State Trading in International Agricultural Markets
by
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I. Introduction

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At the domestic level most countries reacted to income and poverty problems of agriculture in the 1930s by instituting a range of protective devices for agriculture. Due to a fear of return to depressed agricultural conditions or because of food shortages, protective measures were broadened during the post World War II period. These domestic policies are at the heart of conflict presently surrounding the political economy of agricultural trade.

At the international level a number of systemic changes have evolved during the post World War II period. These include: (1) an unprecedented expansion in world wide trade, (2) the formation of the European community, (3) the emergence of OPEC, (4) the establishment of the LDCs of a consistent policy focus through the UNCTAD, (5) a change in monetary policy to floating exchange rates, and (6) rapid growth in many countries during the 1970s, based in part on lending that gave way to reduced lending, slow growth, heavy debt and reduced expansion in the 1980s.

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Discussion Paper
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The composite of these major economic and institutional changes along with emphasis on domestic responsibility of governments created a very dynamic and often contentious post World War II international economic 'order.'

During the early post World War II period U.S. policy was the lever through which a high degree of trade liberalization was generated. The General Agreement on Tarriffs and Trade (GATT) was formed and the U.S. led a period of unprecedented reduction in trade barriers for industrial countries. GATT principles and U.S. leadership were firmly grounded in the classical economic model. GATT signatory countries accepted this model for industrial trade policy formation.

The situation in agriculture was quite different. In the 1930s when the U.S. initiated its reciprocal trade agreements program it also instituted agricultural protection. This in turn led to international conflict and insistence by the U.S. on GATT exceptions to protect domestic programs, especially the Section 22 exception which continues to overhang trade negotiations. Other industrial countries with at least equal and probably greater agricultural protection cheerfully followed the notion of agricultural exceptions. Agricultural protectionism has continued unabated to the present from its depression and early postwar base.

The negotiating format for agriculture has been limited and different from industrial negotiations. Agriculture was not included in the first 4 rounds of GATT negotiations. It was incorporated only in a very limited way in the Dillon (5th) round and, fortuitously, resulted in the biggest single action taken on agricultural products in the post war period, namely the granting by the European Community of a zero binding of tariffs on soybean imports.

In the Kennedy round an effort was made to include agriculture but with no major achievements. The agricultural negotiations were almost exclusively a confrontation between the United States and the European community based on U.S. efforts to mitigate protectionism that had evolved in the common agricultural policy. This negotiation lasted five years but virtually all of this time was spent sparring over how negotiations should be undertaken with only very brief negotiations at the end.

The Toyko round was the first where agriculture was significantly included in the general multilateral framework. Four dimensions of negotiations were involved: (1) Bargaining for reduction in trade barriers, (2) Bargaining on codes, (3) World wide international agreements and, (4) Special and differential treatment (S & D) for LDCs. While some progress, or at least change, occurred in each of these areas real accomplishments measured by almost any standard were limited.

Nations are presently beyond mid-point in a new round of trade negotiation, broader in scope than any previously attempted. The negotiations include traditional commodity trade policy issues but also trade in services, problems in finance, capital investment and other dimensions. An initial bold new initiative proposed for agriculture by the U.S. - namely to eliminate all agricultural subsidies and barriers that affect trade has since been abandoned. None-the-less unprecedented and broadly based efforts continue to reduce protection and achieve increased liberalization of trade in agricultural products.

Despite the ongoing and now broadened search for trade liberalization one aspect of international policy has received scant attention; namely state trading. It has not been included significantly either for agriculture or industrial sectors in 7 prior negotiating rounds nor is it an important part of the Uraguay Round. This may be understandable for industrial trade inasmuch as state intervention is limited where large multinational companies compete with differentiated products. Only managed economies are relevant state traders in these sectors and for the most part they have not participated heavily in international trade.

However, when attention is turned to agriculture and other raw materials (e.g. petroleum, metals) the picture changes. Various forms of state controlled institutions and direct intervention have developed in many countries. The remainder of this paper explores the phenomena of state trading in food and agriculture by attempting to deal with four interrelated questions:

1. What is state trading?
2. Why does state trading exist and how extensive is it?
3. How will trading results differ - Is there a model or set of models that will help understand the impact of state trading?
4. How is state trading implemented (operationalized) and are these procedures amenable to negotiation and control through GATT disciplines?

