Courtesy Canadian Wheat Board

State Trading Enterprises: Their Role in World Markets

The Uruguay Round Agreement on Agriculture, completed in 1994, subjects member countries to rules on market access, internal support, and export subsidies (*AO* December 1996). However, the lack of transparency in the pricing and operational activities of agricultural state trading enterprises (STE's) has generated growing concern that some World Trade Organization (WTO) member countries will use STE's to circumvent Uruguay Round commitments on export subsidies, market access, and domestic support.

Also sparking interest in STE's is the number of countries seeking accession to the WTO which use these enterprises to implement agricultural policies. Notable examples are China, Taiwan, Russia, and Vietnam. Little is known about the trading practices of STE's in these countries.

Agricultural STE's have been important players in world trade for decades. The rules of the General Agreement on Tariffs and Trade (GATT), which govern global trading in goods and services, have recognized state trading enterprises as legitimate participants in international trade while establishing guidelines on their behavior.

These guidelines—contained in Article XVII of GATT 1947—require STE's to conduct their export or import trading activities according to the principle of nondiscriminatory treatment and "in accordance with commercial considerations." The principle of nondiscriminatory treatment requires WTO member countries to extend the same trading privileges to all member countries.

The Uruguay Round Agreement defines STE's as "governmental and non-governmental enterprises, including marketing boards, which have been granted exclusive rights or privileges, including statutory or constitutional powers, in the exercise of which they influence, through their purchases or sales, the level or direction of imports or exports."

Membership in the WTO requires that member countries annually provide information on commitments, changes in policies, and other related matters as required by the various trade agreements to the WTO—a process called "notification." Based on the Uruguay Round's working definition of an STE, over 30 member countries have reported to the WTO the combined presence of nearly 100 STE's in their agricultural sectors. Examples include the Canadian Wheat Board (an exporter) and Indonesia's Badan Urusan Logistik or BULOG (an importer). In its notification to the WTO, the U.S. also reported the Commodity Credit Corporation (CCC). The number of reported STE's is likely to grow as member countries adhere more closely to the WTO definition of an STE.

Export-oriented STE's, the subject of this article, differ greatly from import STE's, especially in terms of related WTO rules. The chief concern with export-oriented STE's is whether they use their exclusive power of domestic monopsony (operating as the sole purchaser of domestic production) and/or export monopoly (operating as the sole exporter of domestic supply) to engage in unfair trading competition. The lack of transparency which characterizes the operations of STE's makes it difficult to determine whether they win sales because of true competitive advantage or because of practices such as excessive price cutting. This contrasts with the explicit export subsidies of the U.S. and the European Union, which will be reduced significantly by 2001 in accordance with provisions of the Uruguay Round.

Grains and dairy products are the chief exports of the agricultural STE's reported to the WTO—16 STE's export wheat and 10 export dairy products. Two of the major export STE's—the Canadian and Australian Wheat Boards—accounted for more than 30 percent of world wheat exports from 1992 to 1995. By comparison, the U.S. and EU share 50-60 percent of world wheat trade.

For dairy product exports, STE's reported to the WTO by Australia, Canada, New Zealand, Poland, and the U.S. controlled 30-40 percent of world skim milk powder exports and about 25 percent of world cheese exports in 1993. The chief world cheese exporter is the EU with a 50-percent share of the world market in 1993. The EU also accounts for about 30 percent of world skim milk powder exports.

The Big Four Of STE Agricultural Exporters

Among current WTO member countries (excluding the U.S.), four STE's dominate the list of STE exporters of agricultural commodities. Ranked by value of major commodities exported, the Canadian Wheat Board is the largest STE, with exports averaging $3.2 billion annually (wheat and barley combined) during 1992-94. The New Zealand Dairy Board is a distant second, with annual average exports valued at $1.8 billion (1992-94), followed by the Australian Wheat Board at $1.4 billion (1993-95), and the Queensland Sugar Corporation at $925 million (1993-95).

The *Canadian Wheat Board (CWB)* was established under the Canadian Wheat Board Act of 1935 to market Western Canadian grain. The CWB ranks as the fourth-largest exporting company in Canada. It handles 96-99 percent of all Canadian milling and durum wheat

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exports, issues licenses for the remainder, and exports all Canadian barley. Wheat and barley exports accounted for 70 percent of Canadian wheat production and 25 percent of barley production during 1992-94.

