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Trade Restrictions in International Grain and Oilseed Markets

A Comparative Country Analysis

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Abstract

State trading practices and variable levies, which protect administered price levels set in importing countries, as well as tariffs, taxes, quotas, bilateral agreements, and other policies, tend to restrict the level of competition in international markets. In addition, many exporting countries implement similar types of policies that restrict or subsidize exports. Quantitative estimates of the degree of protection provided by trade and domestic policies of 18 major importing and exporting countries indicate that wheat and rice markets are the more heavily protected, followed by corn and soybeans. The importance of nontariff barriers in wheat, rice, and corn markets indicates difficulty in enhancing competition in these markets.

Keywords: Grain trading, Nontariff trade barriers, Wheat, Rice, Corn, Soybeans, Trade restrictions

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Preface

The *Food and Agriculture Act of 1977* will expire in 1981. New legislation will become the Nation's master plan for agriculture until 1985. It could well influence the organization and operation of the food system for many years.

Several new issues have emerged since 1977. Of particular significance are such matters as inflation, energy, credit, conservation of our resource base, the increasing international role of U.S. agriculture, and the design and implementation of both domestic and international food assistance programs.

This report is a product of the ESS research agenda for the 1981 food and agriculture bill. It addresses the issue of competition in international grains and oilseed markets.

Summary

Wheat and rice are the most heavily protected grains in the world market, followed by corn and soybeans. Much of this protection results from state trading practices which permit domestic prices to be maintained at levels different from world market prices and do not permit world market signals to penetrate the domestic market. Such trade restrictions make efforts to increase competition in the world market very difficult.

This survey of national policies indicates the extent to which state trading practices and variable levies, which protect internally administered prices, as well as tariffs, taxes, quotas, bilateral agreements, and other policies restrict competition. Policies of 18 countries which are major traders of grains and oilseeds are assessed.

Nontariff barriers represent greater restrictions to trade in importing countries than do tariffs, primarily because tariffs have been gradually lowered through international negotiations. Nontariff barriers have been difficult to negotiate in the international arena since their effects are difficult to measure and because they are principally linked to domestic policies and programs such as maintaining farm income or low prices for consumers.

As a low-cost grain and oilseed producer and the largest exporter of these commodities, the United States has a vital interest in domestic agricultural and trade policies imposed by foreign governments which affect the competitive position of U.S. agricultural exports.

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Introduction

Economic and policy events occurring outside the United States have an important impact on the U.S. food and agricultural sector. As a low-cost grain and oilseed (primarily soybeans) producer and the largest exporter of these commodities, the United States has a vital interest in domestic agricultural and trade policies imposed by foreign governments. These policies very often affect the competitive position of U.S. agricultural exports. The most common of these foreign domestic polices are price supports which maintain domestic prices at different levels than world prices. Trade restrictions of some form are then required to preserve the domestic price level and to insure orderly marketing of domestic production.

The primary trade restrictions imposed by importing countries that affect U.S. agricultural exports include tariff barriers as well as nontariff barriers such as quotas and licensing, variable levies, state trading, customs valuation practices, and export subsidies. In addition, some countries have adopted domestic production subsidies to further aid domestic producers. Nontariff barriers present a more important barrier to the most important exports of the United States because tariff barriers have been gradually lowered through international negotiations. Nontariff barriers have been difficult to negotiate because their effects are difficult to quantify and they are usually linked to domestic economic and social objectives of governments.[1] Such objectives include protection of farm income and/or key political constituencies, protection of a minimum production capability for food security or other reasons, preservation of government control over the production and marketing system, or import substitution for balance of payments reasons (*11*).[2]

In addition to these policies, major exporting countries implement trade policies which tend to restrict the level of competition in grain and oilseed

[1]To the extent that nontariff barriers that stabilize internal prices become more pervasive in international trade, international prices become more unstable. International trade distortions which partially or totally insulate an importing country from the rest of the world throw the price adjustment burden onto the rest of the world. Tariff barriers which allow world price signals to penetrate the tariff-imposing country allow part of the adjustment to take place in the country (*15*).
[2]Italicized numbers in parentheses refer to items in the References section.

markets. These policies include use of marketing boards to handle grain exports, export taxes, quotas, and subsidies, or exchange rate policies.

This study reviews domestic agricultural and trade policies of the major exporters and importers of grains and soybeans and quantitatively assesses the degree of protection provided by these policies. It examines tariff and nontariff restrictions used by countries to protect their domestic agricultural sectors as well as domestic price and marketing policies. The degree of protection, or the degree to which prices are distorted by trade barriers and policies, is then measured for selected countries from the combination of protective measures used in each country (*9*). Emphasis is placed on developed and developing countries which are significant importers or export competitors in grain and oilseed markets.

Trade Restrictions Imposed by Importing Countries

Trade restrictions imposed by importing countries include tariffs, variable levies, state trading, export subsidies, import licensing, quantitative restrictions, bilateral trade agreements, and customs valuation practices. These restrictions and domestic pricing policies and other incentives for domestic agricultural production are discussed in this section. Domestic policies are included because trade barriers often arise to protect domestic pricing schemes from import competition. Other policies, such as subsidies on agricultural inputs or subsidies on agricultural output (deficiency payments), are important trade barriers to the extent that domestic production becomes more profitable and, thus, more competitive with imports.