II. What is State Trading?

A clear and unambiguous definition of state trading is somewhat illusive. As reported by Lloyd[1] state trading has been defined variously as: state conduct of foreign trade (Hazard, 1959), the practice of some governments of monopolizing foreign trade in certain commodities (Baldwin, 1970), an enterprise which is either wholly or partly owned by the state (Ghai, 1973). Each of these definitions emphasizes the degree of government control either directly or through the establishment of an organization for control that can specify prices and quantities and other terms of sale and purchase in the international market.

An alternative labeled as the functionalist approach to state trading emphasizes the objective sought in distinguishing state trading from normal private trade. This approach asserts that state trading exists when national, in contradistinction to private, interests are primarily being pursued. The kinds of objectives pursued may vary widely among countries and includes such things as protection of domestic producers, improvement of terms of trade, raising revenue for the state, promotion of domestic price stability, health and national security, and numerous others. This leads to a definition by Lloyd[2] that state trading occurs when there exists a trading organization for which the prices and/or quantities of international transactions in commodities are determined as an instrument in the pursuit of the objectives of government policies. This definition focuses on government control for public policy objectives rather than on the existence of a particular form of organization or institution.

Of particular interest is the implied definition of state trading incorporated into the basic instruments of the general agreement on tariffs and trade (GATT). Paragraph 1a of article 17 of the GATT entitled "State Trading Enterprises" reads as follows:[3]

> 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 purchase 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.

Subpart B of this first paragraph goes on to state that such enterprises shall, having due regard to the other provisions of this agreement make any such purchases or sales soley 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 practices, to compete for participation in such purchases or sales.

Paragraph 2, 3 and 4 of article 17 deal with purchases for direct government use, negotiations to limit obstacles to trade created by state trading organizations and notification of the products which are imported or exported by enterprises of the kind described in paragraph 1a.

This GATT statement has shortcomings in implementation.[4] First, given the variety of institutional patterns that exist, determining what is a state enterprise or what is adequate control to imply the fulfillment of government objective is not unambiguous. State trading can be directly implemented by government agencies or it can be left to parastatal organizations or it can be in the hands of cooperatives as is the case in Scandanavian countries. The linkage between trading institutions and government is unambiguous only in the case of socialist countries where state control exists for virtually all production and trading activities. A second limitation exists in determining what is discriminatory and what is non-discriminatory treatment in operating practices. Finally there is the implication in article 1 that state trading organizations should operate consistent with government measures affecting imports or exports by private traders. This is anomolous since most state trading organizations are established precisely to fulfill objectives that are at variance with the results that would be obtained through private trading institutions.

For purposes of evaluating state trading in agricultural markets a more relevant definition is that proposed by Kostecki[5] that state trading occurs when a government or a government backed agency controls the essential terms (including prices or quantities) on which exports and imports take place. This definition focuses on government's impact on specific transactions rather than on the creation of specialized institutions or the fulfillment of specific goals although normally government's impact on transactions will reflect the attainment of a policy goal rather than profit maximization in the normal sense. It is also true that in much of the world specialized institutions such as marketing boards and cooperatives have been established and in many cases given monopoly power to handle international trading transactions. This definition, however, is less restrictive and encompasses more than either the institutionalist or the functionalist approach to a definition of state trading. The essential distinction is that government influences trade on a transaction by transaction basis rather than by establishing specific rules within which private trading transactions take place. Government intervention that does not involve state trading includes the establishment of tariffs, quotas, phyto-sanitary regulations, licensing procedures and other rules under which private trade occurs but without unique intervention by government.

This means that transactions undertaken directly by governments or where transactions are directly influenced by government are defined as state trading. This for example includes trading undertaken through the tender system in the European economic community, probably most trading undertaken through the Japanese food agency and exports in the United States through PL 480, the export enhancement program, and government guaranteed credit or subsidy programs where decisions are made on a case by case basis whether to import or export more or less, whether to influence price or in other ways to effect the terms of trade.

