

State Trading Enterprises: are they really a barrier for agriculture?

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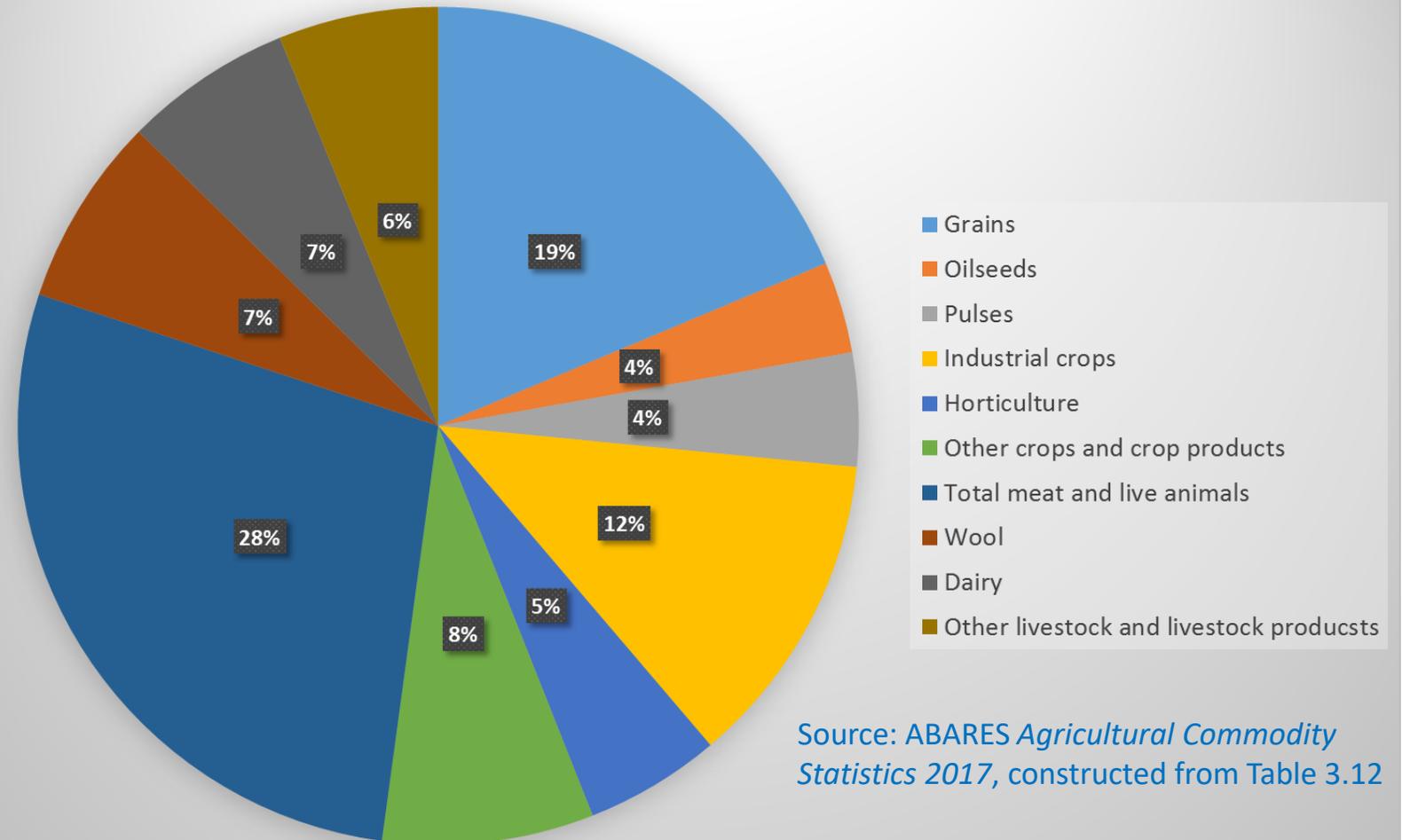
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The Importance of Exports of Agri-Food Products

Exports of agri-food products averaged \$46 billion annually for the period 2014/15–2016/17, representing 18 per cent of the value of merchandise exports.

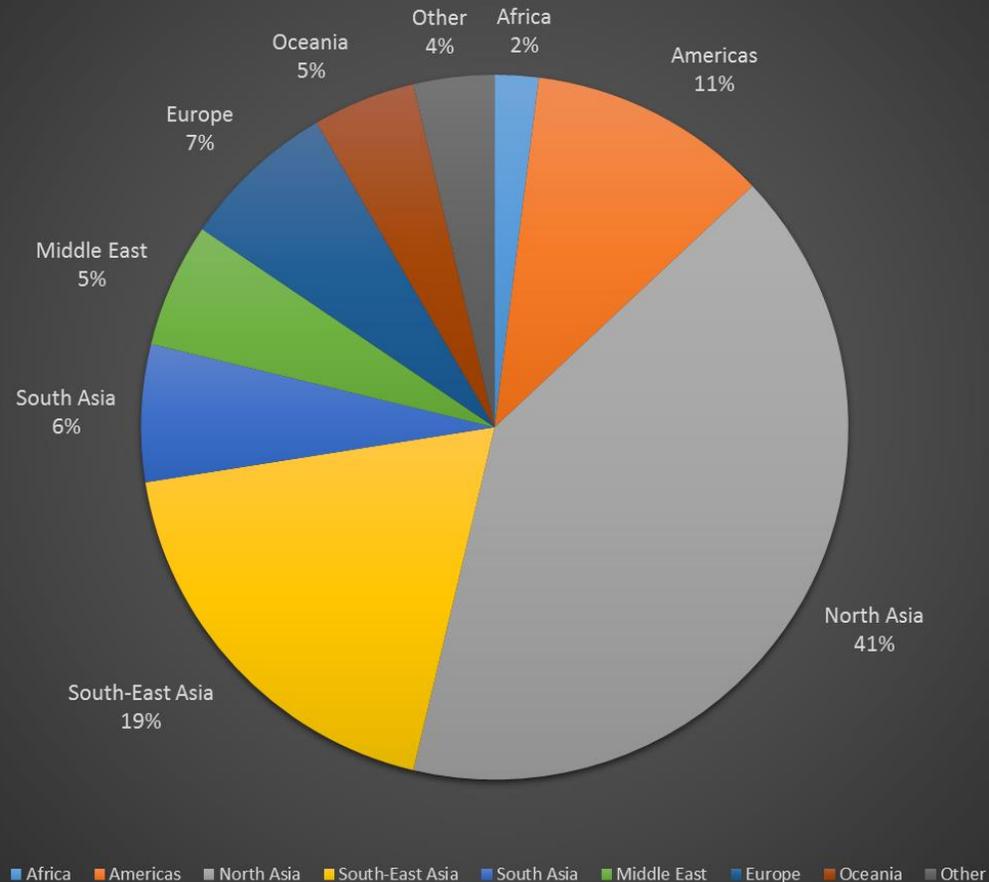
Figure 1. Average Commodity Shares of Agricultural Exports, Australia, 2014/15 – 2016/17



