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Emerging Differences in State Grain Trading: Australia and Canada

Colin A. Carter and William W. Wilson

**The Australian system is
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Canadian Wheat Board...**

The Australian Wheat Board (AWB) and Canadian Wheat Board (CWB) have attracted attention recently because they are two of the largest state trading enterprises (STEs) engaged in agricultural trade. Over the past ten years, the AWB and the CWB have accounted for 8 and 22 percent of the world wheat trade, respectively. The CWB is perhaps the world's largest grain merchant. The AWB has single-desk authority for wheat exports only, whereas the CWB has single-desk authority for wheat and barley exports and domestic sales of wheat and barley for human consumption. In Australia, barley is marketed through four state-level statutory marketing boards. State trading enterprises are expected to come under increased scrutiny under the new World Trade Organization, partly because of the perception in the United States that the AWB and CWB engage in nontransparent pricing practices and "unfair" trade practices. The U.S. General Accounting Office investigated the AWB and CWB in 1992 and found that both were noncompetitive sellers due to unfair pricing, pooling, and government underwriting.

The AWB and CWB have traditionally been viewed as nearly sister agencies. These two agencies historically have had similar characteristics including price pooling, cost pooling, export sales monopolies, monopoly powers within domestic markets, grain quality control, and government underwriting of initial producer prices and export credit. During the past six years, the characteristics of the AWB and CWB have begun to diverge, and the importance of their differences is becoming increasingly apparent. This is particularly true since the early 1990s, though the dichotomy began to emerge in the 1980s. AWB reforms are far ahead of those in Canada. The Australian system is now more responsive to changing world market conditions and is more commercially oriented than the CWB and is also less dependent on government underwriting.

In addition to being the subject of international criticism, these agencies have also come under increased public scrutiny within their own countries. In Australia, pressure for reform started outside of the AWB during the early 1980s. This ultimately resulted in a deregulation process. Basically, the AWB and organized interests in the wheat industry lost the public policy battle over deregulation. In Canada, the level of

public inquiry has been more half-hearted. This is partly due to generous government subsidies (such as transportation subsidies), which have reduced any pressure for change. However, price and income subsidies for Canadian farmers are now being phased out and Canadian producers have become more interested in reducing domestic marketing inefficiencies. In addition, implementation of the 1989 Canada-U.S. Free Trade Agreement has added domestic pressure for reform of the CWB.

In this paper, major emerging differences between the AWB and CWB are identified and explored and potential explanations for these dissimilarities are offered. We also discuss likely future changes and impacts on the functioning of the world grain market. A major point is that reform of institutional design and legislative changes have given rise to emerging differences in key aspects of the marketing system and performance. Theoretical benefits and costs of state trading are discussed, and we review the empirical evidence on these agencies' performance.

The current debate over STEs centers on comparing the financial advantages against the costs of having a single-selling desk. When a government monopolist unfettered by the demands of shareholders is in charge of single-desk selling, the costs typically rise from a general lack of competitive discipline in handling and transport, and price distortions due to pooling. Price distortions result in allocative (economic) inefficiency. It is expected that under a price pooling arrangement, a farm could remain technically efficient but would most likely exhibit allocative inefficiency.

In both Canada and Australia, once the grain gets to the port, the exporting board sells into a competitive market. It is therefore doubtful that the boards overcharge offshore customers as is claimed. It is also questionable whether they undercut offshore prices to the degree some critics claim. Most of the economic impact of the STEs is on the domestic market, and we expect the welfare costs to be significant.

About the Authors

Colin A. Carter is Professor of Agricultural and Resource Economics at the University of California-Davis. He received his Ph.D. from the University of California-Berkeley. His research work has investigated problems related to agricultural policy and trade, with a focus on grain markets in the Pacific Rim. He has written extensively on state trading enterprises in grains.

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