In this framework state trading of agricultural products is pervasive indeed and encompasses trading directly by government agencies, trading by organizations established by a government, or allotted specific powers by a government and trading where transactions are directly influenced by a government through the arrangement of specific transactions or where transactions are influenced by a government other than through rules of the game that are specified within which private buyers and sellers can independently implement transactions.

III. Why Does State Trading Exist and How Extensive is it?

The present institutions and dynamics involved in agricultural trade are based on past events and past perceptions of what ought to be. In general they are an outgrowth of policy designed to serve national interests. This policy in turn has been influenced both by philosophical beliefs and the economic and political realities faced by individual nations. At least six different contexts can be distinguished that influenced institutional patterns for state trading as they exist today. These are:

1. Centrally Planned Economies; these economies represent the most clear case of complete state trading. This is based entirely on their philosophical and political orientation. All production and commerce both internally and externally is handled by state directed institutions and no other alternatives are considered viable.

2. Less Developed Countries; these countries are a mixture of private and quasi-public or parastatal institutions but with heavy reliance on parastatal organization for national level internal markets and for external

trade, both exporting and importing. The existence of these parastatal organizations often reflects the fact that there is neither adequate capital nor management and organizational capacity in the private sector to develop large scale market institutions. Further there has been a general reluctance in many countries to permit outside multinational private firms to become heavily involved in specific markets. In many cases these institutions, particularly those that deal in external trade, were established by colonial powers to serve as exporters of raw materials and importers of processed and manufactured products from the controlling country. Many have been perpetuated and used in the same way under domestic political control.

3. Canada, Australia, New Zealand and South Africa; this group of countries represent developed economies where marketing boards have proliferated largely in the agricultural sector. In some cases these were developed during the 1930s as a part of national policy to alleviate distressed conditions in agriculture. Their existence in the form they have reflects the fact that each of these countries is a significant exporter of agricultural products and marketing boards were developed as a vehicle to expand and stabilize export sales of agricultural products.

4. Japan; the Japanese system is unique and reflects a long term concern with food security and the special place of rice in the Japanese food economy. The Japanese food agency is concerned both with maintaining protection for agriculture and not permitting consumption patterns to become excessively westernized based on livestock products and wheat as a principle food grain. Food security is embedded both in the concepts of protecting agriculture, particularly rice production, and in maintaining a diet centered around rice with fish as a principle source of protein.

5. West Europe; west European countries historically evolved with considerable diversity in the form and purpose of market institutions. The Scandinavian countries for example are dominated by cooperatives for both domestic marketing and international trade in agricultural commodities. The United Kingdom while basically a free market economy and a leader in the search for free trade during much of the nineteenth century and early twentieth century has evolved a number of marketing boards for agricultural products. Many European countries also, because of direct links to colonies, developed parastatal institutions and in some cases direct state trading to handle these linkages. In addition government control of such things as tobacco, coffee and some other products were developed as a means of enhancing government revenues and controlling consumption flows. West Europe presently of course is dominated by the common agricultural policy and as we have asserted above this contains a significant element of state trading. The tender system of exports creates transactions where prices and quantities are arranged through the commission of European community.

6. The United States; direct government involvement in international transactions was slower to develop in the United States than in most other nations but gradually has been built into farm policy beginning as early as section 32 of the agricultural act of 1935. This act permitted direct government intervention to purchase agricultural products deemed to be in surplus and in turn to dispose of them in domestic or international markets. This was later followed by public law 480 in 1954 which established the basis for food assistance programs with transactions initiated and arranged by government agencies. Since the early 1970s state intervention has increased. This has been combined with a general subsidy program where farmers who participate in farm programs receive a target

price well above the minimum loan rate at which farm products are sold on world markets. This component of the program probably cannot be classified as state trading but simply specifies a set of rules within which private traders operate. On the other hand transactions under the export enhancement program and those which are assisted by direct government credit or credit guarantees to private institutions clearly are influenced and both price and quantity are affected by direct government action.

