Trading by Governments

by RICHARD H. ROBERTS

GOVERNMENTS do the foreign buying and selling of many farm products. They take ownership of exported or imported goods and so engage in state trading. The trading is not necessarily done by government agencies, but it must be for them. Sooner or later they furnish the money invested in the commodities.

The government need not itself perform the trading operations. It may use private firms as agents to do the buying or selling. In passing the goods through government accounts, the government can exercise full control as owner. It thereby can inject terms or conditions not applied by private business.

Nations take differing attitudes toward state trading, particularly in agricultural commodities. Much of their uncertainty comes from shifts to state trading in wartime, efforts to develop more trade with Communist countries, business and political pressures to gain more trading advantages, and attempts to minimize the costs of supporting the incomes of their own farmers.

The universal pressures to provide special advantages for farmers contribute to the tendency to have government agencies do their foreign marketing, whether purchases or sales.

Governments try to manipulate the terms of exports and imports to assist in bearing the costs. In this way, government actions beget more government in business. To handle exports and imports, governments give authority and funds to commodity boards and put them into the business of foreign trading.

Commodities that have a standard form and quality in international trade usually are the chief types traded by government agencies and dominate the types governments sell through export sales monopolies.

Wheat and butter are examples. When exporting countries use their government trading to maintain high standards, the reputation for quality aids in building and maintaining the market. The buyers of the standard commodities in the importing countries usually are private traders, who consider it an advantage to deal with government selling agencies that have a reputation for dependability as to standards of quality.

Importing follows a different course. Oil materials and tobacco exemplify the differences that may exist in standards of quality. They may be exported by private firms, but the import purchases may be carried out by government monopolies for several reasons. Tobacco in some countries is a direct source of government revenues, and government handling facilitates collections. Oilseeds and other sources of oils are handled through government largely to aid internal farm price supports or maintain stable supplies.

In most wool exports, countries let prices follow free market conditions to reflect its differences in form and standards of quality. The same countries traditionally use government agencies to export their standard commodities and only in war emergencies do they shift their exports of wool and the pricing suddenly and wholly to government sales operations.

State trading was a matter of concern in the drafting of the Havana Charter immediately after the Second World War to establish an international trade organization. The plan was not adopted, but the main expressions became article XVII of the General Agreement on Tariffs and Trade (GATT). Among its other rules for foreign trading is a requirement that state trading operations must be reported. Apparently it was assumed that foreign trade enterprises of governments are set up to exercise discriminatory treatment and secure special advantages. The provisions prescribed nondiscriminatory treatment and specified that purchases and sales be in accord with commercial considerations and give adequate opportunity for competition.

GOVERNMENTS answer differently the questions about their state trading.

The experts have not arrived at uniform interpretations, and variations in form, results, and effects on competitors are many.

Japan has been reporting to the GATT that licensing controls of operations actually performed by private importing companies consist of state trading. The United States has stated that export operations of the Commodity Credit Corporation did not come in the reporting category. Denmark has reported that no state trading prevailed in food and agricultural products. The Netherlands has reported it had none. Sweden has reported none except for tobacco and authority over sugar. The egg export and import association of Sweden has regulated the internal market, with variable levies on imports of feedstuffs to pay subsidies to producers, but the commodity marketing boards had lost their foreign trade monopoly positions in 1956.

The Organization for European Economic Cooperation attempted to separate trade from government enterprises, financial accounts, and other operations. Exporting countries are reluctant, however, to complain about such matters. Furthermore, the guilt of an offender could not be decided unless it was admitted because the member governments had to reach unanimous agreement on any decision. Attempts to devise rules that monopolies must invite public tenders also were fruitless. The Organization for Economic Cooperation and Development, the successor, has turned attention more to the terms and conditions under which trading is permitted, whether private or state.

THE GROWTH of nontariff trade barriers has affected private trading, particularly imports into the European Economic Community. The new barriers have given the six Common Market countries increased problems in the relation between state and private trading, particularly in the farm products.