The CWB is mandated to achieve three main objectives through its operations: to market as much grain as possible at the best price that can be obtained; to provide price stability to grain producers; and to ensure that each producer obtains an equitable share of the available grain market. On behalf of its producers, the CWB is authorized to buy, take delivery of, store, sell, transfer, and ship wheat and barley produced in Alberta, Manitoba, Saskatchewan, and the Peace River area of British Columbia.

The *New Zealand Dairy Board (NZDB)* was established in 1925-27 and reconstituted under the Dairy Board Act of 1961 to "maximize the income of New Zealand dairy farmers through excellence in the global marketing of dairy products." The Board markets all major dairy products for its member cooperatives, including butter, cheese, nonfat dry milk, whole milk powder, and most minor dairy products.

Exports of these products averaged 85-90 percent of production during 1992-94. The NZDB also advises the New Zealand government on trade issues and works hand-in-hand with it to combat protection in dairy import markets.

Four STE Agricultural Exporters Dominate the WTO List

Country/STE[1]	Commodity	STE annual average export value	Years
		$ million	
Over $1 billion			
Canadian Wheat Board	Wheat	2,900	1992-94
New Zealand Dairy Board	Dairy products	1,800	1992-94
Australian Wheat Board	Wheat and flour	1,400	1993-95
Over $500 million - $1 billion			
Queensland Sugar Corporation	Sugar	925	1993-95
China:COFCO	Corn	704	1993-95
Over $100 - $500 million			
China: COFCO and other STE's	Sugar	368	1993-95
New South Wales Rice Board	Rice	361	1993-95
China: Native Products and Animal By-Products Import and Export Company	Tea	308	1993-95
Canadian Wheat Board	Barley	301	1992-94
South Africa Deciduous Fruits Board[2]	Deciduous fruits[3]	286	1992-94
China: COFCO	Rice	261	1993-95
New Zealand Kiwifruit Board	Kiwifruit	237	1992-94
South Africa Maize Board[2]	Corn	194	1992-94
New Zealand Apple and Pear Board	Apples and pears	192	1992-94
South Africa Citrus Board[2]	Citrus fruits	184	1992-94
Turkey Soil Product Office	Wheat and flour	157	1992-94
China: COFCO and other STE's	Soybeans	141	1993-95
Australian Dairy Corporation	Dairy products	131	1993-95
Israel Ornamental Plants Board	Cut flowers	129	1993-95

1. Except for China, all STE's listed were reported to the WTO by its member countries. China is seeking accession to the WTO. The value of exports for each is an average of the most recent annual export values reported to the WTO and, for China, an average of 1993-95 export values.The U.S. Commodity Credit Corporation is not included in this table. 2. South Africa is liberalizing the functions of some of its marketing boards and, in some cases, eliminating the exclusive authorities of marketing boards. 3. Apples, peaches, pears, plums, apricots, and grapes.

Economic Research Service, USDA

The *Australian Wheat Board (AWB)* was established under the National Security Act of 1939 "to purchase, sell, and dispose of wheat and wheat products, and handle, store, and ship wheat." The AWB currently operates under authority of the Wheat Marketing Act of 1989. It is the sole exporter of Australian wheat and flour. Australian wheat exports averaged more than 70 percent of wheat production in the 1993-95 marketing years.

The *Queensland Sugar Corporation (QSC)*, a state-level marketing board, operates under the authority of Australia's Queensland Sugar Industry Act of 1991, which took effect on July 15, 1991. (The QSC was established initially as the Queensland Sugar Board in 1923.) The QSC is responsible for the acquisition and storage of Queensland raw sugar, negotiating shipping arrangements, overseeing the marketing of exports, distributing the proceeds from sales, and coordinating production regulations.

All raw sugar exports from Queensland are undertaken by the QSC. Between 75 and 80 percent of Australia's raw sugar production is exported, and the remainder is refined primarily for domestic consumption, although private refiners now export small amounts.

A large number of *other* STE's export agricultural products valued between $100 million and $500 million during 1992-95. Commodities covered by these STE's include flowers, fruits, and meats, as well as dairy products and grains, from exporting countries as diverse as China, Israel, South Africa, and Turkey.

An even larger group of STE's exports products valued on average at less than $100 million per year (1992-95). Many of the export STE's of Central European countries such as the Czech Republic, Poland, and Slovakia use subsidies to export agricultural products while allowing private traders to export unsubsidized products. The market stabilization agencies in these countries purchase and sell specific agricultural commodities to stabilize domestic commodity prices.

