International Agricultural Trade
Research Consortium

Options for Agriculture:
From Framework to Modalities in Market Access/
Domestic Support/Export Competition

EXPORT COMPETITION DISCIPLINES IN THE DOHA ROUND

by
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Preface

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This final version benefited from discussion by task forces established by the International Policy Council, as well as by the International Policy Council itself, and from comments by members of the IATRC. However, the author takes full responsibility for the contents of the paper. Papers reflecting the full input of the task forces and the International Policy Council have been published on the International Policy Council's website at agritrade.org, along with the International Policy Council's advice and cautions to negotiators.

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Linda M. Young

July 20, 2005

EXECUTIVE SUMMARY

The Doha Round Ministerial Decision called for "Reduction of, with a view to phasing out, all forms of export subsidies." The Export Competition Pillar of the agricultural negotiations includes direct export subsidies, export credits, state trading enterprises and food aid. The July framework gives further instruction that disciplines should ensure the parallel elimination of all export subsides *with equivalent effect* by a credible end date.

The July Framework states that all direct export subsidies will be eliminated, so that the task remaining is to decide on the time frame and other details of the transition period. The elimination of export subsidies would be a significant achievement. While greater gains are expected to accrue from reform of domestic subsidies and improvements in market access, export subsidies have long been condemned as greatly distorting to world markets and detrimental to competitive exporters and import competing producers. As export subsidies are a compliment to policies such as high internal prices, their elimination will prevent the reemergence of some distorting forms of producer support. WTO members would benefit from being flexible about the details of the transition period if necessary to ensure achievement of this long-term goal.

Food aid can act as an implicit export subsidy in some situations; however, disciplines on the subsidy component of food aid must preserve it humanitarian and developmental roles. Food aid programs with a market development objective should be eliminated. Food aid from surpluses accumulated due to agricultural policy could be disciplined by mandating that they be donated through the UN's World Food Program, in order to minimize possible political motivations for donations. However, many other disciplines that have been proposed would likely result in lower levels of food aid overall. The July Framework states that disciplines on food aid should prevent commercial displacement, an emphasis that indicates that the WTO is not the appropriate institution to develop detailed rules for food aid. A new institutional home with appropriate representation from recipients and the development community should be charged with assisting the WTO in developing further appropriate rules for food aid.

The July Framework also states that government subsidies for STEs will be eliminated. A further discipline requiring countries maintaining STES to offer duty-free access to their domestic market for the goods they manage would eliminate the possibility that a high-priced domestic market is used to subsidized exports. Beyond these two measures, it is difficult to propose disciplines on STEs, as both economic analysts and member governments widely disagree on the impact of exporting STEs on world markets. Elimination of STEs monopoly rights is likely to result in further market power on the part

of the private firms remaining in the market, and will not resolve concerns over market power, transparency and price discrimination on the part of both STEs and private firms. It is recommended that STEs be disciplined within negotiations on competition policy, so that both STEs and private firms are addressed.

The July Framework also mandates that export credit programs of more than 180 days be eliminated, a major step towards reducing the subsidy component of export credit programs. Negotiations are now focused on developing detailed rules for export credit programs. Due to the recent WTO ruling on the US cotton program, it is important that rules for export credit programs ensure that programs are structured to avoid a net cost to the government. Progress in the negotiations indicate that WTO members want to eliminate the subsidy element of export credit programs even at the cost of eliminating the potential additionality that these programs can create when they assist importers in alleviating liquidity constraints.

Special and differential treatment for developing country members can be realized through granting longer transition periods in the elimination of direct export subsidies. Likewise, if STEs are mandated to coexist with the private sector, developing countries should be exempted, and elimination of government subsidies to STEs should have a longer transition period. It is proposed to create a new export credit program to assist developing countries in alleviating liquidity constraints for food imports. If this program is not limited by budgetary constraints or excessive conditionality for recipients, it could provide a significant step in meeting the goals of the Doha Round and previous WTO commitments to developing country food security.

Parallel elimination of various forms of export subsidies is ideal and helpful in achieving the political consensus for reform. However, parallel elimination should not compromise the important role that food aid can play in the food security and development of developing countries. It can perhaps best be achieved by writing simple rules that eliminate over time the use of government funds for direct export subsidies, export credit programs and state trading.

EXPORT COMPETITION DISCIPLINES IN THE DOHA ROUND

1. INTRODUCTION

The Doha Ministerial Decision called for "Reduction of, with a view to phasing out, all forms of export subsidies." However, negotiations on agriculture under the Doha Round of the World Trade Organization (WTO) have been difficult and progress has been slow. Currently, there is pressure to make substantive progress before the upcoming Ministerial slated for December 2005 in Hong Kong. The Modalities Framework, adopted in July 2004, is currently guiding the development of modalities with the goal of adoption at the Hong Kong Ministerial at the end of 2005. The portion of the July framework (WTO 2004a) relating to export competition policies is included in its entirety in Box 1. Modalities are targets used to achieve the goals set out in the Ministerial Declaration. They will be used by members to make offers on their commitments under a potential Doha Round agreement.

This paper evaluates potential disciplines under the Export Competition Pillar of the agricultural negotiations, addressing export subsidies, export credits, state trading enterprises, food aid and differential export taxes. This paper will not attempt to duplicate the assessments made in earlier work (Young, Abbott and Leetma 2001; Abbott and Young 2004; Abbott and Young 2005) but will focus on the background, and new developments pertinent to the consideration of potential proposals for disciplines. Some topics are treated more comprehensively than others. This does not necessarily reflect their importance, rather the level of agreement reached on a particular issue and the complexity of the remaining issues.

2. DIRECT EXPORT SUBSIDIES

URAA on Export Subsidies

In the Uruguay Round Agreement on Agriculture (URAA) the 25 contracting parties (Table 1) with a history of export subsidies agreed to reduce the volume of export subsidies by 21 percent over 6 years from a 1986–90 base period level (14 percent over a 10 year period for developing countries) and reduce the value of export subsidies by 36 percent over 6 years from a 1986–90 base period level (24 percent over 10 years for developing countries). Countries with no history of export subsidies agreed not to initiate them. Under Article 9.4 developing countries are allowed to use export subsidies to support marketing, handling, upgrading and international transport.

Table 1. Who Can Subsidize Exports?

Australia (5)	Czech Rep (16)	Mexico (5)	Slovak Rep (17)	Uruguay (3)
Brazil (16)	EU (20)	New Zealand (1)	S Africa (62)	Venezuela (72)
Bulgaria (44)	Hungary (16)	Norway (11)	Switzerland-Liechtenstein (5)	
Canada (11)	Iceland (2)	Panama (1)		
Colombia (18)	Indonesia (1)	Poland (17)	Turkey (44)	
Cyprus (9)	Israel (6)	Romania (13)	United States (13)	

( ) indicate number of products for each country
Source: WTO, 2004b

Box 1. Export Competition Measures of the Modalities Framework

The Doha Ministerial Declaration calls for "reduction of, with a view to phasing out, all forms of export subsidies." As an outcome of the negotiations, Members agree to establish detailed modalities ensuring the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date.

End Point

The following will be eliminated by the end date to be agreed:

- Export subsidies as scheduled.
- Export credits, export credit guarantees or insurance programmes with repayment periods beyond 180 days.
- Terms and conditions relating to export credits, export credit guarantees or insurance programmes with repayment periods of 180 days and below which are not in accordance with disciplines to be agreed. These disciplines will cover, inter alia, payment of interest, minimum interest rates, minimum premium requirements, and other elements which can constitute subsidies or otherwise distort trade.
- Trade distorting practices with respect to exporting STEs including eliminating export subsidies provided to or by them, government financing, and the underwriting of losses. The issue of the future use of monopoly powers will be subject to further negotiation.
- Provision of food aid that is not in conformity with operationally effective disciplines to be agreed. The objective of such disciplines will be to prevent commercial displacement. The role of international organizations as regards the provision of food aid by Members, including related humanitarian and developmental issues, will be addressed in the negotiations. The question of providing food aid exclusively in fully grant form will also be addressed in the negotiations.

Effective transparency provisions for paragraph 18 will be established. Such provisions, in accordance with standard WTO practice, will be consistent with commercial confidentiality considerations.

Implementation

Commitments and disciplines in paragraph 18 will be implemented according to a schedule and modalities to be agreed. Commitments will be implemented by annual installments. Their phasing will take into account the need for some coherence with internal reform steps of Members.

The negotiation of the elements in paragraph 18 and their implementation will ensure equivalent and parallel commitments by Members.

Special and Differential Treatment

Developing country Members will benefit from longer implementation periods for the phasing out of all forms of export subsidies.

Developing countries will continue to benefit from special and differential treatment under the provisions of Article 9.4 of the Agreement on Agriculture for a reasonable period, to be negotiated, after the phasing out of all forms of export subsidies and implementation of all disciplines identified above are completed.

Members will ensure that the disciplines on export credits, export credit guarantees or insurance programs to be agreed will make appropriate provision for differential treatment in favour of least-developed and net food-importing developing countries as provided for in paragraph 4 of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries. Improved obligations for monitoring and surveillance of all new disciplines as foreshadowed in paragraph 48 will be critically important in this regard. Provisions to be agreed in this respect must not undermine the commitments undertaken by Members under the obligations in paragraph 18 above.

STEs in developing country Members which enjoy special privileges to preserve domestic consumer price stability and to ensure food security will receive special consideration for maintaining monopoly status.

Special Circumstances

In exceptional circumstances, which cannot be adequately covered by food aid, commercial export credits or preferential international financing facilities, ad hoc temporary financing arrangements relating to exports to developing countries may be agreed by Members. Such agreements must not have the effect of undermining commitments undertaken by Members in paragraph 18 above, and will be based on criteria and consultation procedures to be established.

Source: WTO 2004

The Use of Export Subsidies by WTO Members

WTO members are obligated to notify the WTO of their use of *direct* export subsidies for which there are reportable public expenditures and reduction commitments. Other policies can result in export subsidies, and these are discussed throughout the paper. On average, the EU accounts for 91.6 percent of export subsidies by value, with expenditures of $29.3 billion over the 1995–2000 period. Over this same period, Switzerland and Norway spent $1.8 billion, and the United States spent $487 million. Another 23 countries cumulatively spent less than $1.5 billion over those five years. This group includes several developing countries, six of which (India, Korea, Morocco, Pakistan, Thailand and Tunisia) did not make reduction commitments in the URAA (Abbott and Young 2003, p. 10).

WTO notifications document if national commitments have been met, including both value and volume commitments. Table 2 details the percentage of commitments used, and Table 3 a and b gives the volume of subsidized exports and expenditures through 1999 (WTO 2002a). The EU has used between 50 and 82 percent of its budgetary commitment and from 65 to 107 percent of its volume commitment – being beyond its volume commitment in one year and never in total above its value commitment. From 1995–98 Columbia is often near its volume commitment, but spent only 15–20 percent of its budgetary commitment, and in 1999 and 2000 shows no expenditures. In 1999 the United States and Norway exceeded both their value and volume commitments. Other violations of aggregate export subsidy commitments are extremely rare.

Having both value and volume commitments constrains export subsidies in times of both high and low prices. When world prices are low, the value limit becomes more constraining because the wedge between the domestic support price and the world price becomes larger. Volume limits prevent export of excess supply when there are low domestic prices. When world prices are high, the value constraint becomes less binding but the volume constraint can still be effective. Therefore, value and volume limits together weaken the ability of export subsidies to maintain fixed internal price supports.

Despite extensive criticism from producers, academics and policymakers, export subsidies persist because they are a necessary compliment to domestic agricultural policies that include high internal prices, and thus levels of subsidy. Lowering intervention prices in the EU, and decoupling some US policy instruments in the 1996 farm bill, has led to lower expenditures on export subsidies.

There is widespread support for the elimination of export subsides, which have long been considered detrimental to the operation of world markets. Export subsidies are harmful to efficient producers, including unsubsidized exporters and import competing producers. It may be true that the gains from the elimination of export subsidies are small relative to the impact of eliminating barriers to imports and domestic subsidies; however, for some industries these gains will be significant. Anderson and Martin (2005) estimate that the elimination of export subsidies will account for two percent of the total gains from potential agricultural policy reforms. An earlier study by the Economic Research Service of the US Department of Agriculture (2001) estimated that elimination of export subsidies

Table 2. Percent Use of Value and Volume Commitments, 1995–2000[1]

	1995		1996		1997		1998		1999		2000	
Member	% of budget comm.	% of volume comm.	% of budget comm.	% of volume comm.	% of budget comm.	% of volume comm.	% of budget comm.	% of volume comm.	% of budget comm.	% of volume comm.	% of budget comm.	% of volume comm.
Australia	0	0	0	0	0	0	6	3	12	4	0	0
Brazil	0	0	0	0	0	0	0	0				
Bulgaria	n.r.	n.r.	n.r.	n.r.	0	0	0	0	0	0		
Canada	59	58	8	5	0	0	0	0	0	101		
Colombia	15	59	20	76	17	125	22	152	0	0	0	0
Cyprus	164	86	50	44	46	129	75	98				
Czech Republic	28	51	32	34	38	34	38	33	53	47	31	50
European Communities	54	65	61	85	51	82	69	91	82	107	50	74
Hungary	58	23	31	22	20	18	73	21	114	37		
Iceland	26	61	4	10	1	1	0	0	0	0		
Indonesia	0	0	0	0	0	0	0	0	0	0	0	0
Israel	44	69	31	63	13	20	9	15	13	33	0	0
Mexico	0	0	0	0	3	17	14	60				
New Zealand	0.01	n.r.	0	n.r.	0	n.r.	0	n.r.	0	n.r.		
Norway	68	69	44	45	83	94	65	78	184	170		
Panama	n.r.	n.r.	n.r.	n.r.		n.r.		n.r.		n.r.		
Poland	0.2	1	36	116	21	149	21	63	95	103	42	66
Romania	0	0	0	0	0	0	4	48	6	32		
Slovak Republic	12	32	23	28	32	56	29	56	46	71	54	62
South Africa	15	15	51	52	35	45	28	3	48	4	39	2
Switzerland-Liechten.	70	81	73	81	45	34	65	55				
Turkey	47	71	92	89	71	72	66	70	61	71	70	72
Uruguay	0	0	0	0	0	0	0	0	0	0		
United States	22	35	56	50	50	70	74	73	185	199		
Venezuela	19	37	49	29	11	25	33	47				

