

# Export State Trading Enterprises and the WTO Negotiations on Agriculture

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# Why do STEs exist?

- To implement a country's agricultural policy
- Goals may include
  - Producer support, and/or consumer subsidization, price stability
  - Marketing system efficiency
  - Exercise of market power:
    - domestic and/or international market

# Why are STEs an issue?

- Concern over lack of transparency enabling implicit export subsidies-perhaps violate their national direct export subsidy commitments
- Problematic: export STEs can use price pooling, price discrimination, market segmentation and protection of the domestic market- result in an outcome like export subsidies

# Lets define these terms:

- *Price discrimination*: practice of selling goods at different prices according to their respective elasticities of demand
  - Requires some market power
  - Not prohibited by the WTO-common in private firms
- *Price pooling*: practice of purchasing commodities with an initial payment, returning net revenue later
- *Protection of the domestic market*: through tariffs, tariff-rate quotas, or quality/SPS regulations

# Canadian Dairy Case

- Government set high domestic milk price, and supply management
- Producers could sell “Commercial Export Milk” to processors with no involvement of the Dairy Board at world prices
- Recent WTO decision that the *market segmentation* from dairy policies resulted in an export subsidy

## U.S., N.Z. won their case...

- High-price domestic market could not subsidize exports to a lower priced world market

# Who are STE exporters? (see handout)

- STEs as notified to the WTO
- Reform and elimination-not WTO mandated
  - Developed countries: Australia, Canada, Israel and New Zealand
  - Some now cooperatives (AWB, NZ's Fonterra)
  - Some eliminated (South Africa, Turkey)

# Developing Country STEs

- Reformed/eliminated due to structural adjustment
- Most reported developing country STEs are small
- Exception is China:
  - COFCO-large swings in net position of corn

# Market Power has been a Concern

- Literature
  - Carter and Smith recent conclusions on grains
- Still possible at times in grains- but limited
- COFCO- large swings in net trading position
- Fonterra- New Zealand dairy cooperative in thin world dairy market
- Overall, limited market power by few STEs

# STES in the URRA

- Permitted to exist
- Obligations for exporters:
  - Non-discriminatory treatment
  - Sales in accordance with commercial practices
  - Notifications in accordance with WTO requirements
- Remanded to a working party for definition and increased reporting requirements

# WTO Notification Requirements

- Full notification every third year and changes
  - Description, statistical data
- Many members have not notified- 46
- Many delayed or inadequate
  - New Zealand-not since reform of Dairy Board
  - Canada-2002 notification 1996-97 data for CWB

## This is discouraging

- Mechanism to identify problems-then advance a complaint
- In the interest of controversial STEs to be diligent
- WTO notification requirements have little teeth
- This is a problem for several areas under negotiation

# Positions in Doha Round

- Wide-spread support for disciplining export subsidies in all forms
- “It should be ensured that the subsidy element of all forms of export competition measures, such as direct export subsidies, export credits, state trading export enterprises and food aid, are all treated equally in the continuation of the reform process...” (Norway)

# Member Positions

- Increased notification: widely supported
- Elimination of special financing privileges: Japan and the U.S.
- Elimination of monopoly right to export: U.S.
- Stockholding for food security: Japan
- Increased disciplines without specifics: MERCOSUR, Chile, Columbia, Mexico
- Absent: the CAIRNS group
- Maintenance of developing country STES: African members

# Harbinson Proposal

- All members: export of a product cannot take place at a price less than the price paid by the enterprise to the domestic producers of the product.
- “No Export Subsidies” or “No Dumping”?
- No export subsidies- average export price over a year cannot be less than the price paid to producers

# No Dumping

- STEs cannot engage in any export transactions in which the price paid is less than the initial price paid to producers
- So, if the world market price declines unexpectedly, to lower than the initial price, then the STE cannot sell remaining supplies

## What is the intent of this rule?

- Commercial operators could not operate under such a rule!
- Most countries have domestic anti-dumping legislation
- Uncertainty over interpretation-lead to disputes

# Elimination of Monopoly Export Rights

- Proposes that national governments in developed countries must allow private enterprises to purchase agricultural goods for export and to export- **Coexist**
- Few cases of coexistence
  - Poland-first step for reform
  - Egypt, Ghana- failed attempts
  - No cases of coexistence over time, viable market shares

# Government responses

- Real coexistence
  - Cannot realize economies of scale in marketing and funnel (any) rents to producers
  - Most attempts have failed- developing countries
- Government resistance to imposition
  - Enact legislation putting private sector at a disadvantage

# The Canadian Wheat Board

- CWB uses accredited export agents
- These agents are MNCs, with experience and investments in infrastructure
- We think that removal of CWB monopoly rights to export will lead to elimination of their current form
- This depends on the gov response

## Our biggest concern ...

- Concern over STEs who use high domestic prices in their sanctuary market to subsidize exports
  - Detrimental to other low cost producers
- Mechanism to correct this is to ensure no barriers to imports
- Taking away their monopoly right to export a blunt solution

# No Special Financing Privileges

- Proposal: members cannot subsidize the operation of their STEs
- More severe than WTO approach to export subsidies or domestic support
- We think that expenditures should be
  - bound,
  - reported, and
  - reduced over time

# No Special Financing Privileges (con't)

- Proposal also appears to prohibit STEs from offering “officially supported export credits”
  - Beyond the disciplines in the export credit proposal
  - CWB or AWB could not offer export credits
  - U.S. could under its GSM programs

## STEs should abide ..

- STEs be bound by rules on export credit
- More stringent rules on STEs is not supported by research, nor it is
- Comparable to other disciplines enacted by the WTO

# Harbinson Proposal on Export STES

- Closely mirrors the U.S. position
- Other WTO members wanted to discipline STEs-few specific proposals
- Only the U.S. has advocated for elimination of STE monopoly rights to export
- Harbinson proposals:
  - Not consistent with other WTO approaches
  - Punitive

# Coexistence

- Intended to ensure competitive outcomes
  - Likely to lead to elimination
  - Replacement with oligopolistic private firms
  - Replacement of a monopolist with a social mandate with a imperfectly competitive firm
  - Not necessarily a better outcome.

# Agricultural negotiations need to strike a balance

- Between allowing diversity in policy choice
- Limiting trade distortions

# STEs as one tool

- In our view, STEs are a legitimate tool for the implementation of agricultural policy goals of various countries
- They may result in some limited distortions to world markets
- Negotiators need to weigh the cost of eliminating the policy instrument of choice with elimination of likely small distortions