TRADE QUOTAS AND BUYER POWER, WITH AN APPLICATION TO THE EU NATURAL GAS MARKET

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Abstract
We consider a market in which domestic buyers negotiate contracts with foreign sellers, and explore how trade quotas can help to increase the buyers’ countervailing power. We use the Shapley value to describe bargaining power and the distribution of the trade surplus in such a bilateral oligopoly. By exploiting strategic externalities among the buyers, bilateral trade quotas can improve the buyers’ bargaining positions. In contrast, aggregate trade restrictions on all buyers’ trade never improve buyer surplus. Minimum quotas on imports from fringe suppliers can benefit non-affected buyers, as these enjoy positive externalities. We apply these insights to the EU market for natural gas and show that the effects of trade quotas on EU gas importers’ power can be significant. (JEL: F12, L12, L41, C71, Q48)