The objectives sought can vary significantly among countries. McCalla and Schmitz[6] suggest that there are at least four plausible reasons why nations engage in state trading in grains. First, most developed nations pursued domestic agricultural prices and income policies which involve price, and often supply management. These policies require elements which regulate the quantities and prices of traded goods so that the international market does not negate domestic objectives. Secondly, an increasing number of developing and centrally planned countries operate extensive subsidized urban food distribution programs where retail prices are significantly below producer and/or world prices. State trading is again one means available to prevent events in the international market from disrupting domestic programs. Thirdly, the form of economic organization may be such that state trading is the only compatible form of international interface. Fourthly, nations may seek to manage trade for foreign exchange reasons and/or to allow intercommodity and intersectoral tradeoffs in commercial policies.

Though these objectives probably cover the bulk of state trading in agricultural commodities a number of points could be added. State trading can be used to discriminate among countries and commodities both in export and import transactions. It can seek to improve terms of trade and foreign exchange flows by affecting prices and/or quantities traded.

Meade[7] suggests that the control of volume can be a particularly relevant component of state trading. State trading can be used to control consumption, particularly of specific items such as tobacco and alcoholic products. It can also be used as a part of national defense through government purchases for stocking and maintaining reserves. This has been significant for the United States, particularly in certain metals and to some extent in petroleum products.

There also is an operational component that leads toward state controlled trading rather than relying on traditional restrictive measures such as tariffs, quotas and subsidy rules. State trading provides greater flexibility in making decisions both on prices and quantities and permits direct government impact on each. It is also far less transparent than traditional trade policy instruments. Imports, for example, can be restricted by a state trading monopoly simply by refusing to enter into transactions.

If the definition set forth above is accepted it becomes quickly apparent that state trading is pervasive in agricultural products and in certain other items, particularly petroleum and raw metals. It occurs through the grant of exclusive trading rights but with operating criteria and objectives specified by government, through maintenance by the state of complete control of transactions and through periodic intervention by government to change conditions of a transaction that is otherwise basically handled through private institutions.

Quantifying the total of state trading in the complex of institutional and government control mechanism that exist has proven to be extremely difficult[8] McCalla and Schmitz in a limited effort estimate that in the period 1973-77 ninety five percent of world trade in wheat involved a state trader on at least one side of the transaction and that state to state trading accounted for about one third of total trade[9] A summary of their estimates for three period spanning the period 1953-77 is shown in Table 1. While more recent estimates are not available for wheat it is unlikely that this percentage has declined. It is also probably true that the percentage of state trading in wheat is greater than any other single commodity. Because of the concentration of coarse grain exports from the United States, largely to newly industrialized countries and European countries, one could assume that the percentage of state trading is much lower than in wheat. Also in the case of soybeans the generally less restricted market conditions and relative concentration of export sources would lead to the same general conclusion. The same general perspective would appear to apply in the case of most livestock products and fruits and vegetables. State trading probably is quite limited in high value processed agricultural products at least those that are brand labelled, differentiated products.

IV. How will the results of state trading differ from private market results?

The effect of state trading on markets depends on the objectives being sought by governments, the scope of control exercised by governments and the degree of its market power. An initial distinction needs to be made between the large country case and the small country case. In general small countries can affect only internal markets whereas large countries have at least the potential to affect international markets. Within these two categories governments can institute complete (monopoly) control over domestic and international transactions, they can establish government trading to function only with respect to border transactions, or they can institute intermittent intervention in transactions.

TABLE 1

State trading in wheat — percentage of volume of principal exporters accounted for by state traders

	1953–7 *per cent*	*1963–7* *per cent*	*1973–7* *per cent*
1. Private exporters to private importers	10.7	5.9	4.4
2. Private exporters to state importers	33.3	51.2	56.6
3. State exporters to private importers	28.3	8.1	4.3
4. State exporters to state importers	27.7	34.8	34.7
Summary			
Exports by private traders (1 + 2)	44.0	57.1	61.0
Exports by state traders (3 + 4)	56.0	42.9	39.0
Imports by private traders (1 + 3)	39.0	14.0	8.7
Imports by state traders (2 + 4)	61.0	86.0	91.3
Volume of trade included above (000 m.t.)	23.475	49.891	60.385
Total world exports 000 m.t.	25.596	56.397	63.506

Sources: 1953–7 – UNFAO – World Grain Trade Statistics.
1963–7 and 1973–7 – International Wheat Council, *Review of the World Wheat Situation*, various issues.

