State Trading Enterprises in World Agricultural Trade

The URAA made significant progress in reducing countries' export subsidies and reforming the rules applying to agricultural trade, but highlighted the differences between government policies governing private trade and trade by government-supported enterprises. State trading continues to be important to the trade of staple agricultural commodities because many countries consider it an appropriate means to meet domestic agricultural policy objectives. Only a few agricultural state trading enterprises (STEs) have the potential to affect world trade, and reforms have eroded the powers of some of the most powerful STEs. However, continuing concerns about the trade practices of STEs in some WTO member countries and the potential accession of China and other countries seeking membership in the WTO will keep STEs on the WTO agenda. [Karen Z. Ackerman (ackerman@econ.ag.gov)]

Introduction

As early as 1947, the Contracting Parties of the General Agreement on Tariffs and Trade (GATT) recognized that state trading enterprises (STEs) could distort global trade. The 1947 GATT acknowledged STEs as legitimate participants in international trade, but established guidelines for their trading activities and exhorted GATT Contracting Parties to negotiate for reductions in the trade barriers established by STEs. In its "Understanding on the Interpretation of Article XVII" reached in the Uruguay Round, the WTO defines STEs as "governmental and nongovernmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through purchases or sales the level or direction of imports or exports."

The Uruguay Round Agreement on Agriculture (URAA) made significant progress in reducing countries' export subsidies and reforming the rules applying to agricultural trade, but highlighted the differences between government policies governing private trade and trade by government-supported enterprises. In the Uruguay Round, countries agreed to convert all nontariff barriers to bound tariffs, and thus to base agricultural protection on tariffs (see "Market Access Issues" article in this report). In countries where private trade is governed by a tariffs-only regime, import demand is restricted primarily by the level of tariffs. However, when an STE controls imports, purchase decisions may be based on political rather than commercial criteria, and may leave import demand unsatisfied (Josling, 1998). On the export side, improved disciplines on the use of export subsidies have made more apparent the difference between government export subsidies to commercial firms for export sales and trade by government-sponsored export monopolies.

The lack of transparency in the pricing and operational activities of STEs has caused some WTO members to express concern that other WTO members could use STEs to circumvent Uruguay Round commitments on export subsidies, market access, and domestic support. State trading also figures prominently as an issue for the WTO accession negotiations of China and other countries. The opacity of the trade regimes of some acceding countries where STEs play a large role in exporting or importing could mask export subsidies and import barriers.

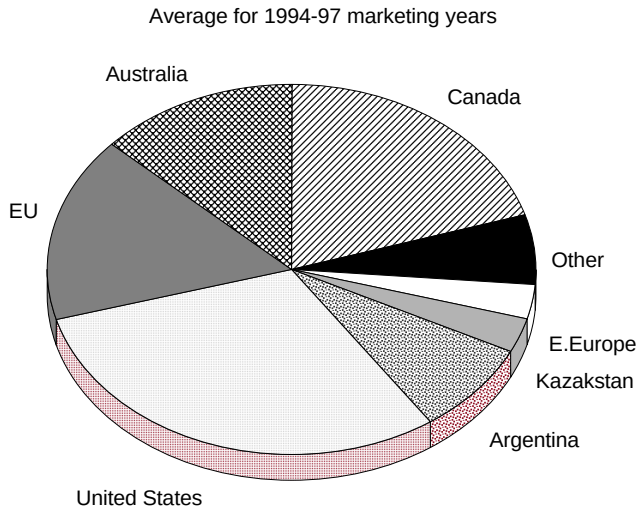
How Important Are State Trading Enterprises To World Agricultural Trade?

State trading is more important to agriculture than to other industries because many countries consider it an appropriate means to meet domestic agricultural policy objectives such as price support for farmers, economies of scale in procuring and marketing important agricultural products, or food security (WTO, 1995). STEs operate in a wide range of agricultural commodities, but have been most active in world trade in grains and dairy commodities (butter and milk powder).

STEs are prominent among wheat exporters and importers. In the 1994 through 1997 wheat marketing years, 33 percent of wheat exports were handled by two large STEs—the Australian and Canadian Wheat Boards (figure 7). Other large wheat exporters, the United States and the EU, also maintain government institutions that subsidize private traders' exports (although the United States has not used EEP to subsidize wheat exports since 1995). Private firms dominate Kazakhstan's wheat exports with 90 percent of the market, but Kazakhstan's State Food Contract Corporation, an STE, handles the remaining 10 percent. Exporter STEs in Poland and other Central European countries also co-exist with private firms.