[1]Simple average use of export subsidy commitment levels across all relevant product groups in percent (excluding zero-use notifications).
Source: WTO, TN/AG/S/8, 2002a

Table 3a. Export Subsidy Notifications by Commodity, 1999-2000

	All WTO Members				European Community								United States				
	1999		2000		1999				2000				1999				2000
Product	Volume	% comm.	Volume	% comm.	Volume	% comm.	Value	% comm.	Volume	% comm.	Value	% comm.	Volume	% comm.	Value	% comm.	Volume
Wheat and wheat flour	15,606	44%	10,204	62%	15,606	100%	509	34%	10,204	71%	108	8%	0		0		0
Coarse grains	19,226	96%	737	6%	18,379	161%	730	63%	7,080	65%	192	18%	0		0		0
Rice	140	25%	132	31%	140	101%	26	65%	132	99%	32	88%	0		0		0
Oilseeds	0		27	6%	0		0		0		0						
Vegetable oils	50	5%	10	3%	0		0		0		0						
Oilcakes	0		0														
Sugar	1,107	42%	1,001	43%	971	73%	470	86%	882	69%	373	75%					
Butter and butter oil	206	40%	197	45%	194	46%	333	32%	197	49%	338	36%	5.3	21%	7.3	22%	0
Skim milk powder	644	105%	205	44%	417	146%	338	112%	128	47%	26	9%	101.4	133%	45.3	50%	0
Cheese	349	78%	305	82%	305	89%	236	60%	305	95%	238	70%	3.9	121%	5.6	140%	0
Other milk products	1,263	101%	920	83%	1,104	110%	905	119%	873	91%	410	59%	17.9	711%	20.3	702%	0
Bovine meat	775	63%	495	51%	766	87%	726	52%	475	58%	383	31%	0		0.0		0
Pigmeat	715	122%	130	28%	694	150%	243	115%	129	29%	34	18%	0		0.0		0
Poultry meat	336	50%	263	78%	318	101%	75	75%	261	91%	57	63%	2.5	9%	1.6	0.1%	0
Sheepmeat	0	1%	0														
Live animals	9	6%											0		0		0
Eggs	102	94%	84	83%	101	97%	14	30%	84	85%	8	19%	0		0		0
Wine	1	0%	0		2	99%	26	61%	2	99%	24	60%					
Fruit and vegetables	1,103	18%	1,145	21%	981	105%	43	64%	815	91%	31	51%					
Tobacco	0		0		0		0		0		0						
Cotton	0		0														
Achohol					1,998	167%	219	208%	891	78%	96	99%					
Incorporated products							720	151%			414	100%					

Notes: Volumes are notified subsidized export volume in thousand metric tons.
Values are budgetary outlays (subsidy value) in million Euros for the European Community and $ millions for the United States.
Percent of commitment is reported after both volume and value measures.
Zeros are shown only where there was a commitment for that commodity.

Source: WTO, TN/AG/S/8, 2002a

Table 3b. Export Subsidy Notifications by Commodity, 2001-2002

	European Community				United States							
	2001				2001				2002			
Product	Volume	% comm.	Value	% comm.	Volume	% comm.	Value	% comm.	Volume	% comm.	Value	% comm.
Wheat and wheat flour	1,650.1	11%	8.5	0.7%	0		0		0		0	
Coarse grains	3,922.4	39%	112.8	11%	0		0		0		0	
Rice	132.2	99%	30.3	82%	0		0		0		0	
Oilseeds												
Vegetable oils	0		0		0		0		0		0	
Sugar	1,051.9	83%	482.8	97%								
Butter and butter oil	193.7	49%	324.9	34%	0		0		10.0	47%	15.5	51%
Skim milk powder	86.9	32%	36.7	13%	68.0	100%	53.7	65%	68.2	100%	14.8	18%
Cheese	279.5	87%	188.6	55%	3.0	100%	0.9	26%	3.0	100%	1.2	34%
Other milk products	763.8	80%	402.2	58%	0		0		0		0	
Bovine meat	483.5	59%	388.4	31%	0		0		0		0	
Pigmeat	71.6	16%	20.0	10%	0		0		0		0	
Poultry meat	230.4	81%	60.2	66%	0		0		0		0	
Live animals					0		0		0		0	
Eggs	80.2	81%	6.0	14%	0		0		0		0	
Wine	2.3	99%	22.9	58%								
Fruit and vegetables, fresh	704.4	93%	20.8	38%								
Fruit and vegetables, processed	78.7	55%	3.6	43%								
Tobacco	0		0									
Achohol	0.5	44%	52.8	55%								
Incorporated products	n.r.	n.r.										

Notes: Volumes are notified subsidized export volume in thousand metric tons.
Values are budgetary outlays (subsidy value) in million Euros for the European Community and $ millions for the United States.
Percent of commitment is reported after both volume and value measures.
Zeros are shown only where there was a commitment for that commodity.
EU data for 2002 not included in WTO report for January 2005.

Source: WTO, TN/AG/S/8/Rev.1/Add.1, 2005

would account for 13 percent of the total gains from agricultural policy reform. A further impetus for the elimination of export subsidies is that it will prevent countries from adopting domestic policies at a later date that require export subsidies as a compliment.

Elimination of export subsidies is sought particularly by developing country exporters who cannot afford to compete in a subsidy war. A few developing country exporters have reluctantly used export subsidies solely to compete with export subsidy use by developed countries, such as Mexico for sugar (de la Calle 2005).

Potential Disciplines for Export Subsidies

The July modalities framework makes it clear that direct export subsidies will be phased out, leaving the time frame and other constraints to be negotiated. Several of the proposals below would need to be combined to make a complete package.

Time frame and initial down payment. One option is to phase out export subsidies for all products over a specified time period in equal increments. The time period chosen might be similar to the time period to be used for reductions in domestic support, as the policies are linked. The choice of time period is also related to the market access negotiations, as some members, particularly from developing countries, object to furthering opening their borders to products receiving export subsidies. The length of time chosen is likely to be a compromise based on political realities, however, even a long transition period will achieve the important goal of reducing export subsidies to zero. A compromise between positions might be to eliminate export subsidies over a relatively short timeframe for all but a limited number of commodities, which might be given a longer transition period due to difficulty in making adjustments to domestic policies.

Another proposal is to require all (or some) countries to reduce export subsidies with a down payment in the first year of the agreement, and 50 percent has been proposed. After the down payment, reductions in export subsidies would be made in equal increments until they are eliminated. The economic argument for this option is that a large portion of the gains from reducing export subsidies would be realized quickly, however, the political argument is equally compelling. A down payment of a significant reduction in export subsidy commitments would be a good faith gesture indicating to developing countries, and to developed countries who do not significantly subsidize, that members using export subsidies are willing to make significant changes in their agricultural policies.

Maintain the current system of commitments on both the volume of subsidized exports and the value of expenditures on export subsidies. The argument for this was made earlier in this section.

Clarify that “rollovers” cannot be used. It should be clarified that unused commitments from one year cannot be carried forward to subsequent years. This issue will become more important as reductions become binding.

“Standstill” Provision. Countries that have the right to use export subsidies for a product, but have not, could forego that right.

Accelerated reduction of commodities with higher levels of subsidies. Another option would be to have an accelerated reduction for specified commodities that historically have received the highest level of export subsidies.

Special and differential treatment for developing countries. A wide variety of proposals have been made for special and differential (S&D) treatment. Few developing countries have export subsidy reduction commitments. In the URRA, developing countries were given ten years to reduce the value of their export subsidies by 24 percent and the volume by 14 percent. These countries could be given a longer transition period than that given to developed countries for reduction of their remaining export subsidy commitments. Some developing countries advocate for the ability to use export subsidies beyond the activities allowed in Article 9.4, however, there is considerable disagreement over this proposal. Additionally, developing countries have expressed concern over increased food import bills both during negotiations for the URAA and since the implementation of the agreement. Proposals to address this concern will be discussed later.

3. FOOD AID

Brief Background

The URA attempted to balance concern over the possible trade impacts of food aid with recognition of the role that food aid plays in the food security of developing countries, and at times, developed countries as well. Efforts to discipline food aid to minimize disruption to commercial markets included a continued prohibition on food aid as a blatant export subsidy, and a reference to the rules governing food aid under the UN Food and Agriculture Organization's "Principles of Surplus Disposal and Consultative Obligations." Concerns over food security were recognized in The Ministerial Decision on Measures Concerning the Possible Negative Effect of the Reform Programme on Least Developed and Net Food Importing Developing Countries (NFIDC Decision). This decision committed the WTO to review the level of food aid guaranteed by the Food Aid Convention, to ensure that the legitimate needs of developing countries were met, and to take other actions to promote food security. However, in the 1999 renewal of the Food Aid Convention, the first since the URA, donor commitments dropped to their lowest level in 33 years.

Figure 1 shows total global food aid.[1] The United States is the largest food aid donor, giving 63 percent of global food aid in 2002, and accounting for an average of 55 percent of food aid over the 1990s. US food aid programs are described in Tables 4 and 5. Donations by the European Commission are variable, and accounted for a low of six and a high of 28 percent of global food aid donations during the period 1990-2002. The World Food Program (WFP) of the United Nations delivered 42 percent of global food aid in 2001, including nearly 70 percent of emergency aid and 27 percent of project aid. WFP donations originate from bilateral donors, such as the United States or EU, and are intended to reduce the political motivations behind food aid distribution.

[1] All food aid volumes have been converted into grain equivalent by the author.

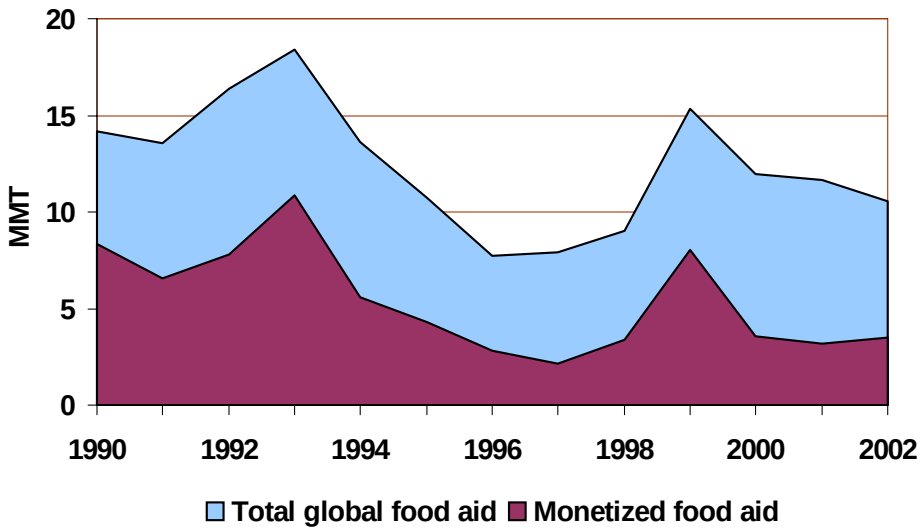

Figure 1. Total Global Food Aid, 1990–2002 (grain equivalent)

Table 4. US International Food Aid Programs: Basic Descriptions

US Programs	Agency	Purpose
P.L. 480: Title I	USDA	Concessional commodity sales through long-term loans.
Title II	USAID	Development and emergency relief programs in partnership with PVOs, NGOs, WFP and government-to-government (emergency only).
Title III	USAID	Government-to-government commodity donations to least developed countries, linked to policy reforms.
Food for Progress Act of 1985	USDA	Commodity donations offered for emerging democracies and developing countries making commitments to introduce or expand free enterprise elements in their agricultural economies. Agreements may be with governments, PVOs, NGOs, private entities, cooperatives, intergovernmental organizations.
Agriculture Act of 1949: Section 416(b)	USDA	Surplus commodities to PVOs, NGOs, WFP, Government-to-Government, donated to accomplish foreign food aid objectives.
Bill Emerson Humanitarian Trust	USDA/USAID	A four million MT reserve that can be tapped to meet emergency humanitarian food needs in developing countries.

Source: US Agency for International Development (USAID), "U.S. International Food Assistance Report 2002," 2004, p. 34.

Table 5. US International Food Assistance, Fiscal Years 1999–2002

		1999	2000	2001	2002
		Metric Tons			
P.L. 480					
Title I		1,941,900	392,793	753,200	504,190
Title II	Emergency	792,116	925,667	728,418	1,019,480
	Development	1,139,851	1,153,737	1,300,300	1,042,624
Title III		116,400	24,487		
Subtotal P.L. 480		**3,990,267**	**2,496,684**	**3,141,518**	**2,566,294**
Food for Progress					
Title I - Funded		252,028	267,711	310,520	0
CCC - Funded		161,612	114,230	125,750	285,420
Subtotal Food for Progress		**413,640**	**381,941**	**436,270**	**285,420**
Section 416(b)					
Regular		3,925,550	2,086,070	1,435,950	980,760
WFP		1,517,810	1,059,020	1,603,190	661,200
Subtotal 416(b)		**5,443,360**	**3,145,090**	**3,039,140**	**1,641,960**
Bill Emerson Humanitarian Trust					575,000
Grand Total		**9,847,267**	**6,023,715**	**6,616,928**	**5,068,674**

Non-governmental organizations (NGOs) and private voluntary organizations (PVOs) play an important role in delivering food aid from both bilateral donors and the WFP. In this capacity, they are described as the "channels" for food aid. In the 1990s, NGOs and PVOs delivered between 60–70 percent of global food aid. These agencies finance their activities by selling food aid they control on recipient country domestic markets, a practice called "monetization." In some cases the funds from monetized food aid are used to cover overhead costs of distributing food aid, and in other cases the funds are used by NGOs to finance a variety of food security and broader development projects.

