II. How Prevalent Is State Trading in Agricultural Trade?

STEs regulate the marketing and pricing of agricultural products by purchasing or selling domestic production, exporting, or importing. However, governments also regulate agricultural marketing and trade through export subsidies, tariffs, quotas, administered domestic prices, and import restrictions such as quotas and tariff-rate quotas (TRQs). The two types of government intervention are intermingled when STEs administer agricultural policies. For example, when a country designates an STE as sole importer under a TRQ, the STE has full discretion over imports within the quota.

We attempted to determine the prevalence of STEs for heavily regulated commodities—wheat, feed grains, rice, dairy products, and sugar. We also examined STEs' marketing of agricultural commodities in specific countries based on countries' notifications to the WTO Council for Trade in Goods and other information.

State Trading in Wheat

State traders are important players in the world wheat market. STEs account for roughly 40 percent of world wheat exports. From 1993/94 through 1997/98, two large STEs—the Australian and Canadian Wheat Boards—handled 32 percent of global wheat exports (fig. 1). The governments of Poland and other Central European countries (which held a 3-percent share of world exports) authorize their STEs to export subsidized wheat, but private traders also can export wheat. Kazakhstan, which held a 4-percent share of world wheat exports from 1993/94 to 1997/98, used an STE, the State Food Contract Corporation, as its sole export agency, but opened trade to private firms in the 1990's. The State Food Contract Corporation continues to handle government-to-government transactions, about 60 percent of Kazakhstan's wheat exports, while large private grain producers and traders handle the remaining 40 percent of Kazakhstan's exports.

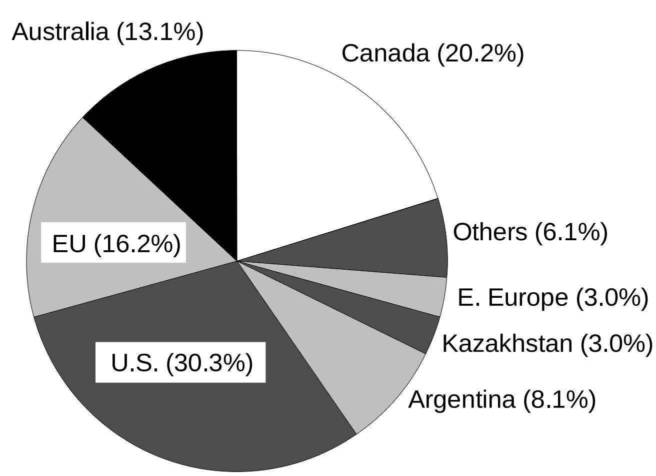
The other two large wheat exporters, the United States and the European Union (EU), accounted for 31 and 17 percent, respectively, of world wheat exports. Neither uses an STE to export wheat, but both countries' governments have regulated their wheat exports. The United States maintains a government corporation, the Commodity Credit Corporation (CCC), which it reported to the WTO Council on Trade in Goods in 1995 and 1996.[1] The CCC operates as the financing agent for U.S. export programs, including the Export Enhancement Program (EEP), which operated for wheat from 1985 through 1995. Under the EEP, the CCC paid generic certificates redeemable for commodities in CCC inventories (until November 1990) and cash bonuses (after November 1990) to private exporters, allowing them to sell wheat to targeted countries at prices below the exporters' costs of acquisition. The CCC did not itself export the wheat. The EU continues to approve export subsidies to private sector exporters through the European Commission's Grains Management Committee, which also issues orders for the export of grains from intervention stocks in EU member countries. The EU did not

[1] The United States reported the CCC as an STE to the WTO Council for Trade in Goods in 1995 and 1996, including lists of the programs which it administers and the commodities procured and exported under its programs. The United States also reports its export subsidies to the WTO Committee on Agriculture in accordance with its commitments to cap and reduce export subsidies under the Uruguay Round Agreement on Agriculture. For more discussion about the CCC, see box, p. 19, "Does the U.S. Commodity Credit Corporation Function as an STE?"