During 1994-1997, STE imports accounted for between one-third and one-half of global wheat imports. China and Japan import wheat through monopoly agencies, while STEs in Egypt, Pakistan, and others co-exist with private traders. Indonesia's BULOG (*Badan Urusan Logistik*)

Figure 7
Major Exporters' Shares of the World Wheat Maket



opened trade in wheat to private traders in 1998, following in the footsteps of Israel, Mexico, the Republic of South Korea, Morocco, the Philippines and others who opened their wheat imports to the private sector in the 1980s and 1990s. Algeria also is beginning to allow private traders to import some wheat.

STEs account for about half of world rice exports and nearly a third of rice imports. Private traders export rice from the largest rice exporting country, Thailand, but rice exports from Vietnam, the second largest rice exporting nation in 1998, are controlled by the government through export licenses to state companies. Australia and China also use STEs to export their rice. Imports by Indonesia's BULOG accounted for 13 percent of world rice imports from 1994 through 1998, followed by the Philippines' National Food Authority with 5 percent, and China's National Cereals, Oil and Foodstuffs Import and Export Corporation (COFCO) with 4 percent. STEs in Japan and the Republic of South Korea, North Korea and Malaysia also import rice.

The chief export state trader in dairy products, the New Zealand Dairy Board, handles about 30 percent of world dairy product exports. Smaller dairy STE exporters handle some, but not all of their countries' exports and include the Australian Dairy Corporation, the Canadian Dairy Commission, and the Polish Agricultural Marketing Agency. Mexico's Compania Nacional de Subsistencias Populares (CONASUPO), also an STE, used to dominate imports of milk powder with about 35 percent of global nonfat dry milk imports. In 1998, the Mexican government granted import licenses for 27,000 tons of milk powder (about one-quarter of Mexico's milk powder imports this year) to a large multinational firm with a processing plant in the Mexican state of Chiapas.

State Trading Enterprises in the GATT

GATT Article XVII recognizes STEs as legal enterprises, but requires that they not discriminate among importers or exporters when they make purchases or sales and that STEs act "in accordance with commercial considerations." Countries must report information about their STEs to the GATT (now, the WTO). Recognizing that STEs might be operated to create trade barriers, the GATT advocates negotiation between countries to reduce or limit obstacles to trade created by STEs.

The Understanding on Article XVII in the 1994 Uruguay Round Agreement established a working definition of STEs, stronger notification requirements, and a working party under the Council for Trade in Goods to review countries' notifications and revise the 1960 questionnaire for countries' reports to the GATT of their STEs. The revised questionnaire was approved in 1998.

Specific STE activities are subject to other GATT laws. For example, Article 4 of the 1994 GATT Agreement on Agriculture prohibits countries from using import restrictions imposed by state trading enterprises.

What Are the Major Concerns about State Trading Enterprises?

The fundamental concern with activities of STEs is that such entities have been granted exclusive or special rights or privileges which contribute to distortions in international agricultural trade. Critics of state trading argue that STEs lack of price transparency could be used to mask export subsidies and import tariffs. It also is argued that statutory authorities provide STEs with opportunities unavailable to commercial firms that compete against them.

STEs may have exclusive rights to purchase and sell particular commodities destined for the domestic or export markets. They might use this statutory power to act as a monopsonist/monopolist, offering producers lower prices than those available in the world market and/or charging consumers higher prices than those prevailing in the international market. The added returns or profits that would be available from the domestic market could be used by STE exporters to subsidize foreign sales of one or more commodities in which they have monopsony or monopoly rights. WTO member countries that use STEs to practice this type of price discrimination have the potential to circumvent their export subsidy commitments. In addition, returns garnered from these statutory authorities typically are not available to commercial firms that have to compete against STEs in the international market.

STEs may engage in the practice of price pooling where the final price paid to producers is a blended price based on net revenue of all sales in foreign and domestic markets. Price pooling, designed essentially to minimize price and income risks to producers, may allow STEs to pay producers the same return regardless of the time of delivery during the marketing year. This provision provides STEs greater flexibility in discretionary pricing in the international market (through delayed payments to domestic producers), an arrangement not available to private exporters who have to compete with other domestic sellers in acquiring exportable products.

State trading may violate the tariffs-only principle enshrined in the GATT and extended to agricultural trade in the Uruguay Round. Because most state trading importers have exclusive rights to purchase and sell particular commodities, it is difficult to determine whether purchases—both domestic and imports—are being restricted because of lack of demand or because of a specific governmental policy such as domestic protection, control of foreign exchange regime, or revenue generation.

Other privileges granted to STEs may restrict trade or competition. STEs may control the grades and standards of imported products. Such control can lead to discriminatory treatment against goods of certain national origin, impeding the free flow of goods. Governments may give STEs preferential exchange rates for imports. This discourages competition and puts private importers at a distinct disadvantage. STEs are occasionally allowed to keep over-quota tariff revenues or resale price differentials. STEs can use revenue from such sources to subsidize other aspects of their operations to the disadvantage of private entrepreneurs.