Table 2 is an effort to classify major forms of government control and the kinds of actions and market impacts that can be generated. These structural cases are stated as pure cases in order to fill each cell with a yes or no with as little ambiguity as possible. Obviously various "shades" of each of these cases exists in actual trading relationships. For example, it is not clear whether Japan fits into the large country complete control category, whether it fits best into the large country partial control category or whether direct government action is intermittent. Operationally it probably represents a partial case of each or moves back and forth depending on conditions at the time. Further, the distinction between large and small country is not measured in terms of population, GNP, or other standard measures but rather in terms of importance in any given international commodity market. The basic question is whether for a given commodity the country has potential to affect world price through its state trading actions. Japan, for example, probably represents the large country case for rice and wheat but a small country case for oranges and beef. With this distinction only a limited number of large country cases exist. The principle ones are:

(1) U.S.S.R.: All grains, most livestock products, sugar,

(2) E.C.: Food grains, soybeans, dairy, livestock products, wine, food oils, sugar, (probably others).

(3) U.S.: All grains, soybeans, dairy, livestock products, cotton, tobacco, sugar, peanuts, (probably others).

(4) Canada: Wheat.

(5) Australia: Wheat, wool, some livestock products.

(6) Brazil: Soybeans, coffee.

(7) Other: ?

TABLE 2 A STRUCTURE AND ACTION - IMPACT TAXONOMY FOR STATE TRADING

tructure\Action - Impact	Affect Quantity Traded	Affect World Price	Affect Domestic Price	Differentiate Domestic and Intn'l Markets	Target Sales or Purchases	Enter Long Term Sales Arrangements	Use Hidden Purchase or Sales Strategies	Affect Rate of Stock Accumulati(or Liquidation
arge Country								
omplete Gov't Control lomestic and intn'l)	yes	yes	yes	yes	yes	yes	yes	yes
artial Gov't Control ntn'l transactions)	yes	yes	yes	no	yes	yes	yes	yes
itermittent Gov't Action	yes	yes	yes	no	yes	no	yes	yes
nall Country								
omplete Gov't Control)omestic and Intn'l)	yes	no	yes	yes	yes	yes	yes	yes
artial Gov't Control ntn'l transactions)	yes	no	yes	no	yes	yes	yes	yes
termittent Gov't Action	yes	no	yes	no	yes	no	yes	yes
int Action	yes	yes	yes	no	no	no	yes no	yes

On a worldwide basis the largest number of cases of state trading probably would fall in the small country category. The greatest impact however and the greatest volume of commodities handled probably exists in large country cases.

The additional general classification on Table 2 "Joint Action" refers to the development and operation of international commodity agreements. It does not refer to common markets, free trade areas, etc.

As shown in Table 2 only for the large country case with complete government control is yes appropriate for all row cells. This is distinguished from the small country case with complete government control only in that small countries do not have the capacity to affect world price. In both cases, however, from the viewpoint of the instituting nation it can replicate all possible market outcomes ranging from complete monopoly exploitation to simulating operation in a competitive market. Complete state trading also can simulate all traditional trade policy instruments including quotas, advalorem tariffs, fixed rate tariffs, variable levies, phyto-sanitary regulations, or any other existing form of government intervention. State trading monopolies can operate to simulate optimum tariffs, optimum subsidies, and optimum export tax programs. Thus both as exporters or as importers they have great flexibility in how they can fulfill the particular objectives being sought.