Figure 1

The Australian and Canadian Wheat Boards account for a third of world wheat exports

Average for 1994-97 marketing years



Source: USDA, Economic Research Service.

report the European Commission and its member states' intervention agencies to the WTO as one or more STEs.[2]

STE imports account for between one-third and one-half of 1993/94-1997/98 global wheat imports. Twelve countries account for just over half of world wheat imports, which are far less concentrated than exports (table 1). China and Japan import wheat through monopoly agencies, while STEs in Egypt, Morocco, Pakistan, Turkey, the Eastern European countries, and others co-exist with private traders. Indonesia's Badan Urusan Logistik (BULOG) opened trade in wheat to private traders in 1998, following in the footsteps of Israel, Mexico, the Republic of South Korea, the Philippines, and others who opened their wheat imports to the private sector in the 1980's and 1990's. Algeria's state import agency has been an import monopoly in the past, but recently began to allow private traders to import wheat. Pakistan banned private sector imports in June 1999 after allowing private firms to import since late in 1991.

[2]The EU Commission has the exclusive right to determine the amounts of export subsidies, without which exports of wheat cannot take place; to authorize sales from intervention stocks; and to grant export and import licenses required for trade of some commodities. However, the Grains Management Committee does not directly purchase or sell commodities. Intervention agencies in EU member countries, acting as agents of the Commission, purchase products for intervention and sell them with the authorization of the Commission. Private traders carry out all exports and imports. The EU also agreed to reduce its export subsidies for wheat and other commodities under its URAA export subsidy commitments.

State Trading in Other Grains

The profile of world barley exporters closely resembles that of world wheat exporters, although the United States holds a much smaller share of world barley trade. The Canadian Wheat Board and Australia's state-level STEs handled 38 percent of world barley exports from 1993/94 through 1997/98. Other smaller exporters (the Eastern European countries, Russia, Syria, and Turkey) exercise some degree of state control over their barley exports. The U.S. and EU barley export regimes are similar to those countries' export arrangements for wheat. The EU, the largest barley exporter, held a 30-percent share of world barley exports over the 5-year period, while the United States accounted for only 8 percent of world barley exports.

Table 1—Top 12 wheat importers account for over half of world wheat imports

Importing country	Type of import arrangement[1]	Average imports, 1994/95-1997/98	World market share, 1994/95-1997/98
		1,000 metric tons	Percent
China	monopoly	6,356	6
Egypt	coexists	6,340	6
Japan[2]	monopoly	6,174	6
Brazil	private firms	5,829	6
Algeria	monopoly	4,554	5
Iran	monopoly	4,135	4
Indonesia[3]	monopoly	3,723	4
Rep. of South Korea	private firms	3,972	4
Pakistan	coexists	2,625	3
Russia	coexists	3,180	3
Tunisia	monopoly	2,726	3
Eastern Europe	coexists	2,670	3
Top 12 importers		52,284	52

[1]A state trading enterprise (STE) that is the sole importer for its country is classed as a "monopoly." If the STE is an importer, but private firms also are allowed to import, the import arrangement is termed "coexists." If imports are conducted by private firms only, the import arrangement is "private." The "coexists" category can be applied to many countries where trade has been opened to private trade, but where the STE may import under certain conditions.

[2]Japan allowed private firms to import feed wheat through a Simultaneous Buy-Sell tender system in the Japanese 1999/2000 (April/March) fiscal year.

[3]Indonesia terminated Badan Urusan Logistik's, Indonesia's import STE, monopoly import authorities over several agricultural commodities in September 1998. Change also is underway for Algeria's wheat import STE. Pakistan opened trade to the private sector in 1991, but government pricing policies restricted trade until 1998, when the private sector imported 1 million tons of wheat. However, in June 1999, Pakistan imposed a ban on private sector wheat imports.

Source: USDA, Foreign Agricultural Service, *Grain: World Markets and Trade*, Jan. 1999.

Saudi Arabia's Grain Silos and Flour Milling Organization (GSFMO) handled 27 percent of world barley imports from 1993/94 through 1997/98. STEs in China and Japan held 10 and 9 percent, respectively, of world barley imports over the same period. Saudi Arabia allowed private traders to import barley for the first time in 1998, and Japan will open import tenders for feed barley to private importers for the first time in 1999.