Governments can provide various facilities to STEs that are not available to private firms. For instance, underwriting of producer payments by the government may allow state traders to undertake pricing risks beyond what a commercial enterprise would do. Similarly, STEs are also known to enjoy government benefits such as tax breaks, transport subsidies, preferential rates on utilities, and capital expansion funds that may, over the long run, provide STEs with a competitive edge vis-a-vis commercial traders and distort the world trading system.

STEs have greater potential to affect the quantities and pricing of their imports or exports if they:

—control both domestic marketing and foreign trade (exports for net exporters or imports for net importers);

—control trade in several products that may be substitutes or complements;

—administer domestic procurement and pricing policies or trade policies or receive benefits from these policies that are not awarded to private firms;

—receive financial benefits from the government, including government funding, underwriting, access to foreign exchange at preferential interest rates, or tax breaks.

Few Large STEs Control Their Countries' Domestic Market and Trade

Four export state traders and four import-oriented STEs were chosen from among the STEs that countries notified to the WTO and from other information. Each STE's potential to affect trade was evaluated based on its control of domestic markets and trade, government benefits, and policies (table 11).

Only a few of the eight major STEs have the potential to affect global agricultural trade, although all maintain some discretion over their countries' imports or exports. The Australian Wheat Board (AWB), and New Zealand Dairy Board (NZDB) control almost all exports of their respective commodities, but must compete with other firms to procure and sell production in their respective home markets. Australia's Queensland Sugar Corporation (QSC) procures all Queensland production of raw sugar which it markets to refineries and is the sole exporter of Queensland raw sugar (almost all Australian raw sugar exports). The QSC does not market refined sugar in Australia. The Canadian Wheat Board (CWB) has a virtual monopsony on domestic procurement and controls the marketing of Canadian wheat and barley for human consumption at home and in export markets. Government underwriting of the operations allow the AWB and CWB to take price risks in international markets that are not available to private firms. However, the Australian government's underwriting of the AWB's initial payments to its growers will end in July 1999.

Internal calls for competition may reduce some of the powers of STE exporters. The Australian Wheat Board (AWB) will be restructured as a private corporation and will need to seek funding in international financial markets, while maintaining its exclusive export authority. New Zealand dairy producers are protesting vigorously the New Zealand government's intention to end the exclusive export authorities enjoyed by the New Zealand Dairy Board and other export boards in 3 to 5 years.

All four of the import-oriented STEs control some of their countries' imports of their respective commodities. The Japan Food Agency is the exclusive importer of most wheat and barley under Japan's tariff-rate quotas (TRQs) for those commodities and of rice under Japan's minimum access commitment for rice. CONASUPO garners almost all of the import licenses allocated under Mexico's milk powder TRQ, although, for the first time in 1998, the Mexican government issued import licenses for almost one-fifth of Mexico's milk powder imports to a private multinational company. Korea's Livestock Products Marketing Organization (LPMO) was allocated only 40 percent of Korea's beef

Table 11--Classifying eight major agricultural state trading enterprises 1/

STE	Commodities	Domestic market control	Control of trade	Government finance
NET EXPORTERS				
Australian Wheat Board	Wheat	None	Export monopoly -no control over imports	Gov't underwrites initial payments to growers till July 1999
Canadian Wheat Board	Western Canadian wheat and barley for human consumption	Sole marketer of domestic production	Export monopoly, but licenses small amounts of exports by other provinces -no control over imports	Government underwrites CWB operations
New Zealand Dairy Board	Dairy products	None	Export monopoly -no control over imports	No government financing
Queensland Sugar Corporation, Australia	Raw sugar	No exclusive authority, but sells Queensland raw sugar to refineries.	Export monopoly for Queensland, but other provinces export small amounts of sugar -import tariff was eliminated in July 1997	No government financing
NET IMPORTERS				
Japan Food Agency	Wheat, barley, rice	Markets imported commodities.	Import monopolies on wheat for human consumption under the TRQ, almost all rice, and barley under the TRQ	Government agency fully financed by the government
Indonesia's Badan Urusan Logistik or BULOG	Garlic, rice, soybeans, sugar, wheat, wheat flour	Controlled the distribution of imported commodities to processors and retailers through restrictive licensing. Procured rice for national stocks. Maintained administered price systems for wheat flour and sugar.	BULOG's import monopolies for wheat, flour, soybeans, and sugar were terminated in 1998. BULOG first purchased rice through an open import tender in September 1998, but it is unclear whether the private sector will pick up BULOG's rice trading and procurement activities.	Government agency fully financed by the government
Livestock Products Marketing Organization (LPMO), South Korea	Beef	None	The LPMO purchased 90% of Korea's beef imports in 1993, 84% in 1994, and an estimated 70% in 1995. For 1998, the private sector was allocated 60% of Korea's beef import quota, but indications are that the private sector allocation will not be met.	Government corporation fully financed by the government
Compania Nacional de Subsistencias Populares (CONASUPO), Mexico	Milk powder	Resells imported milk powder to commercial firms and to a government affiliate.	Imported almost all milk powder under Mexico's milk powder TRQ until 1998, when a private firm was granted licenses for almost one fourth of Mexico's milk powder imports.	Government agency financed by the government