In drafting the 1957 Treaty of Rome to set up the Common Market, the countries adopted a requirement that state monopolies end discrimination on conditions of supply and the marketing of goods. Employment and the living standards of producers, however, were to be given equivalent weight in these decisions. A special provision permitted Italy to trade in wheat until July 1, 1963, when imports were put under control of the variable levy system plus an extra 20 dollars a ton on imported wheat of high quality.

In discussions of trading principles, people have mentioned particularly the expansion of trade with countries of the Soviet bloc. A big point has been Soviet enticements to developing countries to commit themselves to bilateral agreements. The aid that is offered has proved to be cheap credit and barter to the advantage of the Communists.

The discussions of nontariff barriers bring out, further, that "gentlemen's agreements" flourish with monopolies, semigovernmental agencies, and the special trading authorities. These informal understandings shut off trade in varying degrees among nations, particularly by excluding competitive forces and redirecting trade to less competitive suppliers.

The GATT, regional groups, and a

United Nations Trade and Development Conference have considered these problems and the trading needs of developing countries. A revision of principles and rules for state trading has become an issue. A desire to trade more with the Communist nations adds difficulties in reconciling with private market trading principles. In promoting growth in developing countries, conflicts with the goal of nondiscriminatory trade also arise. Only when trade is based on relative efficiency in production and marketing can it take full advantage of consumers' free choices in price and quality.

A DESIRE to buy goods from special sources is typical of state trading.

Some noncommercial influences frequently are brought to bear when a government performs a commercial function. State trading may be used as the means of allocating short foreign exchange funds to buy imports. Political objectives therefore may be sought in the commercial operations. Negotiation of terms, rather than free and open bidding, furthers political aims without making it necessary for a government to disclose reasons or motives.

One example is the French Société Interprofessionelle des Oleagineaux Fluides Alimentaires. Exercising government powers, SIOFA has bought or authorized others to buy the country's entire imports of edible vegetable oils and oilseeds. French producers of oilseeds thereby have been protected against market competition of other countries. The agency has given preferential treatment to oilseed imports from areas that do their trading in French francs.

The agency has broad authority in its operating methods. It has furnished little information to anyone outside the agency about its procedures in buying and importing. It has been free to change its operations without prior notice, unhampered by any fear that details of its precedents are known outside.

In determining the amounts of oils and oilseeds to be imported and the countries from which to buy, the agency has given preferential treatment to peanuts from Africa over soybeans from the United States, although the soybeans yield a higher quality and amount of meal. Peanut oil has been given an artificial preference for about two-thirds of the total imports of oils and oilseeds. Otherwise, cottonseed and soybean oils could be substituted in most of the products.

To support the prices of most agricultural products, France has intervened directly in foreign trade. For cereals, sugar, dairy products, and vegetable oilseeds, state trading has been the rule. Some other products have been released from these operations, in amounts that vary according to the exporting country.

The French Government in 1960 merged various commodity funds and the mutual guarantee and production adjustment fund into Forma, which conducts extensive internal buying and storage operations, subsidizes exports, and controls imports. It is financed mainly by the government. Amounts needed to support the internal milk market and subsidize exports have increased over several years.

France has always been a high-priced market for meat, but new trading operations have enabled her to continue domestic prices at about double those in many other countries and to remove surpluses by exporting some meat to Spain and Portugal at prices as low as one-third the French internal prices.

METHODS of administering state trading embrace many techniques.

West Germany has required that importers of cereals, feed, sugar, milk, and livestock offer the commodities to its import offices. With the option of accepting or refusing the offers, the offices may arrange for sales on the home market and reserve the right of taking over the imports and retailing them.

In Austria, a government monopoly imports raw and manufactured tobacco, has sole authority to decide on purchases, and conducts its operations on a commercial basis without discrimination as to sources of supply. State trading in grains began in 1960, when some other European countries were releasing some of their imported farm products from state trading.