Source: ABARES *Agricultural Commodity Statistics 2017*, constructed from Table 3.12

The Importance of Exports of Agri-Food Products [2]

Figure 2. Average Regional Shares of Agricultural Exports, Australia, 2014/15 – 2016/17



Source: ABARES *Agricultural Commodity Statistics 2017*, constructed from Table 3.13

Non-Tariff Measures (NTMs)

A definition of NTMs:

policy measures that are not import tariffs but which nevertheless can affect international trade flows

A Classification Scheme:

MAST provides 16 chapters of which 15 refer to imports, for example,

- ❖ **A**, SPS measures (e.g. product or process standards)
- ❖ **B**, TBT measures (e.g. labelling)
- ❖ **E**, quantity control measures (e.g. tariff quotas)
- ❖ **H**, anti-competitive measures (e.g. State Trading Enterprises)
- ❖ **O**, intellectual property measures (e.g. geographical indications)
- ❖ **P**, rules of origin

Source: van Tongeren, F., J. Beghin and S. Marette (2009). A Cost-Benefit Framework for the Assessment of Non-Tariff Measures in Agro-Food Trade, OECD Food, Agriculture and Fisheries Working Papers, No. 21, Paris.

Non-Tariff Measures (NTMs) [2]

What is a government hoping to achieve through the use of NTMs?

- correcting a market failure, e.g. introducing a product or process standard to correct an information failure facing consumers of a particular food
- political economy, e.g. redistribution towards producers of a commodity

What happens to NTMs in Preferential Trade Agreements?

How are their trade effects to be measured?

What prevents their misuse?

State Trading Enterprises

The World Trade Organization's (WTO) definition:

Government and non-governmental 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 their purchases or sales the level or direction of imports or exports

(WTO (1995) *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts*, Geneva, p. 25).

Ownership is not the key difference between an STE and a private firm: instead, it is the nature of the special rights or privileges that the STE enjoys.

Examples of important STEs in agricultural trade are: COFCO (China), FCI (India), BULOG (Indonesia), GFPB (Japan) and LMPO (Republic of Korea).

State Trading Enterprises [2]

To determine the trade effects of an STE, we need to consider:

- 1) the characteristics of the market in which the STE functions
- 2) the government's objective for it as an instrument of agri-food policy
- 3) the possible presence of other policy instruments
- 4) the market structure that would exist in the absence of the STE, i.e. the counterfactual.

Consider the following example:

- the STE has exclusive rights to domestic and import procurement, and to domestic sales
- initially its objective is to maximise profits; it imports the quantity Q^{STE}
- the counterfactual is a monopsony/monopoly; it imports the quantity Q^{priv}

How would we determine if this STE is a barrier to imports?

$$Q^{priv}(t^e) = Q^{STE}$$

Illustration of an STE

Consider the trade effects of BULOG over three time periods in the Indonesian rice market.

- **pre-1998:** BULOG had exclusive rights to import, it competed with private firms over procurement and sales in the domestic market, and its policy bias was neutral with respect to domestic consumers and producers
- **1998-2004:** BULOG had no exclusive rights in either procurement market, its policy bias was towards rice farmers, and private firms faced an import tariff
- **post 2004:** BULOG regained its exclusive rights to import and it was to pursue an objective of 'commercial considerations'.

What trade effect did these changes in market structure and policy bias have when measured against the same counterfactual?

Illustration of an STE [2]

Ad Valorem Equivalences for BULOG in Separate Periods	
Regime Period	AVE (%)
Pre-1998	-5
1998-2004	23
Post-2004	56

Source: McCorriston, S. and D. MacLaren (2012). State Trading Enterprises as Non-Tariff Measures: Theory, Evidence, and Future Research Directions, *Applied Economic Perspectives and Policy*, 34(4): 696-723.

Conclusions

1. Exports of agri-food products remain important for Australia's balance of trade.
2. NTMs that are used to correct market failures are likely to increase imports; those introduced for political economy reasons are likely to restrict imports.
3. But NTMs often lack transparency and they are diverse, thus making their trade effects difficult to determine.
4. The trade effects of an STE, measured by its AVE, can only be determined if specific assumptions are made about the market structure in which the STE operates, about its objective, and about the counterfactual.
5. A method has been outlined which helps to answer the question: is a particular STE in a particular importing country a barrier to imports?
6. Importantly, a 'single-desk' importing STE can be pro-competitive domestically and be import enhancing, although it need not be so.