in year-end weeks that vary from year to year. Furthermore, the absence of functionality to adjust for moving holidays or trading day effects implies that variations due to holiday timing changes or weekly fluctuations from holidays are not adequately removed (Mollins and Lumb, 2024).

is analytical stability. In the regression model, seasonal dummies are included as fixed effects independent of the treatment variable, ensuring that seasonality removal is performed separately without being confounded with trends or policy effects. In other words, while seasonal patterns do not remain in the residuals following seasonality removal, trend changes and policy implementation effects are fully preserved. This represents a distinct advantage over non-parametric decomposition methods such as STL discussed above, and enhances the reliability of policy effect analyses such as DiD models.

B Appendix: Tariff Rate Priority Structure

To determine the final applicable rate among multiple tariff rates that may apply to a single HS code, the priority order of rate application was examined in accordance with *Article 50 of the Customs Act*. The priority order ranges from first to seventh, with the application method as follows.

The rates applied with the highest priority are Special Tariff Rates designed to protect domestic industries or correct trade imbalances, including Anti-Dumping Duty, Retaliatory Duty, and Countervailing Duty. The second-priority rate is the FTA rate under the *Act on Special Cases of the Customs Act for the Implementation of Free Trade Agreements*. If this rate is equal to or lower than rates under the *Customs Act* (excluding first-priority rates), the FTA rate is applied preferentially upon the importer's request. Third-priority rates include International Cooperation Tariffs, such as WTO General Tariff Concessions, and Beneficial Tariffs. Among third-priority rates, Tariff Concessions for agricultural, forestry, and livestock products —conceded at rates equivalent to the domestic-foreign price differential or at rates exceeding Basic Tariff Rates in conjunction with domestic market opening under the *Regulations on Tariff Concessions in the Framework of the Agreement Establishing the World Trade Organization*— take precedence over Basic Tariff Rates and Provisional Tariff Rates. Fourth-priority rates include Adjusted Duty¹⁵, TRQ, and Seasonal Tariffs. TRQ takes precedence when it is lower than Preferential Tariffs for least developed countries, and it also supersedes Basic Tariff Rates and Provisional Tariff Rates. The fifth-priority rate is Preferential Tariffs for least developed countries. Provisional Tariff Rates and Basic Tariff Rates

¹⁵Article 69, Subparagraphs 1, 3, and 4 of the Customs Act

correspond to the sixth and seventh priority rates, respectively. However, due to data availability limitations, Specific Duties were not considered in this study.

C Appendix: Figures

Figure 8: Retail, Wholesale, and Import Prices (Pineapple)