Ireland has made a government grain importers' group solely responsible for imports of wheat, barley, corn, and flour. The group has resold to distributors and millers at prices fixed to maintain a balance between home production and imports. Stable and uniform prices have been maintained to help livestock farmers and provide authorized profit margins for millers. Any losses have been covered by the government. The state monopolies also have been handling butter, sugar, potatoes, oils, and oilseeds.

The Federal Wheat Administration in Switzerland has operated within the Department of Finance and Customs. Centralized imports have been considered essential to control prices of bread and protect the milling industry. The legal basis was included in an addition to the Federal Constitution and was adopted by popular vote in 1952. For feedstuffs and grains, a cooperative company of firms engaged in international trade formed a syndicate and was given a legal import monopoly. The company has controlled prices and quantities of imports to prevent gluts in the market and avoid the overproduction of milk, dairy products, meat, and animal fats. A butter supply center has held a monopoly of butter imports as a government controlled cooperative of firms and organizations in the wholesale trade. The center, rather than its members, has bought butter from foreign suppliers for retail distribution. Fats and seed potatoes also have been state traded.

Finland has a state monopoly of food grains, but a pooling of imports of sugar, corn, bran, oilseed meal, and vegetable oils is voluntary. Cooperatives have engaged in processing and marketing, and importers have been shareholders; thus the benefits of bulk purchases have been achieved.

Poland has reported that 34 foreign trade enterprises operate within a system of state monopoly and that state trading has been the only foreign trade operation because state monopoly in foreign trade has always been a basic feature of the socialized economy, as in the Soviet bloc generally. Polcoop and Rolimpex were listed as exporters and importers of fertilizers, foodstuffs, and other agricultural products.

Yugoslavia has also followed a similar Communist pattern.

JAPAN HAS distinguished between food control and government monopoly as separate categories. Rice, barley, and wheat have been covered under food control to assure adequate supplies at reasonable prices and to effect stability of the national economy. A food management law of 1942 provided the authority to control prices and marketing of the three items. The food agency has issued permits to private traders, who are required to sell imports to it. No long-term contracts have been concluded, but overall bilateral agreements (as with Australia) have sometimes been used.

The Japan Monopoly Corporation has handled tobacco to obtain revenue and salt to secure a stable supply. Its operations have included monopoly of imports, production, manufacture, and any exports of manufactured tobacco. Salt has not been exported because of comparatively high costs.

Canada has reported that its Wheat Board monopoly of wheat, oats, and barley is its only state trading enterprise. It has covered only designated western areas where the exportable surpluses are produced. The Board has not owned or operated facilities of any kind for storage and handling, but has directed the movement in domestic and export markets through the private trade.

Sales to mainland China and to the

Soviet Union in 1963 by the Canadian and Australian Wheat Boards have taken most of their surpluses. The credit terms given the Chinese and other Communist importers have not been offered to traditional non-Communist customers. This distinction between customers is quite the reverse of United States terms under Public Law 480 as between types of governments. Sales of wheat by Canada in 1963 carried Canadian commitments to take substantial quantities of Chinese goods, especially cotton textiles, in lieu of payments entirely in dollar exchange.

The Commodity Credit Corporation, carrying out United States operations as part of the Department of Agriculture, has protected itself with United States or foreign bank guarantees, which resulted in extra costs to the borrower. On the other hand, the Canadian Wheat Board's higher interest charges were offset largely by the Canadian Government's furnishing the guarantee to the effect that the Board would be paid by the foreign buyer.

Although the Commodity Credit Corporation charged interest rates as high as those the United States Treasury paid in borrowing from private banks, the higher interest rates in Canada tended to be offset by the Canadian Government's assumption of credit risk, a function kept in the private sphere by the United States.

Nearly all of Canada's other exports and imports have been privately traded, but the government offered considerable assistance to the traders.

MANY OF THE developing countries in Africa have given monopoly power over imports or exports of individual commodities to cooperatives, marketing boards, or other agents of the state.