Rice, a staple food commodity for many Asian countries, is heavily regulated by government policies to restrict exports and imports, which STEs often administer. STEs account for about half of world rice exports and nearly a third of rice imports. Private traders export rice from Thailand, the largest rice-exporting country with over one-quarter of world rice exports, but rice exports from Vietnam, the second largest rice-exporting nation (14-percent share of world exports from 1994 through 1998), are handled by state agencies and are restricted by the Government of Vietnam. Rice producers in New South Wales, Australia, use an STE to export their rice, and the Chinese Government controls rice exports. Australia and China have global rice market shares of 3 and 6 percent, respectively. Imports by Indonesia's BULOG accounted for 12 percent of world rice imports from 1994 through 1998. BULOG lost its exclusive authority to import rice in 1998, but continues to import rice as needed. Other import-oriented rice STEs are the Philippines' National Food Authority (4 percent of world imports), China's COFCO (4 percent), the Iranian Government (5 percent), and Malaysia's Bernas (3 percent).

State Trading in Dairy Products

The chief dairy export STE, the New Zealand Dairy Board, handles about 30 percent of world dairy product exports. Smaller dairy export STEs—the Australian Dairy Corporation, the Canadian Dairy Commission, and the Polish Agricultural Marketing Agency—handle some, but not all, of their country's exports. The largest dairy exporter, the EU, does not use an STE to export dairy products, but the EU Commission administers export subsidies for private sector sales of dairy products, particularly butter, milk powder, and cheese.[3] Mexico's Compania Nacional de Subsistencias Populares (CONASUPO) largely handled Mexico's milk powder imports, which accounted for about 31 percent of global nonfat dry milk imports from 1993 through 1997, until private firms began to import large quantities of milk powder in 1998. After announcing that it would close CONASUPO on March 31, 1999, the Mexican Government permitted another federal agency, LICONSA, to import milk powder for the government's social programs, and began auctioning import permits for milk powder to the private sector July 7, 1999.

State Trading in Sugar

Governments heavily regulate the pricing, marketing, and trade of sugar, although STEs are not the sole administrators of national policies, and the STE with the largest share of world exports, the Queensland Sugar Corporation (QSC), is owned by its producers. In addition to QSC, which accounted for 11 percent of world sugar exports from 1994 through 1998, Cuba (8 percent of world exports) and Ukraine (4 percent of world exports) also use STEs to export their sugar. Exporting countries that do not use STEs to administer their pricing policies are the European Union, Brazil, and Thailand, although the EU and Brazil heavily regulate the pricing and marketing of sugar. India, a net exporter in some years but a net importer in others, allowed private firms to export sugar in 1997. Among the much larger number of importing nations, China uses an STE to import its sugar, as do other smaller importers such as Morocco. The European Union, Canada, and the United States heavily regulate sugar prices and imports through tariff-rate quotas, but do not conduct trade through STEs. Indonesia revoked the exclusive sugar import authorities of its chief agricultural STE, BULOG, in September 1998.

[3]U.S. private firms export U.S. dairy products, although the CCC exported dairy products from its inventories prior to 1996. The CCC also continues to approve direct export subsidies on sales of eligible dairy products under the Dairy Export Incentive Program (DEIP).

Countries Reported a Wide Range of Agricultural STEs to the WTO

Countries must report their STEs to the GATT, now the WTO.[4] More than 30 countries reported close to 100 agricultural enterprises or other agricultural organizations to the WTO in 1995 and 1996. The notifications covered many different types of STEs and a large number of traded agricultural products. (See box, "What Types of STEs Are Reported to the WTO?")

The largest export-oriented STEs reported to the WTO in 1995 and 1996 were the Canadian Wheat Board, the New Zealand Dairy Board, the Australian Wheat Board, and the Queensland Sugar Corporation (see table 2). The four largest STEs each exported more than $900 million annually of their designated agricultural commodities between 1992 and 1995. Other export-oriented STEs marketed grains, dairy products, meats, sugar, fruits, and vegetables.