In addition to the restrictions mentioned above, government intervention in foreign exchange markets often results in currencies worth more (overvaluation) or less (undervaluation) than if markets were allowed to work freely. An overvalued exchange rate acts as an implicit tax on exports (subsidy on imports), whereas an undervalued currency acts as an implicit tax on imports (subsidy on exports). The issue of overvalued currencies is most often mentioned in the context of developing countries which have erected import barriers in order to maintain overvalued exchange rates. However, Schuh has argued that the U.S. dollar was overvalued during the fifties and sixties, while the Japanese yen and the German mark were substantially undervalued (*20*). The question of the appropriate exchange rate is not discussed in this paper. Explicit exchange rate policies for Brazil and Argentina, countries that have used exchange rates to restrict trade flows, are discussed in a later section.

Trade Restrictions Imposed by Importing Countries

Trade barriers and domestic policies analyzed in this study are described below (*11, 39*).

Variable Levies: A variable charge on imports, levies may be applied in addition to or in lieu of tariffs. Most levies are related to a minimum import or threshold price, as in the case of the European Community (EC) and Spain, or to the level of domestic prices.

State Trading: This barrier refers to importation by state trading agencies, government monopolies, and government-supported marketing boards in market economy countries (*39*). State trading results in different degrees of restriction depending upon the extent to which prices are controlled and sources of supply are influenced by noncompetitive factors. Tariffs are generally not applied where state trading exists.

Customs Valuation: This barrier refers to the use of artificial means of determining the value of goods on which duties are levied. The customs valuation procedure raises the level of protection provided from tariffs when the import prices to which they are applied are increased. Use of this procedure by Taiwan and Mexico is described in this report.

Export Subsidies: Export subsidies refer to schemes such as the EC's "restitution" system in which a subsidy is granted allowing exporters to meet the prevailing price in the market. Export subsidies are payments made to exporters so that they can export at or below the world price.

Import Licensing and Quantitative Restrictions: Restrictive licensing, whether within a predetermined quota or not, can be an important barrier to trade. This practice is often used in developing countries. The most notable case in this study is Nigeria. A tariff quota, a device whereby imports above a certain level pay a higher duty, is used by Japan and the Republic of Korea for certain imports.

Tariffs: This barrier refers to any type of customs duty levied at the port. Tariffs are usually *ad valorem* (percent of the price) or *specific* (an absolute amount).

Bilateral Trade Agreements: These are agreements between countries providing for the purchase or exchange of specific commodities. They represent barriers to trade in the sense that they isolate the negotiated commodities from market forces. Their impact on trade is difficult to identify because many agreements cover only a small part of trade with a particular country and in the particular commodity.

Pricing Policies: Domestic pricing policies, usually in combination with variable levies, import quotas, or state trading, restrict trade by encouraging domestic production that displaces imports and/or by discouraging consumption. This is generally accomplished through the establishment of guaranteed (or government-decreed) floor prices. Governments support these prices by the promise to purchase all or a specified portion of total production. Many governments follow dual pricing policies whereby consumers purchase supported commodities at prices lower than the prices received by producers.

Production Subsidies: Subsidies provided on inputs used in production of import-competing commodities restrict trade by increasing the profitability of domestic production. The extent of the restriction, however, depends upon the extent to which subsidies are used to offset protection provided to producers of the inputs and to which domestic production responds to the increased incentives.

Restrictions on Wheat

Major importers which place restrictions on imports are the European Community, Japan, Brazil, Nigeria, Egypt, the Republic of Korea, and India. Various types of restrictions are discussed for each of these countries.

European Community

Variable Levies: The EC's variable levy protects its common pricing system for grains by raising prices of imported wheat to equal the threshold or minimum import price. Levies set for soft (nondurum) and durum wheat imports since 1967 represent the difference between the lowest world offer price at Rotterdam and the common threshold price established for the EC. The same levy is applied to all grades and qualities of wheat without regard to origin. Imports into the EC are primarily hard wheats, whereas the EC (France) exports soft wheats.

A common levy is set for all EC member countries for durum and nondurum wheats, but there are several exceptions:

> *Levies on wheat imports into the United Kingdom, Denmark, and Ireland, which acceded to the EC in January 1973, were reduced by Accession Compensatory Amounts, which were equal to the difference between full EC prices and transitional prices, during the period of transition into the EC, 1973-77.

*Small levy reductions are granted on durum wheat imported from Morocco and Turkey.

*Levies have been reduced or increased by border taxes and subsidies (Monetary Compensatory Amounts-MCAs) since the late sixties. MCAs are applied in intra- as well as extra-EC trade in order to prevent EC support prices from flucuating with market exchange rates.[3]

Pricing Policies: The EC's pricing system for grains includes target prices, intervention prices, and threshold prices for soft and durum wheat. Target prices represent the desired wholesale price at Duisburg, Federal Republic of Germany. Intervention prices represent a floor price at which intervention agencies purchase grain offered by producers. Since 1976/77, intervention prices for each grain have been the same at each intervention center. The threshold price is set at Rotterdam so that the target price is the same as the wholesale selling price of imports at Duisburg.