In some, this has facilitated continuation of trade relationships with former mother countries and receipt of aid from them. In others, the establishment of new state monopolies has been part of the step to break away to bilateral relationships with other countries that offer aid, such as Russia.

The Republic of South Africa has continued operations in effect when the Union was a part of the British Commonwealth. A number of commodity boards control trade, especially in support of farmers' cooperatives. Wool has continued to be freely marketed through private auctions, but a government board has bought wool to support prices. Other commodities depend on the country's import or export position. Each board has conducted or controlled the trade in the interest of the producers and the internal economy. The imports have been directed to countries giving the most favorable terms, including returns from barter and export sales.

Australia and New Zealand have offered their butter, cheese, and dried milk at different prices in importing countries. Most of their dairy products have moved to the United Kingdom. The United Kingdom imposed quotas to keep out subsidized sales from nearby countries that became exporters in 1960 or later. Since then, the Commonwealth exporters have enjoyed special protection in the large United Kingdom market. The small quantities they have marketed at higher prices in small importing markets have resulted in problems of consultation, when United States firms obtained limited exportable supplies from Commodity Credit Corporation and offered them at foreign market price levels.

The United Kingdom shifted out of wartime state trading and has kept most of its markets open to competitively priced, unsubsidized imports from all sources. Direct subsidies were paid farmers, and goods were bought from Communist countries. Preferential tariff rates for some commodities have favored Commonwealth countries. Pressures from these countries against subsidized butter from other countries that were not previously exporters of butter led to the quota restrictions in favor of the Commonwealth shippers. Old ties have led to understandings that have achieved advantages of state trading without most of its troubles—at least, competitors have received that impression from the demand among large Commonwealth companies for Rhodesian tobacco.

The ties with large United Kingdom grain importers, flour millers, and cooperatives have facilitated bulk forward sales at fixed prices by state trading monopolies of exporting countries. When the Canadian Wheat Board completed its 1963 bulk sales to Russia at a fixed forward price below levels prevailing earlier in the year, market levels again started rising. The Board offered the Japanese importing monopoly a year's supply at the cheaper price. The small number of large firms in the United Kingdom was able to obtain a similar year's commitment with private bank credit and coordinated contracting based on informal understandings.

Argentina's I.A.P.I. was a well-known state trading agency under the Perón regime. Its announced objectives were to obtain the most advantageous possible terms on the country's imports and exports. After the Second World War, its high prices for exports of flaxseed to the United States led American officials to fix a high price-support level and set high production goals to reduce dependence on imports. The United States has since been a substantial exporter of flaxseed. After many years of selling agricultural commodities and food products and importing many supplies and manufactured goods, the agency was abolished when the administration changed. Trade shifted largely to private firms, and rigid controls of foreign exchange were relaxed.

Brazil's imports of wheat are conducted by the government. Thus the way was open for various purchases from the United States and also for bilateral agreements with the Soviet Union to obtain wheat, chiefly for coffee. Up to 500 thousand tons of wheat a year have been obtained from the Soviet Union. In earlier years, Brazil had signed 3-year commitments with Argentina for 1 million tons annually and with Uruguay for 300 thousand tons. The exportable supplies of these two countries fell off, however, and Brazil was not able to fill the quantities held open in Public Law 480 agreements with the United States. Brazil obtained large quantities for cruzeiros under Public Law 480 and filled United States usual marketing requirements largely by barter of manganese for deposit into Commodity Credit Corporation's supplemental stockpile.

Government agencies in Mexico deal in agricultural imports, but private trading is done in nonagricultural imports and in nearly all exports.

India has had differences over her domestic and international state trading. Problems of supplies and prices of food, especially rice and wheat, led to strong pressures to have the state take over internal supplies. Private dealers have continued to operate internally and to trade without price fixing but with the benefit of other controls. Transportation across the 14 state lines has been restricted. The national food ministry has made large purchases in the United States and has made delivery to the regional food directors in India. The imports have moved to consumers and millers without differentials in transportation rates in the regions. The lower priced imports have held down the market prices of domestic supplies. Whenever prices have sagged too much, importations have been reduced, and state agencies have started purchases to support domestic prices.