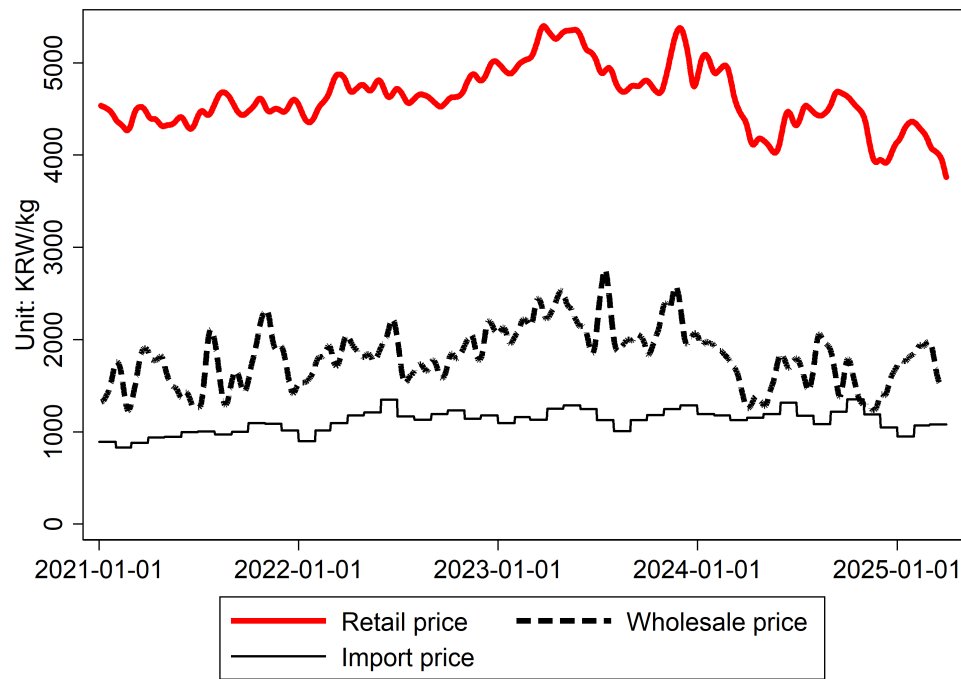


Figure 9: Single Treated Group Results for TRQ Treatment Status (Robustness)

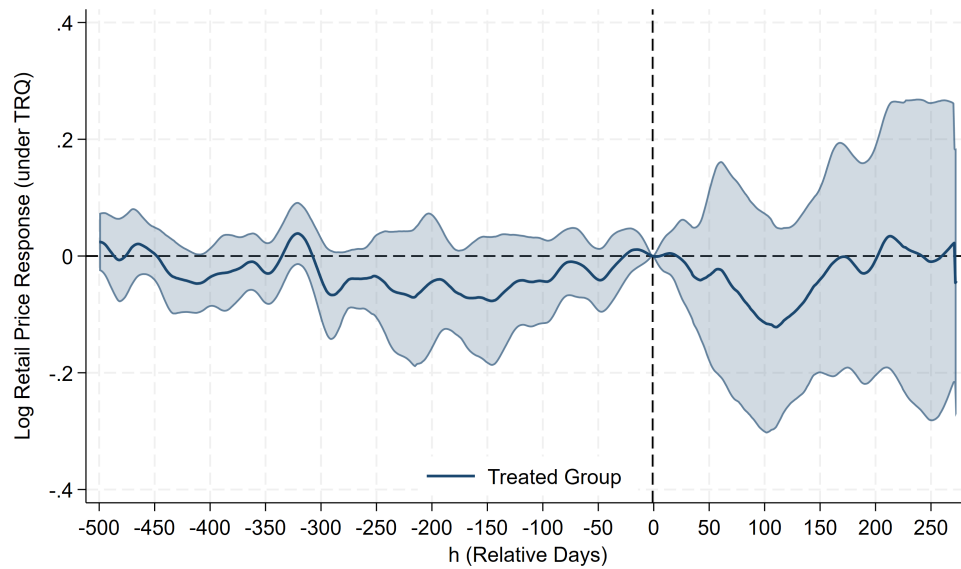


Figure 10: Two Treated Groups Results for TRQ Treatment Status (Robustness)

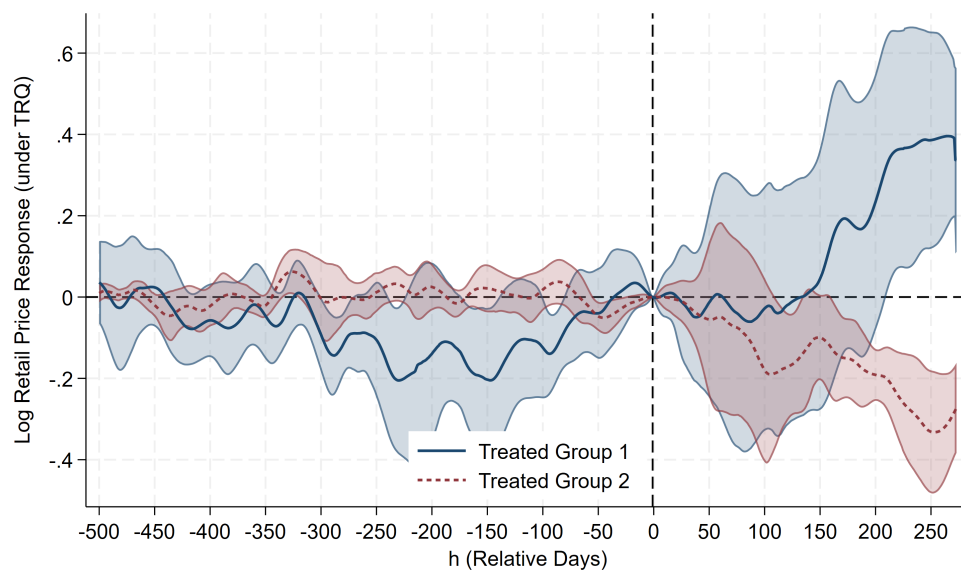


Figure 11: Single Treated Group Results for 1%p TRQ Intensity Reduction (Robustness)