Australia, Canada, New Zealand, and South Africa reported numerous marketing boards. Australia's States maintain marketing boards for commodities such as barley, sugar, and rice, although the Australian Wheat Board is a federal-level board.[5] Canada reported federal-level marketing boards for grains and dairy products, as well as numerous provincial-level boards for beer, wine, and distilled liquor. New Zealand's farmers also marketed livestock, dairy, and an extensive list of horticultural products through marketing boards, although internal reforms in the past two decades reduced many of New Zealand's

[4] Until this year, countries reported information about their STEs to the GATT and its successor, the WTO, on the basis of a questionnaire that was adopted in 1960. Reports of STEs, called notifications, are due to the WTO's Council for Trade in Goods once every 3 years. After several years of intense debate in the WTO's Working Party on State Trading Enterprises, negotiators updated and expanded the 1960 questionnaire in 1998. Countries were required to follow the revised questionnaire as they reported their STEs to the WTO by September 30, 1998. Most countries did not submit notifications, and not all of the submitted notifications responded to the more detailed questions of the 1998 questionnaire. A more comprehensive listing of WTO country notifications for agricultural STEs can be found in Appendix B.

[5] Many of the export marketing boards in Australia and New Zealand are not government agencies, but are owned by their producers. However, their governments continue to grant them authority to act as sole exporters of one or more commodities for their State or country.

Table 2—STEs in Canada, New Zealand, and Australia dominated the list of export-oriented STEs from 1992 through 1995

Country	STE	Commodity(ies)	Average annual export value
			$ million
Greater than $1 billion:			
Canada	Canadian Wheat Board	Wheat, barley	3,213
New Zealand	New Zealand Dairy Board	Dairy products	1,805
Australia	Australian Wheat Board	Wheat	1,401
More than $500 million - $1 billion:			
Australia	Queensland Sugar Corporation	Raw sugar	925
$100 million - $500 million:			
Australia	New South Wales Rice Marketing Board	Rice	361
South Africa*	Unifruco for the Deciduous Fruit Board	Apples, apricots, grapes, nectarines, peaches, pears, plums, prunes	286
New Zealand	New Zealand Kiwifruit Board	Kiwifruit	237
Turkey	Soil Products Office	Wheat, barley	194
South Africa*	Maize Board	Corn	194
New Zealand	New Zealand Apple and Pear Marketing Board	Apples, pears	192
South Africa*	Citrus Board	Citrus fruits	184
Israel	Ornamental Plants Board	Cut flowers	129
Australia	Australian Dairy Corporation	Dairy products	128

* South Africa terminated the authorities and operations of its marketing boards in 1997.
Source: Member countries' 1995 and 1996 notifications to the World Trade Organization (WTO) of their State Trading Enterprises. Australia and Israel reported their STEs' exports for 1993 through 1995. Canada, New Zealand, South Africa, and Turkey reported for 1992 through 1994.

marketing boards' domestic market and trading authorities. Many New Zealand boards have relinquished their exporting activities to private firms, but coordinate exports through export licensing to import markets regulated by tariff-rate quotas such as the EU, Japan, and the United States, and continue to conduct market promotions. South Africa dismantled its many marketing boards in 1996 and 1997 and ended its export subsidies in July 1997. Among the products marketed by some of South Africa's largest boards were apples, grapes, citrus fruits, and corn.

The list of import-oriented STEs reported to the WTO is far less complete than that of the exporters (see table 3). Asian countries house the most numerous and largest net importing STEs. The top import-oriented agricultural STEs in WTO member countries were the Japan Food Agency and Indonesia's Badan Urusan Logistik (BULOG). Both imported agricultural commodities valued at more than $1 billion annually on average from 1993 through 1995. The Japan Food Agency is the largest Japanese agricultural STE, although other STEs in Japan import and resell tobacco, silk, and some dairy products.

Indonesia's BULOG, established as a government agency in 1967 to stabilize agricultural commodity prices at the producer and consumer levels, was authorized in the 1993-95 reporting period to import several agricultural commodities, export rice, administer the marketing and processing of selected domestically produced and imported agricultural commodities, procure domestic rice production, and manage rice stocks. A government edict revoked BULOG's exclusive trade authorities in September 1998, but the agency has continued to procure commodities, manage stocks, and import rice during Indonesia's financial crisis.