To trade with Soviet countries, India set up the separate State Trading Corporation. Soviet aid thus could be had while the flow of individual items of import and export were controlled.

In Burma, operations of the State Agricultural Marketing Board in the early fifties brought about problems in connection with exports of rice. The board held large quantities for better prices, but storage was inadequate and deterioration was extensive. Barter agreements were negotiated with Communist countries, but several were unsatisfactory and were allowed to expire ahead of schedule. The Soviet Union resold part of the rice to India, which normally is a Burmese market. The rice was unsatisfactory when it was received, and a drop in prices added to the difficulties. Some of the bartered items were unusable. The Burmese refused to accept Soviet textiles equal to 10 million dollars.

Indonesia does heavy state trading but contrasts with methods of other "socialist" nations. Its export commodities—tea, coffee, copra, rubber, and tin—are traded freely in the markets throughout the world. As a result, Indonesia would lose good profits when demand is strong if her commodity exports were tied up in bilateral contracts. Furthermore, in a weak market period, Sino-Soviet trade would not be offered as a temporary opportunity. Thus the maintenance of openings in world markets for the best prices has kept her from entering long-term governmental agreements.

EXPORTERS, officials, and others encounter a thorny question when they talk about shifting from private to state trading: How can one do business with state trading countries without being outtraded?

When private firms compete among themselves, the national monopolies they do business with apparently have some advantages.

A national monopoly that represents all the producers of a country can shade the price or other terms without risk of financial insolubility. Private firms that trade internationally, however, may handle the monopoly's commodities plus goods from market-economy nations. The firms compete for supplies and outlets. The producers in the nongovernment trading nations have to depend on what the market will bid, plus any subsidies they obtain.

Quality competition among exporting countries has provided a particular problem. The state trading monopoly can offer top quality consistently, but private firms may barely meet certain government grades and standards. The state monopoly may even raise the qualities delivered; the competing trade firms may mix in some parts from lower grades to reduce their costs. In making a mixture of grades, they may barely keep the delivered lots above minimum standards.

In the development of Public Law 480, the question was often raised: What would the private trade contribute? Why would it not be more efficient to use state trading for all surplus disposals?

The legislative decision was to require the use of private trade channels to the maximum extent practicable.

The competition of private owners brings greater efficiencies, especially over the long run. The flexibilities in marketing forced by the new investor insure against perpetuation of outmoded techniques. Duplication of domestic private channels or setting up parallel services was avoided. Also, the freezing of services within commission fees and government assumption of all risks were prevented in adopting full use of the private trade.

THE COMMODITY CREDIT CORPORATION, a part of the United States Department of Agriculture, has virtually full state trading authority, but it does not claim exclusive monopoly power.

The United States Government generally avoids using the authority fully under most circumstances. The authorizations for sales passed by the Board of Directors require everything to move through private firms, and any government-to-government transactions have to be considered separately as specific proposals to the Board. Few of these proposals are presented, and they are mostly for special low prices for cash dollar sales restricted to particular uses, such as lunches for schoolchildren.

The private firms are not generally employed merely as agents. They usually have full breadth of operation in pricing and other terms and conditions of sale, considerably beyond the margin of fixed fees or commissions for mere contracted services. The firms can take a profit or loss for themselves. They are expected to exercise full ownership and responsibility as traders, and their latitude of trading is much wider than under state trading conditions.

They have to take broad financial risks on making final deliveries under their contracts. Government decisions change many trading conditions. Sales of wheat by private firms to Russia and European-bloc countries have been affected by requirements to use American vessels and set high export payment rates by accepting offers on durum wheat, which was in exceptional oversupply.