Food aid has historically been divided into three categories. Emergency food aid is given to victims of natural disasters and conflict and averaged 37 percent of the total from 1990-2002 (Figure 2). Project food aid is given to a variety of groups to support a wide variety of development projects and accounted for 23 percent of the total on average. Programme food aid is given on a government-to-government basis, is wholly monetized, and the proceeds are used to support the recipient's objectives as specified in the agreement between governments. Programme food aid is extremely variable in quantity and from 1990-2002 accounted for 40 percent of total food aid. Analysts have noted the increasing irrelevance of these definitions to how food aid is given (Clay and Stokke 2000). For example, USAID now uses concepts based on the developmental needs and status of recipients. However, as both food aid reporting by the World Food Programme, and the WTO negotiations use these terms, they will be used here.

Relevant Concepts

The July modalities framework states that the objective of food aid disciplines is to prevent commercial displacement. Several concepts need to be developed before consideration of potential disciplines (Abbott and Young 2005). Commercial displacement is the extent to which commercial imports of food are reduced by food aid, and is closely related to the concept of additionality. Additionality is the extent to which donations increase demand

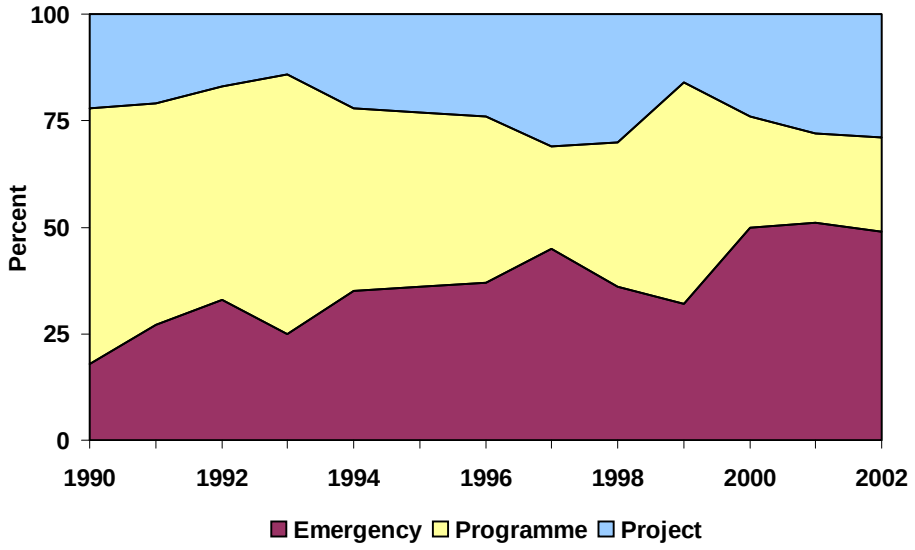

Figure 2. Shares of Emergency, Project and Programme Food Aid

and so consumption occurs that would not have otherwise. Additionality depends on the degree to which food aid is targeted to poor consumers (with a high income elasticity of demand for food) who would not have consumed it otherwise.

Empirical investigations of how well food aid is targeted find partial additionality (Barrett 2002) and evidence that malnutrition is alleviated to some extent. The level of additionality varies between programs, with programme food aid providing less additional consumption than project and emergency food aid.

The disincentive effect occurs when food aid increases the supply of food on a domestic market and so reduces the market price, and farmer's expectations of future prices, resulting in less production. If food aid is not completely additional it is possible that the disincentive effect can occur, but this is not a likely outcome. An inflow of food aid will result in reduced domestic prices if the country is a closed economy, or uses trade policy to prevent the transmission of prices from the world market to the domestic market. If the recipient of food aid is a small open economy, then an inflow of food aid is more likely to reduce commercial imports rather than the domestic price and production.[2] In addition, many developing countries use policies to stabilize the prices of basic foodstuffs in order to achieve broader social goals (Abbott 2005; Abbott, Patterson and Young 1998). To the extent that developing countries use price stabilization policies and to the extent that they are effective, commercial displacement will occur with inflows of food aid, instead of reduced domestic production.

As noted above, the extent of additionality (an increase in demand) depends on the design of the food aid program. Food aid is "monetized" by selling it in recipient country markets

[2] See Appendix One for a more complete theoretical discussion of the relationship between food aid, trade policy and commercial displacement using a national accounting identity.

(Figure 1 shows the amount of food aid that has been monetized). NGOs implementing food aid programs sell a portion of the food aid they distribute both to cover distribution costs and to fund a variety of development programs. The WFP no longer allows food aid to be monetized, and requires donors to provide cash to cover distribution costs.

The United States is the only donor that allows project food aid to be monetized and in 2002, US monetized project food aid accounted for 43 percent of total global project food aid (Figure 3). Monetized project food aid is used to fund a wide variety of projects. Examples abound and include maternal and child health, childhood immunization, efforts to promote water conservation and agricultural productivity, and micro-credit enterprises. Programme food aid is wholly monetized and the funds generated are used by the recipient country government for a variety of purposes (Figure 4).

These arguments do lead to the conclusion that food aid may be displacing some commercial imports. However, recent empirical work by the OECD (von Lampe 2004) estimated that substantial reform of food aid would result in price changes for grains of +/- 2 percent. The impact on skim milk powder may large in some years (the paper documenting his study has not yet been released). Figure 5 indicates the size of food aid to commercial markets for grains, and provides further cursory evidence that the price impact from reform of food aid programs, at least for grains, is likely to be small.

Consideration of Food Aid Disciplines

This analysis of potential food aid disciplines draws heavily on a recent paper by Abbott and Young (2005). Many past proposals for disciplining food aid have exempted emergency food aid, so to not encumber the speed or the size of the international response to crises. This analysis assumes that emergency food aid is not disciplined. Several factors make it difficult to write rules to discipline food aid without compromising potential humanitarian and developmental benefits. Most problematic for continuation of US food aid is the need to maintain the coalition of interests that has ensured the passage of

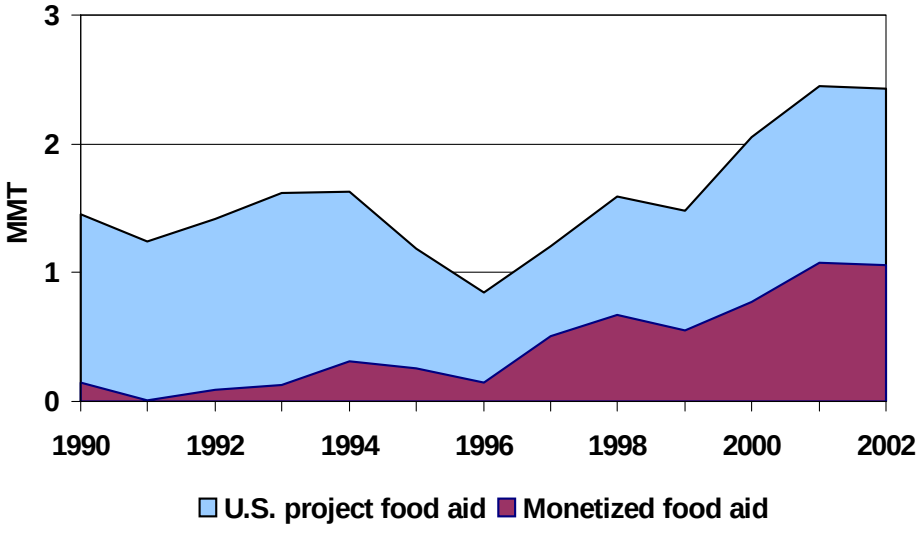

Figure 3. US Project Food Aid, 1990–2002 (grain equivalent)

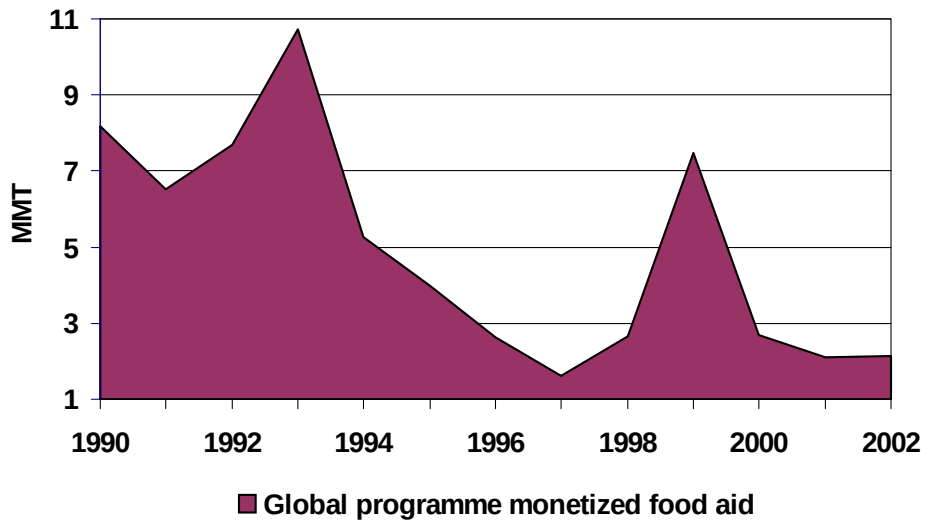

Figure 4. Global Programme Food Aid, 1990–2002 (grain equivalent)

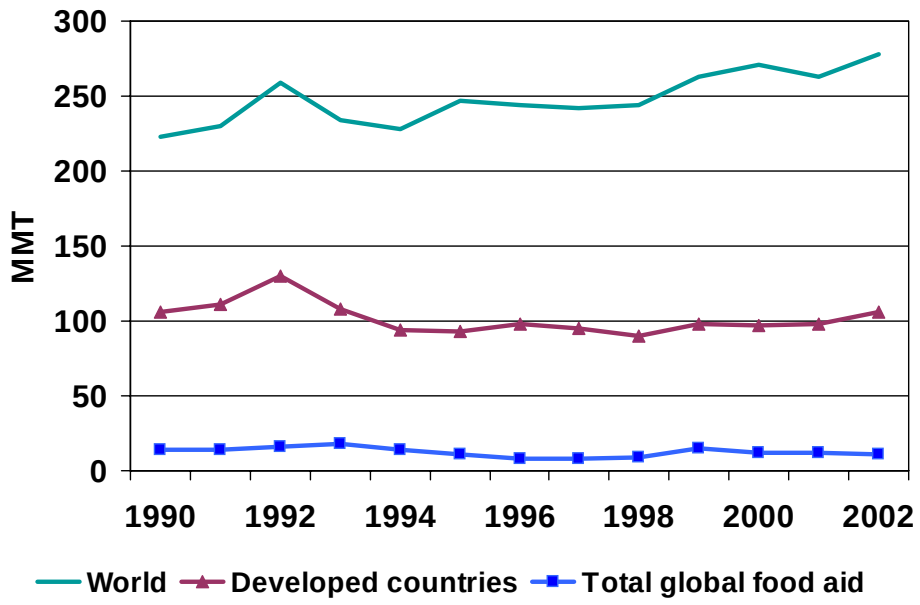

Figure 5. Cereal Imports and Global Food Aid, 1990–2002

legislation for US food aid. From the perspective of the WTO, it is critical to write rules that are specific enough to eliminate undesirable aspects of current programs, but broad enough to effectively discipline future programs. However, governments have a history of policy innovation when faced with restrictions from trade agreements, resulting in programs that are massaged instead of eliminated. The bottom line is that potential rules need to attempt the difficult task of disciplining unanticipated programs.

Disciplines can be fashioned in a variety of ways. For example, categories of food aid or eligible recipients can be restricted. The terms and purpose of food aid programs can be proscribed. Finally, food aid programs can be disciplined by restricting the agencies that can implement food aid programs. Specific disciplines suggested by a variety of interests are examined below.

Provision clarifying emergency good aid. No restrictions on emergency food aid have been discussed in the WTO. The Harbinson text (WTO 2003) included language to clarify dimensions of emergency food aid. This language could be considered for inclusion in the agreement.

> … that, in the case of food aid to meet or relieve emergency or critical food needs arising from natural disasters, crop failures or humanitarian crises and post-crisis situations, such aid is provided on the basis of pledges and commitments to, or in response to appeals from, specialized United Nations food aid agencies, other relevant regional or international intergovernmental agencies, non-governmental humanitarian organizations and private charitable bodies, or in response to an urgent government-to-government ministerial request for assistance in meeting food needs in the immediate aftermath of a natural disaster; (WTO 2003, p. 23)

Observation of the negotiations indicates that progress has been stymied by a lack of agreement over what constitutes legitimate food aid.

Grants not loans**.** It has been proposed by Harbinson (WTO 2003), and by others, that all food aid be given in the form of grants, so that food aid given in the form of loans would be prohibited under WTO rules. This discipline is explicitly mentioned in the July framework as well. It is likely that US PL 480 Title I is the target of this discipline, as it is the only food aid program that operates on the basis of long-term concessional loans. However, this is a backdoor approach to restricting market development programs and may fail to achieve its implicit goal. If loans are eliminated, Title I could be reconstituted as a market development program on a grant basis.

The Food Aid Convention (FAC) states that all food aid given under the FAC to least developed countries must be on a grant basis. The United States is the only donor that gives food aid on a loan basis, and this accounted for about 12 percent of US food aid in 2001 (WTO 2000). Additionally, the NFIDC Decision directed the WTO to ensure that an increasing percentage of basic food stuffs be provide in grant form and/or on concessional terms.

However, the question of loans versus grants is best addressed in light of development considerations. The literature on development embraces loans as potentially larger and more stable than development assistance available on a grant basis. However, the economic rational for providing loans for food, a consumable, is not as strong as the argument for providing loans for investment goods. As long as the NFIDC Decision and the Food Aid Convention are honored, this issue may be most fruitfully resolved between donors and recipients, as it has little bearing on the trade issues of concern to the WTO.

Disciplining market development programs**.** The US PL 480 Title I program is contentious as its stated objective is to develop future markets for US exports (see Tables 4 and 5). Language stating that market development objectives are not allowed for food aid programs could be included in Article 10.4. Harbinson proposed that food aid not in accordance with the disciplines should be counted against a country's export subsidy commitments. The combination of these two disciplines would mean that US PL 480 Title I programs would either be discontinued, or count against US export subsidy commitments.