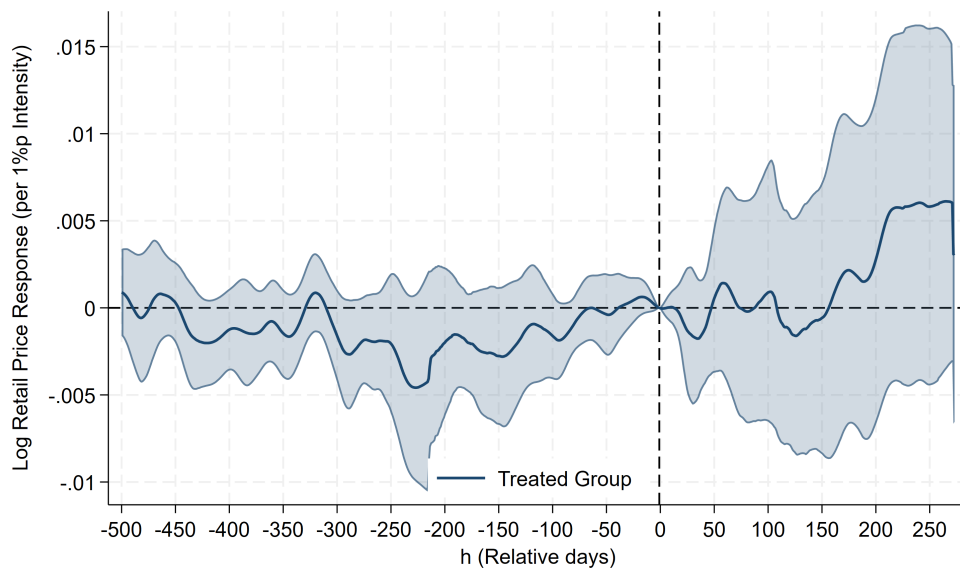


Figure 12: Two Treated Groups Results for 1%p TRQ Intensity Reduction (Robustness)

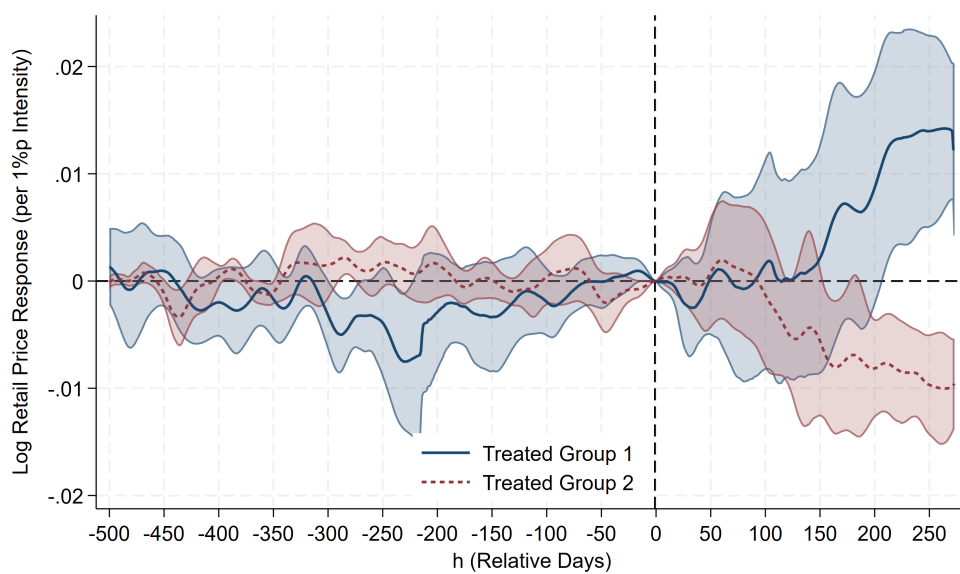


Figure 13: Two Treated Groups Results for 1%p TRQ Intensity Reduction (Import Volume)