MANY other concessional terms are available under separate United States authorities. Most of these have some aspects of state trading but not wholly and are not considered a basis for reporting under this heading to the GATT. Most of them are surplus disposals and are reported to the GATT fully under that heading, as well as to FAO, notably the Consultative Subcommittee on Surplus Disposal, which has been meeting in Washington monthly since early 1954.

The concessional terms furnished by Government authority make it necessary to have government-to-government consultations with other exporting countries. The other countries insist on these consultations, fearing that the United States may use its financial power to offer terms which might take their markets. They are anxious to be able to report to their own people that they have had a look in advance at the special terms and that the United States is not doing anything unfair.

The United States is committed in the GATT, like other member countries, not to take an unfair share of the export market. However, the United States has never insisted on prior consultations from others in all of their state trading transactions, export subsidies, or bilateral barters. The United States could meet others' terms once they were known to have been used, at least unless its opposition in principle against going the whole way to state trading should interfere in a particular case with its desire to be fully competitive.

The United States has used grants, donations, barters, sales for foreign currencies, foreign aid financing, credit sales, reduced prices, and other special terms to move surplus products. The only government-to-government transactions have been commodity grants, a few instances of special pricing for special uses, and some sugar exchanges over a short period.

Negotiation of terms on a government-to-government basis has been an essential characteristic of the large volumes moved under foreign currency sales, some of the barters, and the longer term dollar credit sales. The individual sales under these programs, however, have been made within publicly announced terms by private owners to foreign purchasers. The buyers have often been state trading import agencies, but the United States sellers have been private firms.

The private trade agreements under title IV of Public Law 480 will raise new questions in the area of state trading as they do in the areas of consultations between governments over terms and conditions.

The Consultative Subcommittee on Surplus Disposal of the Food and Agriculture Organization is more concerned over terms of trade between countries than mechanics through which terms are reached, except for one point: If concessional terms are substantial, consultations are essential with exporting countries.

The subcommittee is moving its chief attention from the changing attitudes toward surplus disposals into the gray

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area of transactions where there is difficulty in distinguishing between true commercial terms and concessional terms. At the urging of the United States, the analyses of actual cases of commodity transactions are not confined to surplus disposals. Instead, the case studies include other concessional terms given through such techniques as bilateral agreements and state trading.

A heightened interest in trade questions is stemming from the use of subsidies and state trading enterprises.

The growing issue of trade between market economy and state trading countries is considered one of the major unresolved problems in the international trade field. This issue is sharpened by the efforts to rationalize markets for agricultural products with new proposals for market sharing through international commodity arrangements.

THE GREATER FACILITY of state trading mechanisms to accommodate with changing situations heightens their attraction to many who are faced with new conflicts. The contrast of expanding supplies from the wealthier countries and less per capita in the developing countries emphasizes the market sharing problem. As a result, there is an increasing need for extensive international negotiation on these mechanics and terms of trade. This may bring a basic revision of GATT article XVII, which deals with state trading enterprises.

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East-West Agricultural Trade

by THEODORA MILLS

FOREIGN TRADE is a government monopoly in the Communist countries.

It is programed by government economic plans and usually is fitted into bilateral agreements negotiated or renegotiated annually.

The currencies of the Eastern countries are not convertible, not even with one another, so that trade between pairs of countries must balance. Imbalances must be settled in some convertible currency or gold or through the extension of credit.

The inconvertibility of bloc currencies also puts a premium on desired Western industrial goods and raw materials, like natural rubber, not to be found in the bloc, since these must be paid for in hard currencies—dollars, pounds, sterling, or others.

The prices at which international trade takes place are negotiated by the trade organizations of the bloc governments from the base point of average free world prices. The resulting prices remain separated from other government-fixed prices in all of the Eastern countries.

Thus the regulatory effect that foreign competition in trade may have on demand and supply in the Eastern countries is bypassed, and the problem of determining levels of productivity is made difficult.

A political motive always is present in state trading. This does not mean