Many interests and analysts feel that market development objectives are inappropriate for food aid programs and support the inclusion of language to prohibit the explicit use of food aid programs for that purpose. Given the relatively small size of these programs at the current time (a half a million metric tons for Title 1 in 2002), it is not likely that US interests groups would be adamantly opposed. Also, WTO proposals on food aid by developing countries indicate some (but not universal) support for this discipline.

Prohibition of government-to-government food aid**.** The Harbinson proposal provided a list of acceptable types of food aid, and it excluded government-to-government food aid, suggesting an implicit discipline eliminating it. It is likely that the real intention is to discipline programme food aid, which is wholly monetized and least additional, and is given on a government-to-government basis. Table 6 details government-to-government food aid, and not all falls in the programme category (donors self-report food aid). For the US, government to government food aid can be given through all three titles of PL 480, Food for Progress and Section 416 b programs.

This discipline may be intended to target cases such as the food aid given to the Soviet Union, which was largely programme aid and has been criticized as being surplus disposal.

An increasing proportion of food aid, both from bilateral donors and multilateral food aid from the WFP, is "channeled" by NGOs. Overall, NGOs have a good reputation for the delivery of food aid programs in all three categories: emergency, project and programme.

NGOs provide in-country expertise and efficient program execution. However, exclusion of government-to-government food aid from legitimate food aid eliminates the possibility of donors working with current recipient country governments that are working in the best

Table 6. Government-to-Government Food Aid, 2000

	Emergency	Project	Programme	Total
	------- metric tones, grain equivalent -------			
Australia		49,500		49,500
Canada	10,000		51,577	61,577
EU	33,000			33,000
France		57,805	79,905	137,710
Italy	6,328	13,507	10,969	30,804
Japan		37,109	112,346	149,455
United States	149,686	350,512	2,103,231	2,603,429
Total	199,014	508,433	2,358,028	3,065,475

interests of their people. It would also prohibit donors from working with governments that have become more responsive and efficient over time. This discipline would disenfranchise recipient country governments and prevent them from using food aid as one tool to meet their food security goals.

Elimination of the surplus disposal aspect of food aid. Extensive criticism (Lowder 2004; Barrett 2002) has been directed over the years to the link between food aid and the domestic agricultural policy of some donors, so that stocks resulting from domestic price support and stocks policy are "disposed" of as food aid. This criticism has been directed at US food aid programs since their inception in the 1950s, and was also directed at European food aid programs before reforms ensured their food aid programs are independent of the Common Agricultural Policy.

Objections to the surplus disposal aspect of food aid are both moral and practical. The moral issue is that food aid should be given purely in response to need without being linked to domestic agricultural policy. However, it is important to recognize food aid from stocks may be used to meet legitimate need, even if it also supports agricultural policies. Prohibition of food aid donated from stocks may reduce the achievement of the humanitarian objectives of these programs.

The practical issue is that stocks, and hence food aid availability, tends to be higher in times of low prices. The problem presented by the inverse relationship between food aid availability and need may be best addressed by mandating higher levels of guaranteed food aid through the Food Aid Convention. As noted earlier, after the NFIDC Decision committed the WTO to review the level of food aid guaranteed by the Food Aid Convention, and to ensure that the legitimate needs of developing countries were met, donor commitments in the FAC dropped to their lowest levels in 33 years.

A discipline focused on the surplus disposal aspect of food aid would likely target US Section 416b, in which stocks held by the Commodity Credit Corporation are "disposed of" as food aid. However, stocks from 416b are sometimes donated to the WFP in amounts that are not easily dismissed in times of need. For example, in 1999, 1.5 mmt, and in 2001 1.6 mmt were donated to the WFP from 416b stocks. Additionally, reports from USAID indicate that an unexpectedly high level of emergencies may result in the transfer of food aid from projects to emergency relief, and that stocks from 416b are also used to meet emergency needs by USAID in these circumstances. This leads to the conclusion that stocks accumulated due to agricultural policy may be needed for food aid and used in a manner that benefits recipients.

Distrust of food aid drawn from stocks is accentuated by the political motivations attributed to their use. A potential discipline could mandate that food aid from stocks be channeled through the WFP (so that this food aid would not be allowed to be given from donor governments directly to NGOs or recipient governments). This would minimize the possibility of political gain by donor governments, while ensuring the beneficial use of stocks. It is worth noting that a discipline addressing food aid from stocks accumulated due to domestic agricultural policy would require careful word crafting to hit the target, both now and in the future.

Require all food aid to be channeled through the WFP. The WFP was created in 1963 as a specialized agency of the UN to provide food aid, particularly in emergencies, free of the political motivations of bilateral food aid. A possible discipline would be to eliminate some or all categories (emergency, project and programme food aid) of bilateral food aid, so that all donations in those categories would be given through the WFP. Advocates for this option believe that the WFP filters out political concerns, resulting in better targeting. Also, it is possible that efficiency gains would result, as coordination between numerous national food aid agencies can be problematic.

A concern about this discipline is that it is likely to strike at the heart of donor motivation resulting in lower levels of food aid overall. Many analysts argue that the current level of food aid given by the United States has resulted from the carefully crafted coalition of interests that lobby for US food aid. Mandating donations be given only though the WFP would result in the disintegration of this coalition. Another concern is that credible and effective US aid programs, such as those administered through USAID, would be dismantled without clear benefits from doing so. While the EU has moved away from giving food aid in-kind, and towards financial assistance, this discipline would also entail the elimination of any remaining in-kind food aid from the EU. Additionally, giving all responsibility for food aid to one agency could be problematic in the future, if the agency were to suffer from inadequate leadership or difficulty in reaching a compromise between donor's competing concerns.

Strictly enforce usual marketing requirements (UMRs). Food aid recipients are currently obligated to import the UMR (simply a moving average of past imports), an obligation imposed much earlier by the Consultative Subcommittee on Surplus Disposal (CSSD) in response to concerns over commercial displacement. However, it is our understanding the CSSD has been largely ineffective over the past ten years, at least, and that this obligation is rarely monitored or enforced. Research (Abbott 2005; FAO 2003) indicates that many food aid recipients (including least developed countries) have a trend of increasing imports, and food aid usually makes up only a small fraction of domestic production shortfalls. It is likely that food aid recipients can meet this requirement most of the time, and so this discipline will usually not be binding. However, enforcement of UMRs in light of liquidity constraints, or lack of domestic demand in the recipient country, could require a recipient government to adopt distorting trade policies. For example, the requirement to increase imports could lead the government to lower domestic price of the good, resulting in the disincentive effect for domestic production.

Elimination of programme food aid**.** There are several concerns about programme food aid. One concern is that programme food aid is extremely variable, as Figure 4 illustrates, making it an unreliable resource. Another is that programme food aid donations tend to be large relative to monetized project food aid donations, so are hypothesized to result in more disruption to local markets. Many authors have provided anecdotal evidence that programme food aid is sometimes ineffective in meeting stated goals due to misuse by recipient country governments. A final concern is that programme food aid is frequently funded by stocks.

Elimination of programme food aid has been discussed as a possible WTO discipline, as it is the most contentious category of food aid, however, arguments in favor of programme food aid need to be considered. Large programme donations were made to Russia when they experienced production shortfalls and financial constraints. While a portion of the food aid was reportedly misused, it can be argued that food was an appropriate instrument of aid in this case, as it was quickly available and used to cope with a crisis. Cash donations can more easily be misdirected by corrupt government officials. As food aid is less fungible than cash it is likely that more food was available at lower prices on domestic markets than without the infusion of programme food aid. It may be true that *average* reported caloric consumption remained high during the crisis, and at levels that do not indicate a severe caloric shortfall. However, it has also been widely reported that vulnerable populations, including the poor and elderly, suffered due to their inability to purchase adequate food. A similar case can be made for the large donations of food aid to Indonesia during the East Asia crisis. If programme food aid is eliminated, it is not likely that other forms of aid would necessarily be implemented as a replacement. Elimination of programme food aid also largely eliminates the role of recipient country governments in the management of food aid.

Another possibility is to limit the size of programme donations, in an attempt to curtail its use as a political tool and to limit its possible impact on markets. However, both the commercial displacement and the disincentive effect depend on several factors, as discussed earlier, and are not necessarily directly related to the size of the donation.

Another possible discipline would be to limit programme food aid to low income countries, with appropriate language for exceptions for high income countries facing unusual financial events or conflict. Figure 6 illustrates the portion of food aid given to low-income countries from 1990–2002. This would allow the benefits of programme food aid to continue to be available, while limiting to some degree its use as a political tool. However, this option does not address the concern over the potential disruption to recipient country markets.

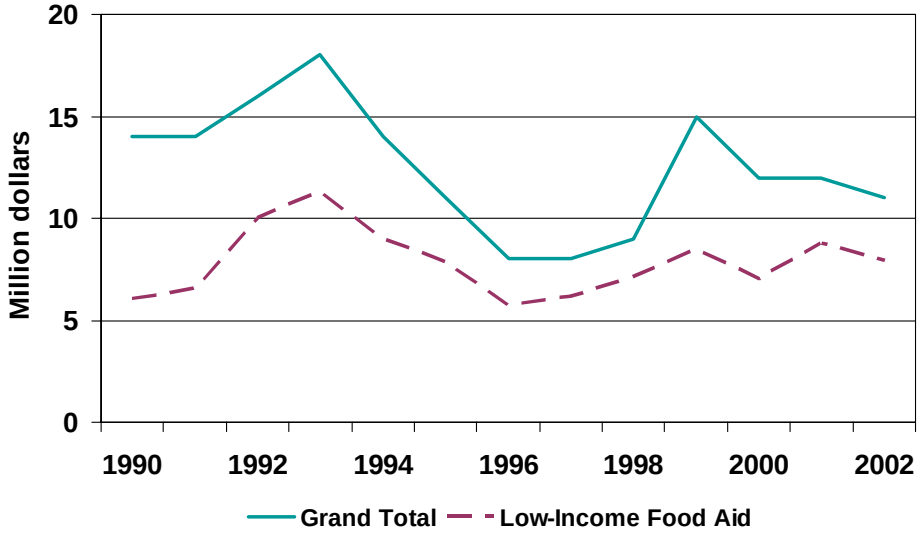

Figure 6. Food Aid to Low-Income Countries and Total Food Aid, 1990–2002

Elimination of monetized project food aid**.** Elimination of all monetized food aid would eliminate development projects funded by this food aid. This implies that it is appropriate for the WTO to trade off developmental benefits to achieve the WTO goal of no commercial displacement. If the underlying concern is the disincentive effect on domestic production, the recipient country policymakers are the appropriate decisionmakers, not the WTO.

Institutional issues**.** Another tactic in writing WTO rules for food aid is to write as few disciplines as politically feasible, in order to achieve the greatest possible benefit from food aid. However, the concerns of some members might be met with innovative institutional dispute resolution procedures, which could deal with disputes over the inappropriate use of food aid to achieve overtly political or export subsidization goals. This might involve a quick process of evaluation by a standing WTO committee with balanced representation, which could make a recommendation on the legitimacy of the food aid transaction. It is essential that recipients are adequately represented in such a process.

Another potential outcome of the negotiations is to recognize that the WTO is not the appropriate institution to discipline food aid (Young 2002; Young and Abbott 2005). The greatest positive benefit to securing and realizing the benefits of food aid would spring from the creation of a new institutional home for food aid. Current institutions are outdated, disjoint and ineffective. The new institution should have balanced representation of donors and recipients. It would be charged with advising the WTO on appropriate disciplines, but should remain operationally independent of the WTO. These ideas are further elaborated in a recent paper by Barrett and Maxwell (2005) who discuss the creation of such an organization.

Conclusions

Widespread support and strong arguments favor the elimination of market promotion objectives from the definition of legitimate food aid. A mandate that would direct donation of stocks accumulated due to agricultural policy to the WFP may be a way to eliminate concern over the political motivation for food aid without reducing the level. These two disciplines alone would remove some of the most contentious aspects of food aid. Complete elimination of programme food aid is problematic, as it removes a source of aid that is unlikely to be replaced, and at the same time eliminates the role of developing country governments. A compromise might be to discipline program food aid so that is given only to low income countries with criteria for exceptions. However, the elimination of monetized project food aid which provides some developmental and humanitarian benefits is difficult to justify. While it may cause some commercial displacement the price impacts are small. Elimination of the humanitarian and developmental aspects of project food aid solely to reduce commercial displacement runs counter to the stated intent of the Doha Development agenda, which places the “needs and interests” of developing countries at the heart of the work programme. Excessive disciplines were cautioned against by the head of the World Food Programme, due to concern over their impact on food security (Morris 2005).

4. STATE TRADING ENTERPRISES

Background

State trading is used in a variety of forms by both importers and exporters of agricultural commodities. The primary function of these agencies is to implement domestic agricultural policy. Over the years these agencies have addressed multiple and conflicting goals including producer support, consumer subsidization, marketing system efficiency, and the exercise of market power in both domestic and international markets.

The definition of STEs is hotly debated as many variations exist. The definition is important because it determines which agencies a member must notify to the WTO and are subject to WTO disciplines. Three issues arise in establishing a definition — ownership, special privileges of the government entity, and whether the state trader must make purchases and sales of the commodity (Ackerman and Dixit 1999). Differences of opinion exist about whether certain institutions are state traders. The Commodity Credit Corporation (CCC) of the US was initially notified as a state trader in 1995, yet when the United States stopped utilizing EEP subsidies it withdrew its notification, although it may be argued that it continued acting as a state trader due to other programs such as the Dairy Enhancement Incentive Program. Sorenson (1991) has argued that EU control of agricultural markets constitutes state trading, but since no public entity physically handles commodities, it has never been notified as a state trader. The WTO definition of state trading is narrower than all public entities that can influence trade.

Some WTO members are concerned with state trading because market activities by state traders may not be transparent and so countries using state trading may not abide by their WTO commitments. State traders may be able to subsidize exports in a disguised manner and so exceed export subsidy commitments. Advantageous access to finance including government underwriting and preferential tax treatment are examples of the advantages state traders have derived from their privileged status as public institutions. The July Framework specifies that government financing and underwriting of STES, and the provision of export subsidies to or by them, will be eliminated. Importing state traders may be able to protect markets beyond their tariff reduction commitments to the WTO. There is concern that politics influences market share, and so STEs may not behave like private firms in international markets and violate non-discrimination and equal treatment of trading partners. This discussion of state trading focuses on exporting STEs due to our concern with export competition, but includes a brief discussion of importing STESs as well.