Table 3—Japan and Indonesia topped the list of import-oriented STEs from 1993 through 1995

Country	STE	Commodity(ies)	Average annual import value
			$ million
Greater than $1 billion:			
Japan	Food Agency	Barley, wheat, rice	2,003
Indonesia	Badan Urusan Logistik[1]	Garlic, rice, soybeans, sugar, wheat, wheat flour	1,335
More than $500 million - $1 billion:			
Egypt[2]	General Authority of Supply Commodities (GASC)	Wheat	713
Japan	Japan Tobacco Agency	Leaf tobacco	593
$100 million - $500 million:			
Korea	Livestock Products Marketing Organization[3]	Beef	432
Pakistan	Ministry of Food, Agriculture, and Cooperatives[4]	Wheat	378
Mexico	CONASUPO[5]	Milk powder	329
Tunisia	Grain Board	Wheat, barley, maize	227
Morocco	National Sugar and Tea Office	Raw sugar	125
Malaysia	Padiberas Nasional Berhad (Bernas)	Rice	121

[1]Indonesia terminated Badan Urusan Logistik's (BULOG) monopoly over imports of garlic, soybeans, sugar, wheat, and wheat flour and opened imports of those products to private firms in 1998. BULOG imported rice for the first time through an open import tender in September 1998, but BULOG's future role in rice imports and marketing is unclear. [2]Egypt opened imports of wheat to private firms in 1993. GASC handled an estimated 60 percent of wheat imports in 1997, but its imports as a share of total Egyptian wheat imports for prior years are not known. [3]The LPMO purchased 90 percent of Korea's beef imports in 1993, 84 percent in 1994, and an estimated 70 percent in 1995. The Korean Government allocated up to 60 percent of the beef tariff-rate quota to private traders in 1998. [4]Pakistan opened imports of wheat to the private sector in 1991, but government pricing policies restricted private sector imports until 1998 when the private sector imported 1 million tons of wheat. In June 1999, the Government of Pakistan imposed a ban on private sector wheat imports. [5]Mexico's CONASUPO was a monopoly importer of milk powder until 1998 when the Mexican Government issued import licenses equal to about 20 percent of Mexico's milk powder imports to a multinational firm. The Mexican Government closed CONASUPO on March 31, 1999.
Sources: STEs reported in member countries' WTO notifications of their State Trading Enterprises and various USDA, Foreign Agricultural Service attache reports. Egypt, Pakistan, and Mexico did not notify the above agricultural STEs to the WTO. Trade data come from WTO notifications, Korea and Japan's national trade statistics, and U.N. Food and Agriculture Organization annual trade statistics.

The Republic of South Korea designated 8 STEs to import 18 agricultural products, including beef, citrus fruits, and rice, under its WTO tariff quotas.[6] STEs for several agricultural commodities also were reported by Malaysia (rice), the Philippines (rice and corn), and Thailand (potatoes, tea, and tobacco). Appendix B contains a list of agricultural STEs reported to the WTO in 1995 and 1996.

The WTO notifications provided an incomplete picture of the prevalence of state trading in world agricultural trade. WTO members reported their enterprises based on their individual interpretations of the 1994 GATT working definition. Many countries such as Egypt, Mexico, and Pakistan reported that they had no STEs for agricultural products, although these countries did use STEs to import agricultural commodities during the reporting period (1992 through 1995). Egypt opened imports of wheat to private firms in 1993, although it maintained the General Authority of Supply Commodities (GASC) as an importer. GASC handled an estimated 60 percent of Egyptian wheat imports in 1997. Pakistan opened imports of wheat to the private sector in 1991, but the government handled all of Pakistan's wheat imports until 1998. After wheat imports by private firms boomed in 1998, the Government of Pakistan banned private sector imports in June 1999. CONASUPO was Mexico's designated importer of milk powder until 1998 when the Mexican Government issued a large block of import licenses to a multinational firm. The Government officially closed CONASUPO March 31, 1999.

[6]The Republic of South Korea designated STEs to administer some of its WTO tariff-rate quotas (TRQs) to serve the following objectives: (1) to stabilize domestic markets faced with low-priced imports; (2) to fulfill Korea's Uruguay Round Agreement market access commitments; and (3) to use the revenue from differences between domestic and import prices for public objectives such as research and market development (Choi, Sumner, and Song, 1998).