Viewing the columns in the Table 2 and for the moment ignoring "joint action," five columns are exclusively yes. Both in the large and the small country case and with each type of state trading all countries can affect the quantity traded, either export or import. All can affect domestic price through trading action, all can differentiate among (target) external markets; i.e., provide lower prices, credit subsidies, etc. on a selective country basis. All can develop selective purchasing strategies to take advantage of market conditions (for example, the Russian grain purchases of the early 1970s) and all can affect the rate of stock accumulation or liquidation. Obviously there are differences in the degree to which each of these actions can be implemented depending upon such things as the total volume of imports or exports relevant to a given country, the amount of government financing available and the demand and supply elasticities involved in the commodities being traded. One important distinction needs to be made in the column labeled "Affecting Domestic Price." While all cases are yes, it is clear that in order to manipulate domestic price and differentiate domestic from international markets as a discriminating monopolist requires complete government control both in domestic and international markets. The yes for all other cases in this column reflects the fact that the two lesser forms of control can affect domestic price to the extent that quantities imported or quantities exported may create some price shift. In the case of intermittent action, even this is questionable unless other traditional policy instruments supplement the state trading actions.

The most important distinguishing features among the structural alternatives is that only in the large country case can state trading actions affect world price. Additionally, as indicated above domestic and international markets can be effectively differentiated to exploit elasticities only in the case where complete government control of both domestic and international trading exists. Another significant distinguishing feature is that governments who use largely intermittent action cannot enter long term sales arrangements. This is true both for large and small countries.

One might argue that the U.S. - Russian grain deal counters this statement. This arrangement however is not one which obligates the U.S. government to enter markets and supply Russia with a given quantity of grain. It is more a "best efforts," and "if supplies are available," kind of arrangement. The U.S. would, of course, try to hold Russia to its specific commitments if they indicated lesser than the minimum agreement purchases and of course with the state trading system Russia can implement these purchases through government. On the other side of the equation the U.S. exempted the minimum agreement quantities from the embargo instituted in early 1980. So while an obligation exists, the agreement does not imply state trading intervention to obtain fulfillment of U.S. sales.

It is apparent from the proceeding discussion that the diversity of actions that can be taken through state trading mechanisms is great. While conceptual illustrations may be useful in evaluating the operation of state trading, the real question is the empirical issue of how in fact state trading operates under different circumstances and what objectives are being sought. Generally these objectives are related to a domestic policy consideration. Australia, for example, apparently operates a state trading monopoly that controls all exports of wheat. It also maintains policies that peg the domestic price at a level higher than that which normally exists in the world market. This also occurs in Japan and is a major phenomena in the European common agricultural policy. Operating in this way, Australia can be viewed as small country cases where there is little impact on international market prices. The European community on the other hand is a large country situation where these operations have a major effect on world markets. To the extent that the U.S. reduces export prices through the export enhancement program, subsidized credit or other means relative to domestic loan rates, this same phenomena occurs. On the other hand, the basic source of transfer of income to farmers with U.S. domestic programs is through deficiency payments covered by taxpayers and not through higher consumer prices.

LDCs in general operate state trading for different purposes. Emphasis is on subsidized consumption by importers and taxing of producers by exporters. The consequence of these two actions are to expand the quantity of imports and to reduce their quantities of exports . Domestic production is reduced because of the disincentive effect on their domestic producers. Consumption subsidies are motivated by both humanitarian and political consideration. Export taxes are motivated by the need to obtain government revenue to finance domestic government actions.

Socialist countries participate in trade based on an entirely different approach to economic policy. Allocation of production and resource use and to a large extent consumption are part of an overall economic plan. Neither internal markets nor participation in international trade reflect adjustment to optimal resource use nor the preferences of consumers based on incomes and prices. In this framework trade is only a distributional mechanism and plays no part as an automatic regulator.[12] Both imports and exports tend to be generated as a residual component of an overall plan. Most socialist countries appear to have minimized trade levels by using imports as a necessity only to fill gaps in domestic production and have generated exports only as necessary to generate the foreign exchange needed for essential imports.

V. How is state trading implemented and are these procedures amenable to negotiation and control through GATT disciplines?

As implied in the preceeding discussion a wide range of objectives and forms of direct government intervention in international trading transactions exists. As indicated in Table 2 these can be broken down into three broad categories.

1. Direct government control of transactions and specification of prices, quantities and other terms of purchase and sale in both domestic and international markets. This case exists largely in socialist countries.

2. Control of border transactions by quasi-government or parastatal organizations with guidelines and objectives set by government and with operations designed to fulfill government policy objectives rather than the profit objectives of private firms. This form of operation includes most parastatal organizations in LDCs and the smaller industrial countries, e.g., Canada, Australia, New Zealand and South Africa.