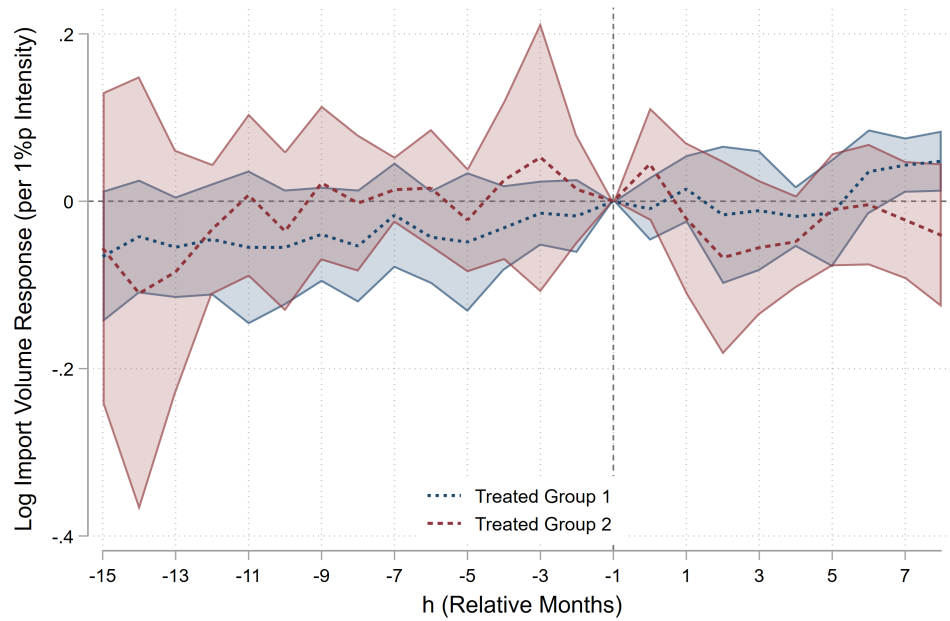


Figure 14: Two Treated Groups Results for 1%p TRQ Intensity Reduction (Tariff-Exclusive Import Price)

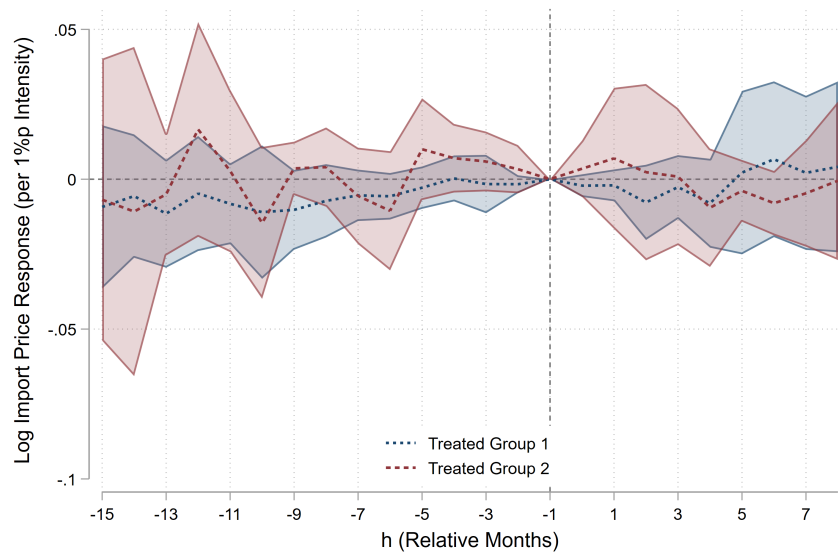


Figure 15: Two Treated Groups Results for 1%p TRQ Intensity Reduction (Wholesale Price)