Artificial honey and cocoons were removed from Korea's list of state trading items in June 1996, and silk was removed from the list in June 1997.

STEs in Countries Seeking Accession to the WTO

Many applicants to the WTO conduct their trade of grains and other agricultural products through state agencies. In principle, STEs in the former Soviet republics have been eliminated, but regional and national governments continue to procure commodities from farmers and restrict commerce between regions. Foreign trade companies in these countries continue to be directly or indirectly controlled by the government and are akin to state traders. STEs maintain control over grain trade in other countries seeking accession to the WTO, including Algeria, Saudi Arabia, and Vietnam.

China, the largest country seeking accession to the WTO, has several enterprises that fit the WTO definition of state trading enterprises (table 4). In 1978, China "decentralized foreign trade rights beyond the handful of centrally controlled foreign trade corporations" (Martin and Bach, 1998, page 290). However, China maintained its agricultural STEs—China's National Cereals, Oil and Foodstuffs Import and Export Corporation (COFCO) and China National Textiles Import and Export Corporation (Chinatex)—to conduct foreign trade in grains and cotton.[7] China's state control of grain trade is defined more explicitly in Section V, "Ranking STEs with Respect to Their Capacity To Distort Trade."

[7]If China accedes to the WTO, China's leaders have agreed to expand import access for many sensitive agricultural commodities, including soybean oil, wheat, corn, rice, cotton, and barley; to designate and expand shares of the proposed TRQs for private sector importers; and to open state trade shares of the TRQs to private importers of wheat, corn, and rice if the state traders do not fill the TRQ during the year (Office of the United States Trade Representative,"Market Access and Protocol Commitments," http://www.ustr.gov/release/1999/04/ch-memo.pdf, April 1999).

Table 4—China's state enterprises dominate trade in some agricultural products

STE	Commodity	Average export/import value, 1993-95
		$ million
Exports:		
China National Cereals, Oil and Foodstuffs Import and Export Corporation (COFCO)	Corn	704
COFCO, other state-owned enterprises (SOE's)	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	Cotton	758
COFCO	Corn[1]	272
COFCO	Rice	203

[1]Most of China's 1993-95 corn imports took place in 1995.
Sources: USDA, FAS information about China's STEs. Trade data are from the UN Food and Agriculture Organization.

What Types of STEs Are Reported to the WTO?

In a 1995 working paper, WTO staff reviewed the types of STEs reported by WTO member countries from 1960 through 1994, including statutory marketing boards, regulatory marketing boards, fiscal monopolies, canalizing agencies, and foreign trade monopolies (WTO, 1995b). In agriculture, statutory marketing boards combine a monopoly of foreign trade with management of domestic procurement, pricing, and distribution. Their typical functions include control over the pricing, quality standards, and the marketing of agricultural products that they cover. Regulatory marketing boards perform many of the same functions as statutory marketing boards, but do not themselves engage in trade. Canalizing agencies channel imports or exports through a designated product-specific agency to obtain better terms of trade for large volume sales or purchases and to recognize economies of scale in trade operations. Regulatory boards and canalizing agencies tend to be government agencies or corporations, while agricultural producers own some statutory marketing boards.

A large group of STEs falls under the definition of fiscal monopolies. Governments establish fiscal monopolies to control trade in goods for which domestic demand is relatively inelastic but foreign demand is relatively elastic (WTO, 1995b). The fiscal monopoly controls imports, and may support domestic production (for instance, national cigarette manufacturers in some countries). This allows the government to garner funding for the national treasury from markups on imported products. In agriculture, alcoholic beverages and tobacco are the chief products imported by government fiscal monopolies.

The last large group of STEs, foreign trade enterprises, were established by centrally planned economies to import products as ordered by other government agencies. Foreign trade enterprises shielded centrally planned economies from world market influences because they imported only as ordered by central government planners according to plan targets, which determined the level and direction of trade. Central planning no longer dictates levels of trade in most transition economies, but continues as a major influence on agricultural trade, particularly in China and some other countries seeking accession to the WTO.