Comparing the Major Export STE's

What are the similarities and differences among the four largest STE exporters? Which STE's control domestic markets as well as exports? Are export, import, or domestic policy tools important means of reinforcing the four STEs' control of export pricing? How do the four STE's differ in terms of products marketed and government ownership? To what extent do they impact international trade? An examination of their respective market environments as well as their institutional characteristics may address these questions.

Market regimes. Market regime refers to an STE's control over four activities: exports, domestic marketing, commodity procurement, and processing. If an STE regulates all these activities, its ability to impact international markets is likely to be much greater than if it controlled a portion, or none.

The CWB, NZDB, AWB, and QSC are all single-desk exporters—i.e., they have full control of exports of wheat (CWB and AWB), barley (CWB), dairy products (NZDB), and Queensland raw sugar (QSC). Some of these STE's do not handle exports themselves, but contract with private firms for export. For example, the QSC contracts with a private company, CSR Limited, to conduct its exports of Queensland raw sugar to all destinations except New Zealand.

Controlling domestic marketing may allow an export STE to price discriminate between domestic and foreign consumers, while control of commodity procurement for export enhances the STE's leverage in competing with domestic buyers for production. The CWB has exclusive authority to market wheat for human consumption and for malting barley. None of the other three major STE's is authorized as the sole domestic marketer in its respective country. All four STE's procure their respective commodities for export, which may represent the bulk of domestic production.

Of the top four export STE's, only the NZDB has some control over the processing of agricultural commodities. The NZDB controls the manufacturing of dairy products by contracting with its member cooperatives in New Zealand for specific quantities of products for export, by encouraging production of preferred products through a system of premiums and discounts, and by establishing joint ventures and subsidiaries in many countries to further process products tailored to their specific markets. The NZDB advocates this system as a means of developing long-term relationships in foreign countries, particularly countries that control import access such as the EU, Japan, and the U.S.

Policy regimes. STE's have access to various policy tools—export subsidies, pricing, supply controls, tariff-rate quotas, quantitative restrictions on trade, and marketing arrangements—that enhance their ability to compete in international markets. All these instruments are permitted

Price Pooling—An STE Advantage

Price pooling allows an STE greater flexibility in export pricing relative to private grain trading companies, particularly when pool payments are underwritten by the government or the STE controls domestic supplies as well as exports. All four of the largest STE's practice some form of price pooling to ensure price stability for their producers and to control the marketing of their respective commodities.

Under *pooling*, producers covered by the CWB, for example, receive an initial payment equal to about 80 percent of the final projected price at or around the time the commodity is delivered to the CWB elevator. One or more additional payments are made to producers at a later date after the pool of agricultural product has been marketed, provided that the price received for the commodity is greater than the initial payment plus handling and administrative costs.

The Canadian government *guarantees the initial CWB pool payment*. If the initial pool payment to producers exceeds the eventual pool receipts less costs—a situation known as a "pool deficit"—the Canadian government is obligated to underwrite pool losses. The CWB deficit for its wheat pools totaled $695 million in 1990/91, more than half the CWB deficit for its total wheat and barley pools for the period 1968 to 1991. The Australian government guarantees a percentage of AWB borrowing for its operations, but does not underwrite an initial price to growers, which can change throughout the season. The Australian government will discontinue the guarantees in 1999, when the AWB will restructure its Wheat Industry Fund as a capital base for commercial borrowing.

Under the pool system, prices to producers may be averaged across grades and quality differences, time of year, and in some cases, freight charges. The degree to which pools are segmented by grade, quality, marketing period, and location defines how much flexibility the STE has in pricing products for export. For example, the CWB averages prices for a wide range of marketing periods, grain qualities, delivery locations, and marketing costs. In contrast, the AWB operates special pools for 45 specific grades and classes of wheat, and discounts producer pool prices for freight and other marketing costs.

The NZDB bases its payments to member cooperatives on the manufacturing cost of the products supplied to the Board and the forecast milkfat and protein value of the products. NZDB member cooperatives may receive premiums for production of highly demanded products, or their payments may be discounted if the quality of the product delivered is below the contract specification. The QSC maintains two pools for raw sugar, which originally were intended to discount prices of sugar deliveries that exceeded pre-established delivery quotas. When the price differential between the two QSC pools is phased out after the 1998-99 marketing season, only one pool will remain.