State Trading under the WTO

State trading is explicitly permitted under WTO rules. State traders have historically been required to notify GATT, and currently the WTO, of their existence. Until the Uruguay Round Agreement reporting requirements were minimal and many countries failed to notify agencies which were clearly state traders. Article XVII of the Uruguay Round Agreement established a working party to address state trading issues, which adopted stricter notification requirements. The URAA continues to explicitly permit state trading.

Obligations under the WTO of state trading agencies include:

- Nondiscrimination: commonly referred to as most favored nation (MFN) treatment;
- No quantitative restrictions;
- Preservation of tariff concessions;
- Transparency; and that
- Sales are made in accordance with commercial practices.

Governments are also obligated to meet their export subsidy commitments under the URAA in cases where STEs export a commodity.

The Prevalence of STEs

STEs are generally found for politically sensitive commodities — grains, sugar, and dairy. This commodity coverage reflects the importance of domestic agricultural policy objectives as the *raison d'être* for this institution.

The prevalence of STEs has been declining. While nearly 90 percent of both rice and wheat trade in 1970s were handled by state traders (Schmitz et al. 1981; Falcon and Monke 1979-1980) that share fell to between 33 and 50 percent by the end of the 1990s (Abbott and Young 1999; Young 1999). The decline in STEs is largely due to requirements of structural adjustment programs. The redistributional objectives of these agencies are costly, both in terms of domestic resources and foreign exchange, and were factors behind the macroeconomic imbalances that led to structural adjustment programs. Cost and pressure from international institutions prompted reform of these institutions more often than a change in the domestic agricultural policy goals held by these countries. Many Asian countries avoided structural adjustment programs imposed by the World Bank and the International Monetary Fund through better management of debt and foreign exchange and so less reform occurred in that region. To date, the WTO has had very little to do with reform or elimination of STEs.

Table 7 lists information on the STES that were reported to the WTO (as of June 2003). Countries have resisted the elimination of STEs as they are used to implement domestic policy. A common reform has been to permit private trading entities to coexist with public agencies. In some cases importing STEs will continue to manage a lower quality product targeted for poor consumer subsidization, while private agents handle trade for the higher quality products. Reform of STEs has also been accomplished through privatization of existing entities, so that the STEs have autonomy from the government. An example of this is the reform of the Australian Wheat Board. These agencies become similar to producer cooperatives, and may be required to operate without government subsidization.

Issues of Concern for Negotiations

Market Power

The power held by state traders in their domestic and in international markets is of concern to many governments, and is frequently mentioned in WTO position statements. State traders may regulate domestic prices, enact supply controls, and regulate procurement and

Table 7. Agricultural Export STEs as Notified to the WTO, as of June 2003

Country	Agency/Commodity	Item	Year	Domestic Production	Export Volume	Export by State Trading	Sole Exporter
Developed							
Australia	Australian Dairy Corporation	Butter, butter oil, blends	1997-98	164,000	95,000	NA[a]	No
		Cheese	1997-98	310,000	153,000	47,000[b]	No
		Skim milk powder	1997-98	215,000	178,000	9,000[b]	No
		Whole milk powder	1997-98	128,000	95,000	NA[a]	No
	Australian Wheat Board	Wheat	1997-98	19,417,000	15,679,000	15,679,000	Yes
	Queensland Sugar Corporation	Raw cane sugar	1997-98	5,901,000 (raw)	4,758,000	4,516,000	Yes
	Grainco	Barley	1997-98	6,482,000	3,463,000	NA	Yes
	New South Wales Grains Board	Sorghum	1997-98	1,081,000	251,000	NA	Yes
		Oilseeds	1997-98	2,056,000	908,000	NA	Yes
	Grain Pool WA	Lupins	1997-98	1,380,000	972,000	846,000	Yes
		Rapeseed	1997-98	860,000	590,000	195,000	Yes
	NSW Rice Marketing Board	Rice	1997-98	1,331,000	680,000	680,000	Yes
	NSW Grains Board	Oats	1997-98	1,634,000	155,000	NA	Yes
	Australian Barley Board	Oats	1997-98	As above	As above	NA	Yes
Canada	Canadian Dairy Commission	Butter and other fats and oils derived from milk	1996-97	90	11	6	No
	Canadian Wheat Board	Wheat	1996-97	29,801,400	19,366,000[c]	21,383,337	Yes
		Barley	1996-97	15,562,000	4,005,400[c]	4,474,133	Yes
	Ontario Bean Producers Marketing Board	White pea beans	1997-98	43,500 (Ontario)	31,438 (Ontario)	24,947	No
Israel	Israel Groundnuts Production and Marketing Board	Groundnuts	1994-95	19,500	10,184	10,184	Yes
	Fruit Board of Israel	Non-citrus fruit	1994	385,491	52,499	52,499	Yes
	The Vegetable Production and Marketing Board of Israel	Vegetables	1994-95	1,720,000	99,900	90,938	Yes
	Canadian Freshwater Fish Corporation	Freshwater fish	1997	38,798	22,984	8,344	No
New Zealand	New Zealand Dairy Board (elimination has occurred but has not been reported)	Butter and butter oil	2000	344,000	336,000	336,000	Yes
		Skim milk powder	2000	187,000	172,000	172,000	Yes
		Cheese	2000	297,000	249,000	249,000	Yes
		Other milk products	2000	480,000	584,000	584,000	Yes
		Casein and caseinates	2000	97,000	106,000	106,000	Yes
	State Trading: Enza Limited	Apples	2000	590,155	335,505	317,718	No
		Pears	2000	NA	8,939	8,457	No
	Zespri Group	Kiwifruit	2000	217,000	196,448	186,500	No
	New Zealand Hop Marketing Board	Hops	2000	831	614	614	Yes
Developing							
Barbados	Barbados Dairy Industries Limited	Unclear	NA	NA	NA	NA	Yes
	Barbados Agricultural Development Corporation	Sugar (raw)	1994		30,863	NA	Yes
China	China National Cereals, Oil and Foodstuff Import and Export Co. (Group)	Rice	2001	187,910,000	1,860,000	1,670,000	Yes
		Corn	2001	106,000,000	6,000,000	5,710,000	Yes
	China National Textiles Import and Export Co.	Cotton	2001	5,320,000	60,000	50,000	Yes

Country	Agency/Commodity	Item	Year	Domestic Production	Export Volume	Export by State Trading	Sole Exporter
Cyprus	Cyprus Potato Marketing Board	Potatos	1993-94	137,000	108,000	108,000	Yes
	Cyprus Carrot and Beetroot Marketing Board	Carrots	1994	400	19	19	Yes
		Beetroot	1994	2,000	1,436	1,436	Yes
	Vine Products Commission[d]	Raw grape alcohol		NA	0	0	Yes
		Raisins		NA	0	0	Yes
	Cyprus Olive Products Marketing Board[e]	Olives	1994	5,000	0	0	Yes
		Olive oil	1994	2,500	0	0	Yes
Dominca	Dominica Banana and Marketing Corporation	Bananas	NA	NA	NA	NA	Yes[f]
Fiji	Fiji Sugar Marketing Company	Sugar	1997	347,389	303,339	303,339	Yes
India	Various State Level Cooperatives	Gum karaya	2000-01	NA	1,000	1,000	Yes
	Various State Level Cooperatives	Niger seeds		NA	29,000	29,000	Yes
	Various State Level Cooperatives	Onions		NA	519,000	519,000	Yes
Indonesia	Badan Urusan Logistik (Bulog)	Rice	2001	28,206,900	0	0	No[g]
Jamaica	The Cocoa Industry Board	Cocoa	NA	NA	NA	NA	Unclear
	The Coconut Industry Board	Coconuts	NA	NA	NA	NA	Unclear
	The Coffee Industry Board	Coffee	NA	NA	NA	NA	Unclear
	The Banana Board	Bananas	NA	NA	NA	NA	Unclear
	The Sugar Industry Authority	Sugar	NA	NA	NA	NA	Unclear
Korea	Korea Ginseng Cooperative Federation	Ginseng	1997	11,259	347	19	No
Mauritius	Agricultural Marketing Board	Tea	1997	1,787	436	0	No
Namibia	Meatco[h]	Meat and meat products from cattle, sheep and goats					No
Philippines	National Food Authority[i]	Rice	2001	12,954,870	0	0	Unclear
Taiwan	Council of Agriculture, Executive Yuan	Brown rice	2000	1,540,000	119,000	0	Unclear
	State Trading: Taiwan Provincial Fruit Marketing Cooperative	Banana	2000	198,455	42,603	42,603	Yes
	State Trading: Taiwan Salt Industrial Corporation	Salt	2000	69,525	336	100	Yes
	Taiwan Sugar Company	Sugar[j]	2000	259,000	14,705	14,705	Yes
Trinidad and Tabago	Cocoa and Coffee Industry Board of Trinidad and Tabago	Cocoa beans	1997	1,736	1,378	990	Yes
		Coffee beans	1997	NA	NA	1,082	
	Caroni	Sugar	1997	113,568 (raw)	69,577 (raw) 8,026 (refined)	69,577 (raw) 8,026 (refined)	Yes
	National Flour Mill Limited	Soya oil	1997	35,126	NA	1,256,322 (litres)	Unclear
		Soya meal	1997	51,869	NA	30,274,500	Unclear
Tunisia	National Edible Oils Board	Olive oil	1998-99	180,000	NA	76,971	No

[a]Australia Dairy Corporation trades internationally on a competitive basis with private Australian traders in these products.
[b]Australia Dairy Corporation has exclusive rights to specified markets.
[c]Total quantity exported may differ from quantity exported by STE due to different reporting periods used by Statistics Canada and the CWB.
[d]Insuficient production for exports.
[e]No exports due to high domestic prices.
[f]Sole exporter to countries outside of the Caribbean.
[g]Bulog maintains the right to intervene in the market when necessary.
[h]Meatco exists to export to the EU.
[i]National Food Authority did not engage in the export of rice and corn in 2001 due to domestic shortages.
[j]Taiwan Sugar Company only exports sugar to the United States according to quota allocation.

Source: Compiled by authors from country notifications to the WTO in the document series G/STR/N on the WTO website http://www.wto.org.

domestic marketing. Several researchers have noted that the ability of the state trader to distort trade results from the combination of control over the domestic market and its power in international markets (Dixit and Josling 1997; Ackerman and Dixit 1999; Veeman, Fulton, and Larue 1999).

Since market conduct may be difficult to assess, contestability has been suggested as a criterion for judging whether the exercise of market power by an STE is truly a relevant concern (Veeman, Fulton, and Larue 1999). Markets are contestable when the possibility of market entry precludes the exercise of market power, even though market share might suggest that market power exists. Veeman, Fulton and Larue use contestability and other criteria to classify state traders into green, amber and red categories, with a higher level of disciplines, largely through increased reporting requirements, proposed for STEs in the red category.

The CWB has received the bulk of attention by researchers examining exporting STEs. Several studies find evidence of market power exercised by the CWB in international markets and that CWB export sales command premiums. Some researchers attribute that entirely to market power, while others conclude that Canada exports higher quality wheat, and so premiums reflect quality differentials.

However, a review of the literature over the past twenty five years indicates that there is a lack of consensus on the existence and extent of market power in grains markets. This has implications for the ability of STEs to distort international markets.

Veeman, Fulton and Larue, using indicators of contestability as discussed above, classify the Canadian Wheat Board as a Type 1 STE and conclude that it has little potential to distort trade. Sumner and Boltuck (2004), whose conclusions will be discussed later with respect to price discrimination, agree with the assessment of the grains market as contestable. Sumner and Boltuck also draw a parallel between US farm cooperatives and the CWB. While recognizing that the CWB differs in its legal characteristics, they note that "…even under US rules agricultural cooperatives have special privileges with respect to cooperation and coordination. The rationale for marketing cooperatives is to allow farmers to band together to obtain *higher* commodity prices and compete *more efficiently* in the market. Coops allow for the achievement of scale (and sometimes scope) economies in marketing initiatives, quality control and reputation, branding and related areas. There is nothing inherently wrong, anti-competitive or inefficient about such cooperatives. Indeed, cooperatives maximize returns to their members and enhance demand for its members' (and other competitors) commodity production. That is exactly the rationale for and effect of the CWB" (Summer and Boltuck, p. 14-15).

In some cases, producers question whether or not they are well served by state trading agencies that control a variety of aspects of marketing. A vigorous internal debate continues within Canada concerning whether or not farmers are well served by this institution, and many studies have examined the marketing costs and efficiency of the Canadian Wheat Board (Carter and Loyns 1996; Kraft, Furtan, and Tyrchniewicz 1996; Schmitz et al. 1997). This debate is appropriately resolved by the country in question.

Importers have argued that that STEs are necessary to maintain countervailing market power in situations where markets are segmented and they face large exporting entities. In addition, exporting and importing STEs can exhibit economies of scale in trade. The institutional arrangements for export subsidies, such under the Export Enhancement Program, have also been a justification for maintaining STEs so that government to government negotiations can establish subsidy levels.

The reform of STEs may be difficult for developing countries whose infrastructure is unable to support a competitive private sector fulfilling the many roles of importing and distributing agricultural and food products. Tangermann and Josling (1999, p. 25) note that "For some time to come, parastatals may therefore still have a place in developing country food trade and marketing in order to provide stability, administer nutritional programs and prevent the abuse of market power by private firms. This is another case where 'special and differential treatment' may play an important role."

Josling (1998a, 1998b) suggests that state trading be considered as a part of broader WTO discussions on competition policy, and applying goals to ensure that governments operate in contestable markets may be the appropriate long term goal for the trading system. However, Abbott (1998) notes STEs have traditionally been exempted from competition policy discipline. For non-agricultural commodities the trade-off between market power and competition with economies of scale has been resolved by permitting competition to be compromised when the public interest is served. That justification suggests competition policy, even if further developed by the WTO, may not be rigorously applied to agricultural STEs.

