III. Why Do Countries Pursue State Trading of Agricultural Products?

Both developed and developing countries establish state trading enterprises to attain domestic policy objectives. Countries cite support for domestic producers, price stabilization for producers or consumers, and the assurance of reasonably priced food supplies as major policy objectives for STEs in their reports to the WTO (WTO, 1995b; various countries' Article XVII notifications to the WTO in 1995-96). Among developed countries, support for domestic producers appears somewhat more frequently as an objective of state trading, while among developing countries, the assurance of reasonably priced food supplies for consumers ranks high. (See box, "Objectives of Selected STEs.")

Governments of developed countries attempt to boost domestic producer prices by granting exporter STEs monopsony power to procure domestic production and by giving them exclusive authority to export. Importer STEs may be established to increase producer returns by restricting imports. To stabilize producer prices, an STE may purchase or sell stocks, pool returns for domestic and/or export sales (for STE exporters), or charge markups on imported products (STE importers).

In developing countries, STEs may administer domestic food policies that hold retail prices below producer and/or world price levels. In these cases, producers are taxed to subsidize consumers. Price stabilization policies in developing countries may subsidize both consumers and producers (and all of the participants along the marketing and processing chain for the supported commodities). The STE controls the procurement, distribution, marketing, and processing of the covered commodities either by procuring, processing, and distributing the products itself or, more frequently, by contracting with or licensing traders and processors. Generally, the STE has authority to choose its suppliers, customers, and processors.

Other reasons countries pursue state trading include achieving economies of scale in trading operations (for example, transportation, insurance, foreign market development, and quality control),[8] improving terms of trade, and fulfilling international commitments on quantity, price, and credit requirements. Economies of scale in trading operations reduce costs to producers in exporting countries and to consumers in importing countries. Improvements in terms of trade raise prices received by producers when an STE exporter achieves higher prices on the world market or an STE importer restricts imports. Improvements in terms of trade benefit domestic consumers when an STE importer can command lower import prices. Agricultural trading countries argue that, by designating an STE to export into a higher value market regulated by a tariff-rate quota, producers benefit from the higher prices.

Governments also establish STEs to provide capital funds to initiate entrepreneurship, ration foreign currency reserves, and generate revenue for the treasury. Monopoly rents garnered by STEs may fund other government programs. For example, several governments that hold a monopoly on imports of alcohol and tobacco use the markups from domestic sales of these products to finance health and education programs. Though not stated explicitly in any of the country notifications, many governments prefer STEs because STEs allow them flexibility to carry out political mandates expeditiously. Hence, it is not uncommon to see governments use STEs to implement policies that would otherwise receive parliamentary scrutiny (treasury-financed subsidies). Similarly, state trading is often preferred to taxes/subsidies for redistributing incomes among different groups because it is more convenient and less likely to give rise to political protests. Indeed, it is the nontransparent nature of STE activities that makes them preferable over other policy instruments.

While state trading is one means of attaining various domestic and trade policy objectives, it is not the only means. Income support for producers, for instance, can be accomplished through decoupled payments, an approach that may minimize trade-distorting effects. Similarly, governments can provide affordable food supplies to their lower income citizens by targeting specific populations for either income supplements (food stamps) or specific staple commodities instead of operating government price controls and processing programs.

[8] If marketing costs account for a relatively important part of the export price, pooled arrangements can have an impact on the market.

Some argue that the goals of STEs—including the management of price risk, economies of scale associated with marketing, and development of niche markets and new customers through market development—can be accomplished just as efficiently, or even more efficiently, by the private sector. Carter, Loyns, and Berwald, for example, demonstrated that the Canadian Wheat Board provides more marketing services than is economically efficient (Carter, Loyns, and Berwald, 1998).[9]

[9]Carter, Loyns, and Berwald cite the following as marketing costs that might be reduced if the private sector carried out marketing activities: excessive handling charges, overage credits (credits paid out of the pools by the CWB because the average quantity of grains company terminal sales marginally exceeded purchases), demurrage costs (costs levied against the shipper when a ship is not loaded on time), excess grain cleaning, and free barley storage for maltsters.

Objectives of Selected STEs

Net exporters:

Australian Wheat Board (AWB)
Maximize net returns to growers (Wheat Marketing Amendment Act of 1997).

Canadian Wheat Board (CWB)
1. Maximize producer income.
2. Market grain grown in Canada in "an orderly manner in interprovincial and export trade" (CWB Act of 1989 as amended).

New Zealand Dairy Board (NZDB)
Maximize the income of New Zealand dairy farmers through excellence in the global marketing of dairy products (Dairy Board Act of 1961).

Queensland Sugar Corporation (QSC)
Maximize net returns to growers (Queensland Sugar Industry Act of 1991).

Net importers:

Indonesia's Badan Urusan Logistik (BULOG)
Stabilize the price of agricultural commodities at both consumer and producer levels (Presidential Decree of May 10, 1967).

Japan Food Agency (JFA)
Stabilize supply and demand situations and prices for staple foods such as rice, wheat, and barley to promote the stability of national life and the economy (Law for Stabilization of Supply-Demand and Price of Staple Food).

Livestock Products Marketing Organization (LPMO-South Korea)
Stabilize the livestock market (1988-Civil Code).

Mexico's Compania Nacional de Subsistencias Populares (CONASUPO)
Support farm prices and incomes and guarantee consumers an accessible, reasonably priced food supply.