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under the Uruguay Round Agreement in one form or another, though some may have greater potential than others to distort trade.

Export subsidies allow STE's to price their products lower in export markets than their cost of procurement. None of the top four STE's uses explicit export subsidies to enhance their exports, although such subsidies have been used in the past. The last such explicit subsidy reported to the WTO, the Western Grain Transportation Act rail subsidy of Canada, was eliminated by the Canadian government on August 1, 1995. But questions persist about the practices that potentially give a competitive advantage to export STE's in world agricultural markets.

Secrecy in administering international market transactions coupled with *control of domestic and export markets* gives STE's the power to price discriminate—i.e., charge different prices in different markets for the same commodity. Price discrimination allows STE's to maximize returns on sales by charging a higher price to countries that are less price-sensitive and a lower price to countries that are more price-sensitive. Price discrimination is commonly practiced by commercial firms, although most commercial firms face greater risk than some STE's in procuring commodities for export.

Under the various policy regimes, *domestic price support programs* guarantee producers a price for their product. The Canadian, Australian, and New Zealand governments do not operate domestic price support programs. However, the Canadian government's underwriting of the CWB's initial pool payments can be considered a form of support to Western Canadian grain farmers.

Domestic supply control policies allow an STE to maintain domestic market power and control the level of product exported. The CWB manages supplies through a mixture of contract delivery calls (where producers under contract may be called to deliver all or a portion of their contracts by specified dates) and producers' delivery quotas.

Economic Characteristics of Major STE Exporters

STE characteristics	Canadian Wheat Board
Market structure	
Control of exports (exports directly or contracts with other firms for export)	96-99% for milling and durum wheat Issues licenses for remaining wheat 100% for feed and malting barley
Export share of production	70% for wheat; 25% for barley
Control of domestic consumption	100% of wheat for human consumption and of malting barley
Control of processing	None
Policy instruments	
Export subsidies	None
Import quotas, tariffs, other nontariff barriers	TRQ's for wheat and products, and barley and products Lower NAFTA duties for U.S. and Mexican products
Domestic supply control	Delivery quotas for orderly marketing
Domestic price support	Price pooling—government guarantees advance payments to wheat growers in CWB pools
Long-term agreements with importer nations	Annual supply agreements with Japan Five-year agreement with Indonesia for annual sales of 1-1.5 MMT of wheat
Government guarantees for export credit	Government guarantees for some portion of CWB loans to selected importers
Products	Milling wheat, durum wheat, feed, and malting barley
Ownership	Crown corporation governed by 5 government-appointed commissioners

New Zealand Dairy Board	Australian Wheat Board	Queensland Sugar Corporation
100% of dairy product exports Authorized in 1992 to set conditions under which companies may export independently	100% of wheat exports	100% of Queensland raw sugar is exported by the QSC or its agent Refined sugar is exported by private firms
85-90%	70% of wheat	75-80% of Australian raw sugar production
None	No exclusive authority, but accounts for 75% of domestic sales	No exclusive authority QSC sells Queensland raw sugar to domestic refiners
Through member cooperatives in N.Z. and subsidiaries/joint ventures in foreign markets	Commercial joint ventures for milling and processing in foreign countries	None
None	None	None
None	Quarantine standards for imports, transportation, storage, and processing of grains	Tariff will be eliminated July 1, 1997
No domestic production controls	No control of domestic supplies	Acreage allotments which no longer constrain supplies
Price pooling—equates domestic prices with export returns by establishing national prices to guide domestic marketing decisions No government underwriting of losses	Price pooling for 45 grades and classes Pools may be closed and reopened at lower prices Government will guarantee loans for AWB operations until 1999	Pool pricing for Queensland raw sugar by grade No government underwriting of pool losses
No long-term agreements Subsidiaries establish long-term relationships with importers	Examples: Japan, 900,000 MT's for 1997 China, 3 million MT's for 1996-98	Negotiates and signs long-term agreements with importers
None	Semi-private agency issues guarantees for AWB loans to selected importers	None
Major dairy products—butter, cheese casein, nonfat dry milk, whole milk powder, and minor dairy products	Wheat (exclusive exporter), field peas, chick peas, oats, rye, sorghum, lupins, fava beans	Queensland raw sugar
Producer-owned board	Commonwealth corporation run by producers	Incorporated in Queensland and financed by producers

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The QSC, prior to 1991, limited Queensland raw sugar supplies by establishing a maximum amount of sugar that a cane mill could deliver to the QSC. Any additional sugar delivered to the QSC would receive a lower price. The QSC's control of raw sugar supplies no longer binds the quantity of raw sugar produced, since the Queensland government expanded the amount of land assigned to the production of raw sugar in Queensland and reduced the price differential between raw sugar delivered under the quota and outside the quota. This price differential will be eliminated after the 1998-99 marketing season. Neither the NZDB nor the AWB controls domestic acreage or production.