3. Systems for trade basically handled by private institutions but with state intervention to specify or influence terms of transactions sometimes on a regular basis and sometimes on a sporadic or occasional basis. This form of state trading dominates in the European community, the United States and Japan.

In each of these cases state trading at the international level is linked to domestic policies and programs. In less developed countries the linkage tends to reflect needs imbedded in economic development plans. In some cases such as South Korea significant internal agricultural support mechanisms are in place. In most LDCs however direct price support mechanisms for farmers are minimal.

State trading relationships in all western industrialized countries are directly linked to farm price and income support programs. The nature and extent of these linkages differ but in combination they all have an impact on domestic production, price and consumption and in large countries on price and quantities traded in world markets. The forces that drive these programs and how state trading is operationally linked to domestic programs is an important question.

Whether the approach used by socialist countries in determining their participation in world markets will change or might be changed by participation in the GATT is difficult to say.

In any event, given the increased involvement by these countries in world markets, trying to understand the forces and conditions that influence their international buying and selling activities is important. A considerable amount of empiricle evaluation may be needed to sort out how trading decisions are made in these economies.

Within this framework a number of questions arise in trying to specify the framework needed to incorporate state trading activities into the GATT framework. These are as follows:

1. Transparency: Can sufficient information be obtained to determine what constitutes state trading, what kinds of linkages exist to domestic policies, programs and philosophical positions, what the longer term outlook is for state trading activities - as these relate to development programs and economic plans, how buying and selling activities will be effected in the short run due to weather or policy changes etc.

2. Notifications: Can notification procedures be established that will transfer all available information to the international community and if action will create international conflict can ex ante procedures for dispute settlement be established? Can procedures be devised to avoid a second Russian grain deal and eliminate the possibility of a shot across the bow as in the U.S. wheat sales to Egypt.

3. Obligation to Negotiate: Can an obligation be obtained to negotiate limits of protection through state trading activities in a meaningful way? Can ways be devised to bridge the gap between the objectives and operating procedures in the market and non-market economic systems?

4. If Agreement to negotiate is obtained can methods be devised to deal with the variety of interventions both by importers and exporters related to import barriers, subsidies, quantitative restrictions, and other impediments. Can techniques be devised to obtain comparability in measuring levels and impacts of protection in the various systems?

5. Can the obligation to negotiate be extended both to state trading designed to manipulate export quantities and prices as well as import quantities and prices.

6. Can account be taken of the fact that state trading as well as other elements of international agricultural policy reflect goals other than those specified in economic efficiency models. This is of particular importance to those countries where food security is a major concern.

7. Can guidelines and rules be developed to place bounds on the extent of and conditions under which bilateralism and longer term contractual arrangements can be implemented between countries?

8. Can multilateral agreements be developed that will help place bounds around the conditions under which state trading activities can be implemented? This might, for example, place a limit on the extent to which governments can differentiate domestic and international price. Can agreements akin to the montant de soutien proposal by the European community in the Kennedy round be effectively developed?

These and a variety of other procedural and content related questions will have to be answered before countries can reach the stage of negotiating specific conditions that might apply to and be incorporated into rules designed to guide the activities of state trading organizations. This suggests that the first step in developing effective application of GATT disciplines to state trading is to persuade major countries involved to agree to conditions that are a necessary basis for negotiating specific rules and disciplines. This means that countries have to agree to provide the necessary information, they have to agree that they will consider an effective process of notification, they have to agree that they will in good faith negotiate rules to guide state trading, etc. When these agreements are reached negotiation to define the necessary GATT disciplines can effectively begin. An expanded membership in the GATT to include socialist countries would be a desirable and necessary change in order to effectively deal with the total question of state trading. On the other hand, much could be done by major industrial countries to deal with: the conflict inherent in the export tender system of the European community, the export enhancement and credit programs by the United States and the state control involved in Japanese agricultural trading relationships.

As a final caveat, it probably should be noted that achieving a comprehensive incorporation of state trading activities into the GATT disciplines probably will require substantial institutional and procedural innovation within the GATT.

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