1/ Based on information submitted in countries' WTO notifications, Japan and Korea trade statistics, United Nations Food and Agriculture Organization statistics, and USDA Foreign Agricultural Service post reports.

import quota in 1998, although indications are that the LPMO may be the largest Korean beef importer this year.

Import STEs increasingly are being dismantled as governments respond to pressures to reform their economies. Indonesia's BULOG controlled both domestic and import markets for several agricultural commodities until 1998 when the Indonesian government ended BULOG's import monopolies on all commodities. It is not clear whether BULOG will be the exclusive rice importer for Indonesia in the future, although the agency is continuing to negotiate with foreign suppliers to import rice.

Until recently, BULOG imported rice, wheat, wheat flour, soybeans and sugar through the licensing of private firms who acted as its agents; procured less than 10 percent of domestic rice production for government stocks; maintained storage facilities; maintained administered price systems for wheat flour and sugar; and allocated imported commodities to processors and retailers. Private firms have been slow to pick up BULOG's business because of weak domestic demand. They also have been unable to obtain import letters of credit and, for a time, were unable to compete with BULOG's subsidized prices for some commodities.

In a less dramatic example, the Japan Ministry of Agriculture and Foreign Affairs' May 1998 announcement to allow private firms to import feed wheat stems from its decision to abolish a special program that produced bran for the domestic feed industry. Japan has not announced any plans to allow competition for imports of food wheat or barley within its TRQs, but plans to eliminate the Food Agency's monopoly over imports of domestically produced wheat.

State Trading in Acceding Countries

The lack of transparency in the pricing and trade practices of STEs in countries seeking WTO membership will continue to absorb the attention of trade negotiators. Of particular concern to WTO members is state trading in China, the largest country seeking accession to the WTO. Chinese provincial governments control domestic grain markets and, in conjunction with the national government, determine trade quantities. China's national and provincial governments employ super-STEs like COFCO and China National Textiles Import and Export Corporation (Chinatex) to conduct their trade in grains and cotton (table 12). China's changing grain policies and state control make it difficult to determine whether its state agencies are using export subsidies to facilitate exports of rice and corn.

Governments in other acceding countries engage in state trading of only a few agricultural commodities. National and regional governments in Russia and the Ukraine control domestic procurement and the interregional movement of grain in their countries. Saudi Arabia continues to control imports of barley through an STE, and Algeria imports wheat and dairy products through state agencies. The Vietnamese government also controls exports of rice.

Table 12--China's agricultural state trading enterprises

STE	Commodity	Average export/ import value, 1993-95
Exports:		$ million
COFCO	Corn 1/	704
COFCO, other SOE's 2/	Sugar	368
Native Products and Animal Byproducts Company	Tea	308
COFCO	Rice	261
Imports:		
COFCO	Wheat	1,268
COFCO, other SOE's	Vegetable oils	1,140
Chinatex 3/	Cotton	758
COFCO	Corn	272
COFCO	Rice	203

1/ Most of China's 1993-95 corn exports took place in 1995. 2/ COFCO is the China National Cereals, Oil and Foodstuffs Import and Export Corporation. SOE's are state-owned enterprises. 3/ China's State Council issues import licenses to firms other than Chinatex during periods of scarce cotton supplies.

Sources: USDA, ERS and USDA, FAS information about China's agricultural marketing institutions. Trade data come from the U.N. Food and Agriculture Organization.

Conclusions

The GATT, and now the WTO, recognized the trade distortions that can occur as the result of state trading. The two principal concerns that the WTO has regarding State Trading Enterprises (STEs) are the following: (1) the exclusive rights granted to STEs allow them to engage in non-competitive behavior that contributes to trade distortions; and (2) the lack of transparency in STEs' pricing or operations could conceal violations of countries' WTO obligations and commitments. As the WTO moves towards tariffs as the only agricultural trade policy available to countries, WTO members may need to improve the discipline on non-competitive behavior practiced by STEs. Only a few of the major agricultural STEs examined have the potential to significantly affect world trade, and reform has begun to erode the powers of some of the most powerful STEs. Concerns about the trade practices of STEs in some WTO member countries and the potential accession of China and other countries seeking membership in the WTO will keep STEs on the WTO agenda.

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