Import tariffs and tariff-rate quotas reinforce an STE's domestic market power, particularly when they are administered by an STE. However, Canada, New Zealand, and Australia have few import barriers to reinforce the authority of the CWB, NZDB, AWB, and QSC .

In Canada, the Department of Foreign Affairs and International Trade, not the CWB, administers WTO tariff-rate quotas for wheat and wheat products as well as for barley and barley products. In addition, Canada's duties for imports of U.S. or Mexican products have been lowered or eliminated under the North American Free Trade Agreement. New Zealand has no import barriers for dairy products. Australia maintains quarantine standards for import, transportation, storage, and processing of grains. Australia also has an import tariff for sugar, although it will be removed on July 1, 1997.

Lastly, all four top STE's use either *long-term supply agreements or export credits and credit guarantees* as export enhancement tools in international markets. For example, the CWB signs annual supply contracts with the Japan Food Agency for wheat and barley, and has agreed to supply Indonesia with 1-1.5 million tons of wheat annually for 5 years starting in 1996. The Canadian government guarantees some portion of CWB loans to selected importers. The Australian Export Finance Insurance Corporation (EFIC, a semi-private agency) also covers some portion of the loan principal or the export value of loans to selected importing countries. EFIC offers similar services to private exporting firms.

Product regimes. Product regime is another indicator of a firm's capacity to control trade. Presumably, if an STE has exclusive authority to trade in several products, it has more leverage in manipulating markets through cross-subsidization between products and in price discounting of selected products.

The CWB, NZDB, and AWB each exports more than one product. The CWB controls exports of milling and durum wheat, feed barley, and malting barley, although returns for each type of wheat and barley are averaged in separate pools. The AWB is the exclusive exporter of wheat but competes with other exporters to trade in other Australian grains. The AWB also purchases other countries' grains to maintain its standing as a consistent supplier during periods of drought in Australia. The NZDB exports a variety of brand-label and generic dairy products. Only the QSC exports a single product—raw sugar.

Ownership regimes. The ownership structure of an STE can impact international trade in several ways. For instance, a government-owned agency or corporation might be more concerned with price stabilization and producer income support than with "commercial" objectives. But government ownership is fast fading for all four major export STEs', which will place more responsibility for their financing in the hands of producers, and could discontinue government underwriting of pool deficits to support farm prices. In some cases, producers who believe that they are not adequately served by the STE's marketing systems are pressing for reform. All four STE's, however, have made clear the benefits of single-desk exporting and are unlikely to relinquish their status.

The CWB, incorporated in 1935 as a Crown Corporation, is governed by five Commissioners who report to Parliament through Canada's Minister of Agriculture and Agri-Food. A farmer-elected CWB Advisory Committee advises the Board on issues and policy matters dealing with its operations, but has no control over the Board. Legislation was introduced last year to replace the CWB Commissioners with a producer-elected board of directors in order to increase the CWB's accountability to western Canadian producers. Before the legislation was passed, however, new national elections were called for June 2. All pending legislation was erased from the record and will need to be re-introduced after the new Parliament is formed.

The ownership structure of the NZDB is changing rapidly in the wake of recent mergers between the NZDB's member cooperatives. Two of the NZDB's eleven member cooperatives now account for more than 75 percent of the milk processed for export. In addition, the NZDB is now required under the Companies Act of 1993 to adhere to New Zealand's new laws for private firms.

The AWB, a Commonwealth corporation directed by one government official and eight wheat industry officials, is expected to be privatized on July 1, 1999, when tradeable shares of the AWB's Wheat Industry Fund (currently financed by assessments on Australian wheat growers) will be issued to Australian wheat growers and nontradeable shares may be issued more broadly to the public. The QSC, incorporated in Queensland, is run by a board of nine private-sector members.

Although the four major STE's are well established, a growing number of STE's in prospective WTO member countries are likely to come under scrutiny through the accession process. With this in mind, several countries, including the U.S., continue to express interest in greater transparency of the activities of STE's.

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