Transparency

Lack of transparency is the most often voiced concern with state trading enterprises. A public agency handling imports or exports can potentially disguise the level of protection, and so avoid tariff reduction commitments, or it can subsidize exports in a manner difficult to measure. While disguised protection generates rents equivalent to tariff revenue, export subsidies either require government budgetary support or some form of cross-subsidization or price discrimination to finance the subsidy. Eliminating STEs in favor of private traders does not insure an increase in transparency as private traders are not required to disclose information on cross subsidization or price discrimination, and it is widely recognized that private traders may engage in these practices.

An alternative solution is that notifications to WTO require that these institutions give sufficient information to insure that commitments are met. The WTO implemented revised notification requirements that require a substantial degree of notification, including description of the operation of the STEs and annual data. Data required includes yearly average import price, representative domestic sales and procurement prices, mark ups, export prices, as well as volume information. This data should assist in the detection of potentially disguised export subsidies.

Consideration of more detailed reporting requirements need to balance an STE's need to compete with the private sector, and the concern of other agricultural exporters that STEs

may engage in price discrimination beyond that which is possible by the private trade, dump or engage in cross-subsidization of commodities. Requiring STEs to report, on a regular basis, the transactions level data necessary to detect these practices would greatly exceed the level of notification currently in use in other areas. STEs compete with private firms, and, depending on the commodity, they may also compete with other STEs. As Veeman, Fulton and Larue (1999, p. 31) note "It would not be in the spirit of GATT/WTO to impose higher reporting requirements on a STE than those that are customarily applicable to its competitors in any market. Such a requirement would place the STE at a competitive disadvantage."

Perhaps a balance between the needs of STE's to protect market information and concern over their ability to circumvent their GATT commitments is met through a nation's ability to press a complaint through the WTO dispute resolution system. A complaint is most likely to arise from observations on the part of private trade, who are informed observers of the market, and who suspect that commitments are being violated. The investigating process then requests data needed to evaluate the complaint.

Price Discrimination

STEs, like private firms, price discriminate by selling exports to countries at different prices. Third degree price discrimination is when companies sell at prices above marginal costs in response to their perception of the elasticity of demand in various markets. Sumner and Boltuck explain the conditions necessary for the CWB to engage in price discrimination. They contest the major argument put forth by the North Dakota Wheat Commission that these practices are harmful to US wheat producers. In contrast, they argue that the price discrimination practiced by the Canadian Wheat Board is beneficial "because this common form of price discrimination *raises* average price realizations in export markets as a whole" (Sumner and Boltuck, p. 13).

Pooling

One of the most hotly debated issues related to STE behavior is whether or not "pooling," a common practice of some of the large grain trading STEs, enables export subsidies. Pooling occurs when a state trader purchases commodities from farmer an undetermined price and returns net revenue to producers at a later time, after sales have occurred, allowing pooling of receipts to all farmers across multiple sales. With pooling cross-subsidization can occur overtime and across commodities. When state traders handle multiple commodities, and especially when state traders control joint products, as in the case of dairy, prices can be altered for each product to maximize net profit of the board, or achieve whatever objective the STE is pursuing. It is argued that pooling and cross subsidization enable greater "discretionary pricing" by state traders than is possible by private firms.

Pooling and price discrimination need to be treated as somewhat independent problems. It is possible to price discriminate in the absence of pooling, and pooling does not automatically imply price discrimination. Moreover, there is evidence that private firms engage in discriminatory pricing. Pooling is principally a vehicle intended to help farmers cope with risk. Other institutions exist in different countries as alternative mechanisms

for coping with risk, including domestic support policies, future markets and insurance schemes in the United States. Even under the CWB, alternatives to price pooling have emerged (such as the fixed-price contract) for farmers who prefer some of these alternatives or desire to bear more of the risk in the market.

Control over the Domestic Market
Some STEs have monopoly control over the domestic market. If they have effective barriers to imports, they can charge domestic consumers a higher price than their sales on the world market. This outcome can occur when STEs or similar institutions segment domestic and world markets. This combination of instruments used by STEs may lead to an outcome of consumer-financed subsidies (Schluep and de Gorter 2000). For example, the Canadian Dairy Commission set a high price for milk in their domestic market and used a combination of import barriers and supply management to restrict milk supply. In 2002, a WTO panel found (Canada – Measures Affecting the Importation of Milk and the Exportation of Dairy Products, WTO 200c) that the market segmentation resulting from Canadian Dairy Commission policies resulted in an export subsidy, as processors could buy milk from producers at a price lower than the government determined domestic price (WTO 2002b). The WTO panel ruled that the average total cost of production is an appropriate benchmark for export sales as one factor in determining if export subsidies were given, treating such actions in a manner parallel to dumping.

The United States brought a complaint against the Canadian Wheat Board to the WTO, and most aspects of this complaint are discussed in a subsequent section. However, it is important to note that the WTO has required Canada to make adjustments to ensure openness to US exports of grain, or grain imports more generally. These adjustments include changes to the entry authorization permit system, changes to Canada's system of grain segregation and extension of its rail revenue cap to imports.

Importer Issues
Specific issues focused mostly on importing STE behavior include whether or not STEs allocate market share according to commercial considerations, whether they can avoid WTO commitments and achieve higher levels of protection, and whether specific institutional arrangements, such as TRQs administered by STEs, can exacerbate these concerns.

If STEs allocate market share based on political considerations, they do not behave according to commercial practices and violate nondiscrimination (MFN) requirements of the WTO. Weak evidence suggests there may be some difference in the determination of market share, with private trade regimes more responsive to market forces than state trading agencies. Lack of transparency in their operations can make this practice difficult to detect.

Research has also found that agricultural policy objectives often outlive state trading enterprises. That is, protection levels are often more dependent on world price than on the institutions through which protection is achieved (Abbott and Young 1999). This is a consequence of the stabilization objective, which persists as an important goal. No

significant difference in protection levels have been found, either between countries where state trading is practiced and where it is not, and more importantly before and after reforms of this institution. It is probably more effective to regulate behaviors in international markets than to eliminate particular institutions.

Some new state trading agencies emerged following the Uruguay Round Agreement to implement TRQs. A general finding is that since TRQs can act like quotas and so generate rents, administration mechanisms often seek to allocate those rents to domestic producer groups in one fashion or another. Once again, domestic objectives dominate. Since TRQs can act like quotas, they can limit contestability in markets.

TRQ administration has been seen as a vehicle for implementing disguised protection. But a survey of the administration of TRQs in developing countries (Abbott and Morse 2000) found that when STEs administer TRQs, underfill has occurred substantially less often than under other arrangements, and overfill — imports in excess of minimum access commitments — is a common outcome. Abbott and Morse (1999) also argue that an endogenous quota regime may apply, and may explain this outcome. The STE determines imports based on national needs (demand), and has set minimum access commitments well below likely needs. Imports are often in excess of the minimum access commitment, and yet higher tariffs are not applied. It is also common for STEs administering quotas to coexist with private traders, with the STE managing low tariff imports.

WTO Panel Findings on the Canadian Wheat Board Case

The US complaint against the actions of the Canadian Wheat Board (CWB) has allowed some clarification of the nature of the current disciplines under Article XVII on the activities of export STEs. The US challenge with respect to the export activities of the Board concerned the CWB Export Regime, which it defined as the legal framework of the CWB, Canada's provision of special and exclusive privileges to the CWB, and the actions of Canada and the CWB with respect to the CWB's purchases and sales involving wheat exports. The legal framework of the CWB refers to the governing statute of the CWB, the Canadian Wheat Board Act. The provision to the CWB of exclusive and special privileges comprises: (1) "the exclusive right to purchase and sell Western Canadian wheat for export and domestic human consumption"; (2) "the right to set, subject to government approval, the initial price payable for Western Canadian wheat destined for export or domestic human consumption"; (3) "the government guarantee of the initial payment to producers of Western Canadian wheat"; (4) "the government guarantee of the CWB's borrowing"; and (5) "government guarantees of certain CWB credit sales to foreign buyers."

This aspect of the US complaint was brought under Article XVII:1 of GATT which reads as follows:

> 1. (a) Each contracting party undertakes that if it establishes or maintains a State enterprise, wherever located, or grants to any enterprise, formally or in effect, exclusive or special privileges, such enterprise shall, in its purchases or sales involving either imports or exports, act in a manner consistent with the

> general principles of non-discriminatory treatment prescribed in this Agreement for governmental measures affecting imports or exports by private traders.
>
> (b) The provisions of subparagraph (a) of this paragraph shall be understood to require that such enterprises shall, having due regard to the other provisions of this Agreement, make any such purchases or sales solely in accordance with commercial considerations, including price, quality, availability, marketability, transportation and other conditions of purchase or sale, and shall afford the enterprises of the other contracting parties adequate opportunity, in accordance with customary business practice, to compete for participation in such purchases or sales.

The United States argued that these provisions impose three separate, if related, obligations on export STEs, namely, to avoid discriminatory behavior; to act in accordance with commercial considerations; and to provide the enterprises of other contracting parties adequate opportunity to compete. Canada argued that the primary obligation is that in sub-paragraph (a) which prohibits discriminatory behavior, but that this is qualified in sub-paragraph (b) which exempts discriminatory behavior where justified on commercial considerations.

While the Appellate Body found that the Panel's reasoning on the relationship between the two sub-paragraphs might have been clearer, it subsequently confirmed this order of precedence and concluded that sub-paragraph (a) sets out the obligation of non-discrimination and that sub-paragraph (b) clarifies the scope of that obligation. In its view, subparagraph (b) "does not give panels a mandate to engage in a broader inquiry into whether, in the abstract, STEs are acting 'commercially.' It concluded: "The disciplines of Article XVII:1 are aimed at preventing certain types of discriminatory behavior. We see no basis for interpreting that provision as imposing comprehensive competition-law-type obligations on STEs, as the United States would have us do." (Para. 145)

The Panel's report concluded that the United States had failed to demonstrate that the CWB has an incentive to make sales based on considerations which are not commercial in nature, and thus there is no basis for concluding that the CWB has an incentive to discriminate between markets by selling in some markets (or not selling in some markets) on the basis of considerations which are not solely commercial in nature. It continued, "we see nothing in the legal structure of the CWB, its mandate or its privileges which would create an incentive for the CWB to discriminate between markets for reasons which are not commercial. Nor have we seen any evidence of such sales behavior by the CWB." (Para. 6.147-149). It therefore concluded that the United States had not established that the CWB Export Regime necessarily results in non-conforming CWB export sales.

This aspect of the CWB dispute (other aspects covered Canadian regulations on imports of wheat) established that the primary additional discipline which Article XVII:1 imposes on export STEs (beyond those found in other GATT articles) is the prohibition on discriminatory behavior, unless justified on commercial considerations. Thus an export STE cannot offer to supply at below-market rates in support of government foreign policy objectives, or refuse to supply on political considerations. Other than this, Article

XVII:1 does not prevent an export STE making use of any of its exclusive or special privileges to maximize its return from export markets, just as a private firm would attempt to do if it was provided with the same privileges.

The Panel was aware that the use of its exclusive and special privileges by an export STE could enhance its competitive position relative to the enterprises of other members. It noted that other instruments permitted by the Agreement on Agriculture, such as export subsidies, had a similar effect (Para. 6.105). Thus the Panel's conclusion should not be seen as giving carte blanche to the activities of export STEs. Rather, it points to the need for further explicit rules if Members want to discipline the use of some or all of these exclusive or special privileges.

Consideration of Disciplines for State Trading Enterprises

The United States and Japan both called for the elimination of STEs in their earlier position papers. The EU, MERCOSUR, Chile and Columbia have all asked for effective disciplines on STEs, but did not originally call for their elimination.

Elimination of government financing, the underwriting of STE losses and export subsidies**.** The July modalities framework states that government financing, underwriting and export subsides for STEs will be eliminated by an end date to be agreed, presumably over the same time frame as the elimination of direct export subsidies. Given that this is agreed upon, all efforts should be directed to establishing a date for both.[3] A different time table for developing countries will need to be established.

New terms and conditions for STES**.** Article XVII could be revised with new terms and conditions for STEs. One possible new condition could require countries maintaining export STEs to offer duty-free access to their domestic market for the goods they manage. This would eliminate the possibility that the domestic market is a high-priced haven used to subsidize exports, as discussed previously.

Mandate co-existence. The July modalities framework states that "The issue of the future use of monopoly powers will be subject to further negotiation" and also states that "STEs in developing country members which enjoy special privileges to preserve domestic consumer price stability and to ensure food security will receive special consideration for maintaining monopoly status." It is unclear if the removal of monopoly powers of STEs of developed country members will be an issue for this round at this point, or postponed for other negotiations. The following factors should be considered.

The United States has been a leading advocate of disciplining the activities of STEs by mandating co-existence with private companies. Previously, the Harbinson text proposed that national governments in developed countries must allow private enterprises the right to purchase agricultural goods for export and to engage in exporting. This provision

[3] However, an argument can be made that government underwriting and financing should be reduced over the same time frame as subsidies in the domestic support pillar, as export STEs are simply a different policy tool for assisting agricultural producers.

would remove the monopoly status of exporting STEs and mandate them to coexist with the private sector, with an implementation plan to be included in each member's schedule.

Examination of WTO notifications indicates that in very few cases do STEs coexist with the private sector. Examples of this mostly occur when export STEs are responsible for fulfilling export quotas. An example is Taiwan for sugar. In the case of Poland, coexistence for their wheat STE was a first step in a reform process that resulted in the elimination of the STE, and this may have been the intent of removing its monopoly rights (USDA 1999). No cases of co-existence has been found in which both an exporting STE and private traders maintain viable market shares over a substantial period of time. If STEs fail then some functions that they performed may no longer be provided, such as research and development efforts to maintain and improve quality, examples including Ghana in the case of cocoa and Argentina with grain.

If these reforms are pressed on countries that have chosen to implement their agricultural policy goals through STEs, governments may resist reforms. For example, governments may enact legislation that places the private sector at a disadvantage, or may not enact enabling legislation allowing the private sector to function effectively. In cases where governments do enact real coexistence in keeping with the proposal, it may be difficult for the STE to fulfill its mission through the realization of economies of scale in marketing and by funneling any rents from market power to producers, since the intent of coexistence is precisely to eliminate that market power.

In particular, removal of the monopoly export rights of the CWB is likely to result in the demise of the CWB in its current form, since the CWB uses accredited export agents who are branches of large multinational companies with extensive experience in the market and investments in infrastructure. This may be an exceptional case, since in most instances viable exporting agents to replace the parastatal are not present at the time of reform.

If WTO reforms were to eliminate STEs, they may be replaced by imperfectly competitive private actors, a common outcome following the structural adjustment reforms that eliminated most STEs over the past few decades. To the extent that market power exists, if STEs are eliminated, then rents will be captured by private oligopolistic firms instead of being funneled to producers. Young, Abbott and Leetma argue that it is preferable have STEs pass on possible rents to producers rather than have them secured by private firms with no social mandate. Other analysts believe that it is unbalanced to place restrictions on STEs, which have a social mandate, while not disciplining private traders. Scoppola (2003) argues that private firms may enjoy subsidies through a variety of policy measures similar to those argued to be given to STEs.

It can be argued that STEs, as an instrument of domestic policy, should be treated comparably with other domestic policies. Some WTO members believe that de-coupled payments do induce production and distort trade enough to be of concern. This view is supported by analytical work (Ray 2000; Roberts et al. 1999; Tielu and Roberts 1998;

Westcott and Young 2002). Many WTO members have asked for limits for expenditures on de-coupled payments (Jank and Jales 2004). If the WTO continues to allow de-couple payments without limits, given a lack of consensus on how much trade distortion has occurred, it is unbalanced to place strict limits on STEs where a similar lack of consensus exists on their trade distorting impacts.

Special and Differential Treatment. Developing countries should be given a longer time frame for elimination of government subsidies to STES in order to facilitate a smooth transition to new requirements. If the WTO chooses to eliminate the monopoly rights of STES, this provision should not apply to developing countries.

Conclusions

It is appropriate for the current round of negotiations to eliminate subsidization of state traders, and to ensure access to the domestic market. Mandating STEs to offer duty-free access to their domestic market for the goods they manage would eliminate one of the major concerns about their ability to distort markets. However, STEs that lack monopoly powers are largely unable to fulfill their mission while co-existing with the private sector. The WTO Dispute Settlement Understanding has proven to be effective in disciplining STEs to assure access to the domestic market (The Canadian Wheat Board Case) and prevent cross subsidization (Canada – Measures Affecting the Importation of Milk and the Exportation of Dairy Products). If STEs are eliminated, it is likely that large and private firms will fill the void to some degree, so that concerns with market power, transparency and price discrimination are not alleviated. Further restrictions on state traders may be best handled in negotiations on competition policy that would include both state traders and private firms.

5. EXPORT CREDITS

Various government programs improve the terms on loans for agricultural exports between private banks or governments of exporting countries and importers. These programs include direct interest rate subsidies, insurance, and credit guarantees, which is the most prevalent program. These programs are addressed in the category now labeled as officially supported export credit.

Measuring Implicit Subsidies

Officially supported export credit programs result in implicit export subsidization when the terms of loans are better than would occur under private market transactions, and result in lower interest rates than would be charged to appropriately reflect the risks of those loans. The OECD (2000) estimated the subsidy component of existing official export credit programs using a methodology based on the difference between actual interest rates charged under these programs and estimates of risk corrected market based interest rates (Hyberg et al. 1995). However, comparable short-term loans are not common and country rates may under estimate the risk of these transactions, especially if importing country governments are not involved. The extent of subsidization also depends on other loan terms including down payments, grace periods, term lengths and

program fees. For example, the longer the term, the greater is the subsidy component of a loan for a given interest rate differential.

While the OECD methodology gives a good first approximation of the extent of subsidization from these programs, it may not capture the very reason many of these programs exist. In some instances importers may face 'liquidity constraints.' While the subsidy component of a program could be much greater when liquidity constraints bind, establishing a risk premium in such a case is certainly not practical and is conceptually problematic.

Another issue complicating estimation of the subsidy component of export credit programs is that to the extent that they alleviate binding liquidity constraints, export credit programs may expand imports of a commodity, with some upward pressure on prices, and thus benefit all exporters. This is a reason not to analyze the market effects of these programs by treating the subsidy component as equivalent to an equal value of direct export subsidies. Tying trade flows to these credit transactions does capture market share, so that costs to exporters depends on how differentiated or competitive one sees the determination of market share.

Use of Officially Supported Export Credit

The best evidence on practice and subsidization under these programs is from the OECD study cited above as no other systematic source of data is publicly available. According to that study, $6–8 billion dollars per year of agricultural exports benefit from official credit programs. Almost half of that is from agricultural exports from the US, with the EU, Canada and Australia accounting for about equal shares of nearly all of the rest. Virtually all (Figure 7) officially supported export credit transactions over one year are from the US, which is also responsible for 88 percent of the total subsidy component of export credit programs (Figure 8). The use of these programs varies with market conditions and the Asian financial crisis motivated greater use in 1997–98. A surprisingly small fraction of these transactions involve least developed counties (LDCs) or Net Food Importing Developing Countries (NFIDCs).

The most surprising result of the OECD study is the small subsidy component from these transactions. The longer-term US programs resulted in a subsidy of 6.6 percent in 1998, with even lower components for the EU (1.9 percent), Canada (1.2 percent) and Australia (0.3 percent). These programs may exist while offering little apparent subsidy because they break liquidity constraints. This hypothesis is supported by the increased use of export credits with the Asian financial crisis, as these programs enabled credit and trade flows that would not otherwise have occurred. The US General Accounting Office (1992) uses a very different methodology to assess agricultural credit guarantee programs and finds a subsidy component based on expenditures to cover losses from defaults at 9 percent. That suggests that interest rate premiums determined by the OECD methodology underestimate the underlying risk, and is further indirect evidence that these programs relieve liquidity constraints.

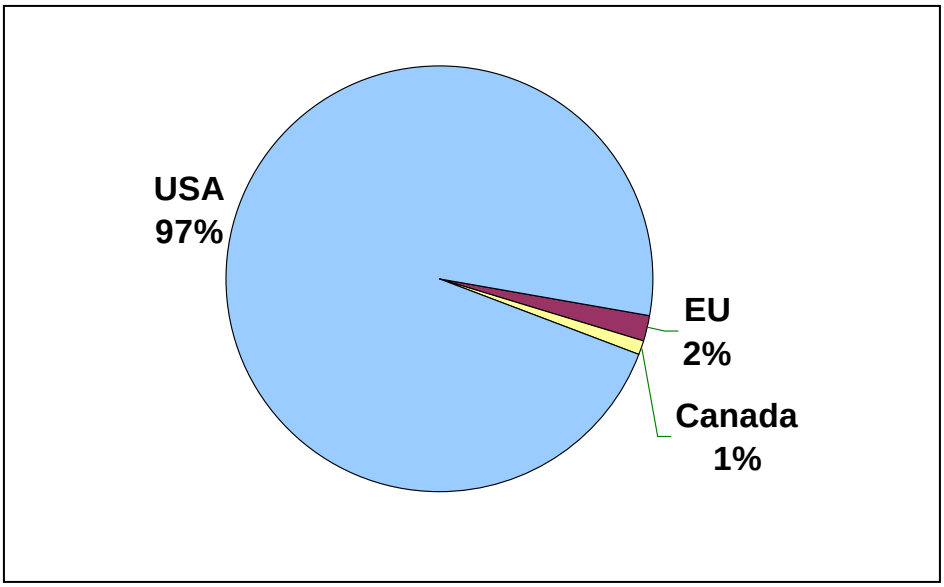

Figure 7. Share of Total Export Credits with Length of One Year or More among Participants to the OECD Export Credit Arrangement, 1998

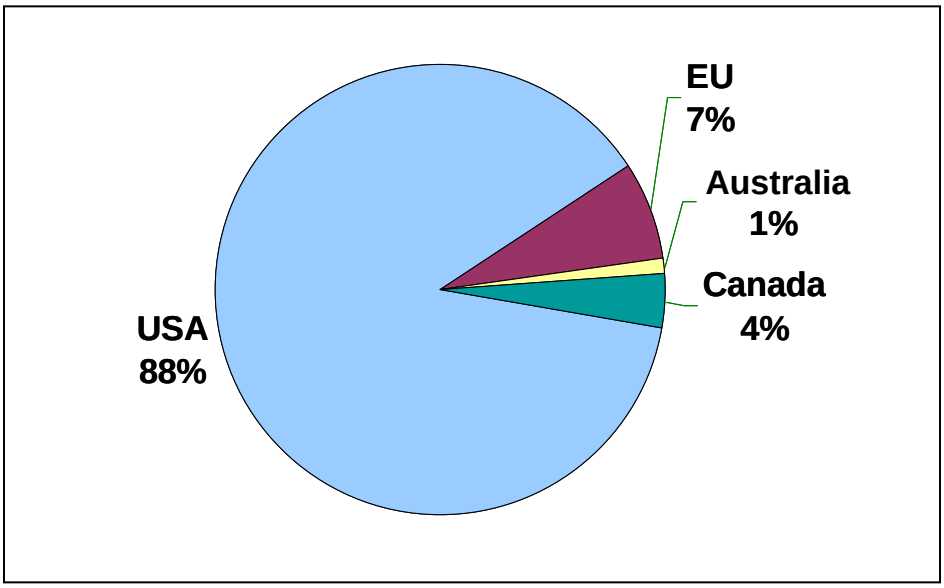

Figure 8. Share of Total Subsidy Element in Export Credits among Participants to the OECD Export Credit Arrangement, 1998

The OECD study also argues that the justification for these programs as tools to benefit developing countries is weak, based on the small fraction of transactions involving LDCs and NFIDCs. If liquidity constraints matter, elimination of these programs could put at risk over $500 million in imports per year by those countries, a consideration discussed under potential disciplines.

Export Credit Negotiations

Disciplines on export credits were first negotiated in the OECD. They focused on limiting term lengths of these programs to less than one year, limiting but not eliminating their subsidy component. Negotiations broke down at the end of 2000 over the treatment of credit transactions by state traders.

The URAA recognized that officially supported export credits could act as implicit export subsidies but did not eliminate them. The NFIDC Decision directed that appropriate provisions be included for special and differential treatment in favor of LDCs and NFIDCs.

With the failure of the OECD negotiations, and due to the implementation concerns of developing countries, export credits have become one of the elements of the Doha Round agricultural negotiations under export competition. The EU is most explicit in its position, calling for comprehensive treatment of export subsidies including export credit. The export credit issue is largely a US problem as it is responsible for the lion's share of estimated subsidies. However, the value of US subsidies for export credits is much less than the value of direct export subsidies, certainly by the EU and possibly even in the United States.

WTO Decision on Cotton

The WTO Decision on Cotton interprets commitments from previous WTO agreements to further limit the use of export credits. In 2003, the WTO began investigation of a complaint by Brazil concerning US violations of its WTO commitments due to numerous aspects of US cotton policies. One part of the complaint argued that US export credits programs for cotton, including GSM 102, GSM 103 and the Supplier Credit Guarantee Program, were export subsidies and in violation of US commitments. The United States appealed, and the WTO Appellate Body upheld the previous panel decision on this point.

The Appellate Body upheld the finding by the Panel that:

> "the United States export credit guarantee programmes at issue – GSM 102, GSM 103 and SCGP – constitute a *per se* export subsidy within the meaning of item (j) of the Illustrative List of Export Subsidies in Annex I of the *SCM Agreement*". In addition, we *uphold* the Panel's findings, in paragraphs 7.947 and 7.948 of the Panel Report, that these export credit guarantee programs are export subsidies for purposes of Article 3.1(a) of the *SCM Agreement* and are inconsistent with Articles 3.1(a) and 3.2 of that Agreement." WTO 2005, p. 254

A key determinant of the finding against the US export credit programs is the conclusion that the programs were not structured to avoid a net cost to the government, and that program premiums were not established to ensure that they covered long term costs (WTO 2005, p. 254). It also establishes that expenditures on export credit programs need to meet a member's commitment on export subsidies.

The United States is to bring its programs into conformity by July 2005**.** WTO discussion of export credit programs have been of great interest to the United States, which accounts for a large percentage of the subsidy value of such programs. The WTO Appellate Body determination increases pressure on the negotiations to develop rules for export credit programs that do not result in an export subsidy.

Potential Disciplines for Export Credits

The July modalities framework states that programs offering export credits for more than 180 days will be eliminated. It further states that disciplines will address the "payment of interest, minimum interest rates, minimum premium requirements, and other elements which can constitute subsidies or otherwise distort trade."

Abbott and Young (2004) have argued that detailed rules on interest rates, premiums, and interest payments run counter to one goal of trade liberalization, which is to reduce the role of government in regulating private transactions. They also argued against the use of detailed rules, as most disciplines adopted in the URAA limited expenditures and/or required minimum reductions of instruments, but allowed some flexibility in operation of programs. In contrast, the July Framework will tightly proscribe the operation of programs with a relatively small subsidy element that involve private traders and banks.

However, negotiators have chosen to discipline each element of export credit programs, and this decision has been reinforced by the recent ruling by the WTO Appellate Body on cotton. The negotiations have used the Harbinson text as a basis for negotiations. The Harbinson text proposes specific disciplines including (but is not limited to):

1. Maximum repayment term of 180 days;
2. Minimum cash payments by importers of specified percentage of the amount of the contract value by the starting point of the credit;
3. Provisions specifying the payment of interest;
4. Minimum interests rates, with members to use Commercial Interest Reference Rates as published by the OCED plus appropriate risk-based spread;
5. Premiums shall be charged, shall be based on risk, and will be adequate to cover long-term operating costs and losses.

As the maximum repayment period has been established, disciplines on premiums appear to be the most critical discipline under negotiation. It is important that adequate WTO reporting is required to facilitate member adherence to disciplines.

<u>Elimination of programs with more than 180 days for repayment</u>. The July framework states that such programs will be eliminated. The length of the transition period needs to be established, and a time frame of three to five years has been suggested. The other factor that needs to be established is what variable will be reduced over the transition period. It is difficult to discipline expenditures as defaults cannot be anticipated with precision. The dollar value of transactions covered would be appropriate and for the US is easily available.

Create a special program for developing countries. To the extent that export credit programs alleviate illiquidity and facilitate transactions that would not have otherwise occurred, they are beneficial to all exporters by increasing demand and thus prices. The disciplines proposed are likely to significantly reduce this potential benefit from export credit programs. However, credit constraints are most likely to inhibit imports by developing country members, who did not historically receive a significant portion of export credits. Net food importing developing countries received only 9 percent of export credits and less developed countries 2 percent during the time period studied by the OECD. An export credit program designed to eliminate liquidity constraints preventing imports of food by developing countries could assist the WTO in meetings its stated food security goals. Such a program could be operated by a multilateral institution. The Compensatory Financing Facility of the International Monetary Fund has been evaluated as inappropriate due to extensive conditionality requirements (WTO 2002c). The Trade Integration Mechanism of the IMF is limited in scope as it assists countries only when balance of payments difficulties arise from trade liberalization that has been undertaken by other countries (IMF 2005).

The WTO Africa Group has presented a proposal for an international facility to finance food imports when food import bills are significantly above trend levels. This facility would complement existing facilities and would help finance the portion of a country's food bill that was above trend levels (WTO Africa Group 2005).

6. DIFFERENTIAL EXPORT TAXES

Differential export taxes are among the issues listed in the July Framework as "issues of interest but not yet agreed." Differential export taxes are largely used by developing countries, who argue that they are useful in a number of ways. They are an important source of government revenue and are easily administered. Equally important to users is that they discourage exports of primary products and encourage the production and export of processed products. Members maintaining differential export taxes also argue that this policy is necessary to combat tariff escalation by importers.

The OECD (2003) presents data on the use of export taxes. Examination of the 100 trade policy reviews conducted by the WTO indicates that about one third of WTO members use export taxes, and 22 members have export taxes on agricultural products. Of particular concern to some exporters are the use of differential export taxes. For example, Argentina has a 23.5 percent tax on soybeans, and a 20 percent tax on soyoil and soycake. Malaysia maintains a 16 percent tax on crude palm oil, while no tax is levied on exports of processed palm oil (Jank 2005). Some industry analysts argue for simply making the export taxes for primary and processed products equal. This would ensure that, for example, the soybean processing industry does not have an advantage due to the differential nature of Argentina's export taxes.

Some interests argue that differential export taxes have the same economic effect as an export subsidy for processed products and should be subject to Paragraph 17 of the WTO

Framework Agreement on Agriculture which calls for "...disciplines on all export measures with equivalent effect by a credible end date".

In some ways differential export taxes are similar to export subsidies, as a greater supply of the processed good to the world market is likely (although the amount may be influenced by the structure of the processing market). Differential export taxes differ in two other ways: they are a source of government revenue, not expenditure, and the producers of the primary product are disadvantaged by their government's policy, and exports of the primary product are smaller than otherwise.

WTO members disagree on whether or not differential export taxes should be included in the negotiations. Argentina has argued (reportedly speaking for nine other countries as well) that inclusion of such a sensitive topic would require an explicit mandate by their ministers at Doha (Yen, Hormeku, and Khor 2004). India cautions against disciplining export taxes as revenues may be used in legitimate ways to develop their industries "export tariffs are generally used to develop an industry by diversification in the product profile and development of value added products for exports. Therefore, the suggestion that 'export duties' be negotiated would be outside the Doha Mandate" (OECD 2003, p. 16). Other WTO members, including the US, EC, Brazil, and Chile, have expressed interest in restricting the use of differential export taxes. If restrictions were negotiated, their impact would hinge on if special and differential treatment was given to developing countries, and on the definition of developing countries. If special and differential treatment is extended, little impact would be felt in the short run, as most users of export taxes are developing countries.

7. FOOD SECURITY CONCERNS

Developing countries have expressed concern over the impact of reforms from the implementation of the URAA, including the possibility of higher prices for food imports, and also over illiquidity that could limit imports in times of shortage.

Concerns over food security were recognized in the NFIDC Decision. However, as previously discussed, substantive actions have not resulted from this decision. Developing country dissatisfaction with other aspects of implementation of the NFIDC Decision resulted in inclusion of these issues in the "implementation concerns" following the URA. Many developing countries expressed an unwillingness to proceed with a new round until concerns with the implementation of the previous round were met.

During negotiations under the Doha Development Round, few of the proposals made by developing countries regarding food aid and more generally, food security, have received serious consideration by the WTO. In 2001, Egypt proposed that the NFIDC Decision be reviewed and strengthened. The July framework does not contain substantive proposals to do so. Egypt also spearheaded efforts by a coalition of developing countries to create a food financing facility to assist developing country food importers in times of need. While this idea was considered by a WTO committee, it was subsequently dropped.

Developing countries also proposed that higher minimum commitments for food aid be included in developed country commitments under the WTO, with the hope of making these commitments legally binding. This proposal was not seriously considered.

The UN's Food and Agriculture Organization presents data indicating that the food import bills of least developed countries and net food importing developing countries has been increasing in both nominal and real terms, and that imports are now a significant portion of total caloric intake (FAO 2003). At the same time, the capacity of developing countries to pay for food imports has modestly increased. Matthews (2003) defines capacity as the share of food import expenditure in total exports of goods and services, minus debt payments, so that capacity increases as food import bills decrease as a percentage of export earnings. He calculates the import capacity of 23 developing countries for three periods in the late 1980s and 1990s and finds that it has increased as food import bills decrease from 17.1 to 15 percent of debt-adjusted export earnings. While this is good news, averages mask variation in the ability of countries to pay for imports, and unusual market events can overwhelm a countries ability to pay for imported food.

Many WTO proposals (WTO 2004b), and academic articles (Pingali and Stringer 2004; Pinstrup-Anderson 2004; Diaz-Bonilla, Xinshen and Robinson 2004) discuss concerns over the food security of developing countries. Addressing these concerns in the WTO, in a comprehensive and credible fashion, is critical to gaining the support of developing countries for an agreement. Some aspects of food security are being addressed in the negotiations on market access and domestic support. However, it is likely that food aid levels will continue to decline. Special programs should be developed to provide export credits to specified developing countries; however, this is a partial and inadequate response.

8. THE "EQUIVALENCY" OF EXPORT COMPETITION POLICIES

The July Framework Modalities specifically states that:

> "Members agree to establish detailed modalities ensuring the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date."

The need for this provision is likely to have arisen due to the fact that each of the four policies is largely used by one or two members. The EU accounts for most direct export subsides and the United States for most of the subsidy element of export credit programs. The United States is also the target of potential disciplines on food aid, both because it is the largest single donor, and due to characteristics of its food aid programs. State trading is not a single country issue as it is used by a larger number of WTO members. However, US concern over the Canadian Wheat Board is a major impetus for proposed disciplines.

Earlier work (Young, Abbott, and Leetma 2001) expressed surprise that the EU would be willing to trade off reductions in direct export subsidies for concessions on export credit programs and food aid, due to the great disparity in the size of these programs. The

Provision in the July Modalities Framework seeking parallel elimination of all export subsidy measures may seek to make palatable the unequal nature of the trade-offs within the export competition pillar. While this is a useful political goal to the extent that it may facilitate agreement on disciplines by members, it is problematic to achieve due to differences in the nature and the consequences of the policies. More sensible trade-offs could be made if tradeoffs could occur across the three pillars.

It is also difficult to estimate the equivalence of different types of export subsidies. Abbott (2004) details many of the challenges of using empirical models to compare the impact of export credit and subsidies, state trading and food aid. He begins with a detailed evaluation of the difficulties in using simulations of an econometric model as a basis for trade offs in the negotiations. He notes that three large and complex models, the OCED Aglink, a FAPRI model of the agricultural sector, and GTAP (a computable general equilibrium model) have estimated the impacts of potential reforms. While all models estimate small impacts, other aspects of the results are inconsistent. Numerous aspects of these modeling exercises explain why no consensus on the impacts of these policies has been reached. All models incorporate different levels of institutional detail. Abbott notes that food aid is not included in these large models, and that export credit is modeled as a price subsidy only by the OECD model. Additionally, model outcomes are dependent on the underlying theory, the base years chosen, and parameters used.

Equally important, each of the policies has elements that make modeling problematic to achieve results providing a credible basis for trade offs. For example, modeling exercises to establish the impact of export credits are poorly equipped to evaluate if export credit programs alleviate liquidity constraints faced at times by some importers, and in so doing, actually increase demand. Additionality in demand is also of concern for food aid, which in certain circumstances can provide benefits instead of costs to third country exporters.

The elimination of direct export subsidies would be beneficial, has broadly-based political support, and is a goal worth working for***. Parallelism can perhaps be best achieved by writing simple rules that eliminate over time the use of government funds for direct export subsidies, export credit programs and state trading.*** In addition, the market development objective and (most visible) surplus disposal aspect of food aid could be disciplined. Special and differential treatment would encompass export credit programs for designated recipients and most food aid programs. While differential export taxes could be disciplined, disagreement exists over whether or not they should even be included in the discussion. It would be costly to risk a potential agreement on export subsidies, export credits and state trading, and potential progress on food aid, due to lack of agreement on differential export taxes, which are not prevalent and can be addressed in subsequent negotiations.

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Appendix: Food Aid, the Disincentive Effect and Commercial Displacement

Recipient/Importer Behavior

A simple theoretical framework based on supply-demand equilibrium in a recipient importing country, expressed as in supply-utilization tables for a commodity, is useful in analyzing the nature of and interactions between food aid, trade policy, the disincentive effect and commercial displacement. In this framework supply, composed of beginning stocks (S_{t-1}) plus production (Q) plus commercial imports (M), plus food aid (FA) equals demand which is composed of consumption (C) plus ending stocks (S_t). Thus,

$$S_{t-1} + Q + M + FA = C + S_t$$

Consumption (C) may be further disaggregated into consumption of the poor (Cp) plus consumption of the rich (Cr) to highlight issues of targeting and additionality. Therefore,

$$C = Cp + Cr \text{ and so;}$$

$$S_{t-1} + Q + M + FA = Cp + Cr + S_t$$

Beginning stocks are predetermined while ending stocks depend on the domestic market price (P)[4]. Similarly, production and consumption also can be explained by domestic price (P) and other exogenous variables (such as income (Y) in the case of consumption). Food aid (FA) is injected into this economy, so price (P) and imports (M) must then adjust to respect this equilibrium condition.

In a standard closed economy analysis, there are no imports, so food aid inflows must be accommodated by adjustments in production and consumption, with price responsiveness (elasticity) determining the extent of adjustment of each. Thus,

$$\underline{S_{t-1}} + Q(P) + FA = Cp(P,Yp) + Cr(P,Yr) + S_t(P)$$

Variations (increases) in the level of food aid (FA) cause prices to change (fall). Falling prices which drive down production bring the "disincentive effect" since food aid has made this good less scarce. The disincentive effect is the negative impact on domestic production due to expectations of lower prices. Food aid also increases income, either Yp or Yr, depending on who receives the food aid. If it goes to the rich, they are unlikely to spend much of it on food, so Cr changes little. But if food aid goes to the poor, and they consume that income on food, Cp can increase, as much as FA if the food aid is "well targeted" and so "additional." In that case, the supply increase due to FA is matched by a demand increase for Cp. In the case of partial additionality, Cp increases, but by less than the full extent of the increase in FA. Thus, the extent of any disincentive effect depends crucially on how well targeted the food aid donations are. There is a tradeoff between adjustments to the food aid inflow in consumption versus production here.

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[4] Predetermined, exogenous variables are denoted by an underline (e.g., $\underline{S_{t-1}}$) and when a variable is explained by another variable, as in supply or demand functions, the functional relationship is denoted using parentheses, as in $S_t(P)$ showing that ending stocks depend on the domestic price.

Most food aid recipients are open, not closed economies, even if they used tariffs to protect their domestic markets. Equilibrium is determined in an entirely different manner in small open economies – countries whose imports are too small to change the world price.[5] In this case we must return to the original equilibrium condition, including M. But the domestic price (P) is determined by the world price (Pw) and any tariff (or its equivalent from a combination of domestic and trade policies). So a price linkage relationship gives

$$P = Pw + T \quad \text{and so}$$

$$\underline{S_{t-1}} + Q(\underline{Pw + T}) + M + FA = Cp(\underline{Pw+T}, Yp) + Cr(\underline{Pw+T}, Yr) + S_t(\underline{Pw+T})$$

In this case production and stocks are fixed at the level determined by the world price (Pw) plus any policy intervention by the government (T). Prices are fixed by the linkage to the world price – by policy. Equilibrium is achieved through import adjustment (M). If there is now an increase in food aid, and if it is badly targeted, so that consumption of both the rich and poor do not increase, commercial imports (M) must fall by the amount of the food aid inflow (FA). This is "commercial import displacement." If producers face the world price (Pw) the disincentive effect will not occur. The extent of (partial) commercial displacement is smaller if an increase in FA increases income, and if that income increase raises consumption (C). Thus, well targeted, additional food aid generates less commercial displacement than poorly targeted aid which does not augment demand.

If there is free trade, T is zero, and the domestic price in the importing country is equal to the world price (P = Pw). In many developing countries, not only are there tariffs or other forms of protection, but those forms of protection may be used to stabilize the domestic economy. In that case, P is likely to equal a politically determined target Pt, with the level of the tariff varying in response to any changes in the world price, as in a variable levy. In that case

$$P = \underline{Pt} = \underline{Pw} + T$$

$$\underline{S_{t-1}} + Q(\underline{Pt}) + M + FA = Cp(\underline{Pt}, Yp) + Cr(\underline{Pt}, Yr) + S_t(\underline{Pt})$$

In other respects this stabilizing small importing country behaves like an open economy, except that it is the tariff which varies with any changes in the world price. So as in the open economy case if there is an inflow of food aid, commercial imports, rather than domestic price and production, vary to accommodate the food aid. Commercial import displacement is more likely than a production disincentive effect in most trade policy regimes. The exception is a quota, where imports are fixed and the link between domestic and world prices is broken. But even in quota regimes, it is more common for the level of the quota, and so imports, to vary to achieve a target domestic price, as in the stabilizing regime.

Source: Abbott and Young 2005.

[5] All but the largest food aid recipients (for example, India) are well characterized as small importing countries.