Production Subsidies: Since 1967 the EC has authorized a subsidy payable to durum wheat producers. This subsidy was uniform for all member countries until 1976 when it was permitted to vary by region. The subsidy currently is paid only in certain regions of the EC characterized by below average yields. A subsidy was also granted for wheat in feed use until 1974. The premium became obsolete in the 1976/77 market year (August-July) when a new EC pricing system was adopted whereby individual grains are priced according to feed value (*24*).

Export Subsidies: Export restitutions or subsidies are applied to wheat exports when prices in the EC are above world prices and exports are available. Export restitutions take into account differences between wheat prices in representative export markets, marketing costs, and other export expenses and grain prices in various representative markets in the EC. The EC can also take steps to prevent supply shortages by applying export levies fixed on the same criteria as export subsidies.

Japan

State Trading: Trade in wheat in Japan is under complete government control. Imports of wheat must be licensed by the Japanese Food Agency and all imports are sold to the government at the port. Wheat is imported on a quota arrangement whereby the government determines the quantities to be imported each year.

[3]MCAs were not applied to durum wheat until 1978. Jabara and Brigida (*14*) have calculated the effect of MCAs on EC import levies for wheat and other grains.

Pricing Policies: State trading arrangements protect the pricing and marketing system for wheat in Japan established under the Food Control Law of 1942. The government of Japan purchases all quantities of wheat offered on the market at fixed producer prices which are higher than world prices.[4] The government sells domestic and imported wheat at an established resale price determined every year. A dual pricing system is followed whereby the government sets high prices for producers and lower prices for consumers.

Production Subsidies: Wheat producers in Japan who divert paddy fields to wheat production have received a diversion subsidy since the 1969/70 (April-March) fiscal year. The diversion payment is part of the Japanese governments's program to reduce persistent surpluses of rice which have occurred since 1969 (see rice section). Farmers currently receive a subsidy of 550,000 yen (US $2,613) per hectare of paddy land diverted to wheat production. Farmers who grow wheat in rotation with rice receive an additional bonus payment of 80,000 yen per hectare (US $380).

Bilateral Trade Agreements: The government of Japan has entered into trade arrangements with wheat-exporting countries since 1972. These arrangements generally specify the quantity of wheat to be supplied and purchased for a year. The Food Agency has commitments with the United States, the Canadian Wheat Board, and the Australian Wheat Board.

Brazil

State Trading: Wheat imports into Brazil are under complete state control. The Wheat Marketing Office of the Bank of Brazil (CTRIN) has held sole authority for purchase and resale of all domestic and imported wheat since 1962. Import quantities are based upon the forecasted import requirements and are controlled through strict import licensing.

Pricing Policies: State trading arrangements protect Brazil's minimum support price system for wheat whereby the government establishes fixed prices for wheat well above world market prices. The government operates a dual pricing system which maintains resale prices to flour mills at below producer and import prices.

Production Subsidies: Additional support for wheat production is provided through production loans and subsidies. Fertilizer loans are made at zero in-

[4]Government control over domestically produced wheat was relaxed in 1976 when domestic wheat marketing was set free. Because the government's purchase price is higher than the resale price, practically all domestic wheat is sold to the government as before.

terest cost and investments in wheat cultivation and harvesting machinery are subsidized.[5] Production loans are offered at around 22-35 percent interest, well below the rate of inflation. Production loans are based on historical yield ranges (*28*).

Nigeria

Production Subsidies: Wheat imports enter Nigeria free of duty and through a generally private marketing system. The Nigerian Grains Board (NGRB) provides a producer floor price for wheat generally equal to or below market prices. The NGRB attempts to raise producer incomes through introduction of more appropriate crops and technology and by providing subsidies on input use (fertilizer and credit).

Import Licensing: Nigeria in the past has prohibited certain imports for short periods of time in order to limit imports when its foreign exchange reserves become depleted. Wheat imports have been licensed since April 1979.

Egypt

State Trading: Imports of wheat into Egypt are largely in the hands of the Ministry of Supply, the monopoly importer of wheat and flour. Wheat imports are negotiated largely through the U.S. Public Law 480 concessional sales program.

Pricing Policies: Imported wheat is supplied to mills at subsidized prices. Prices and profit margins are fixed throughout the distribution chain. Domestic wheat production in Egypt is sold on two markets, one state controlled and the other a free market. State control of the market is effected through compulsory sales at prices below the free market which are collected by agricultural cooperatives. The cooperatives requisitioned about 20 percent of wheat production for the state in 1978 (*35*). Membership in the cooperatives is mandatory for producers.

Production Subsidies: Aid to producers for wheat production includes subsidies on pest control and fertilizer. The government also provides water for agricultural use free of charge as well as investments in irrigation infrastructure.

Bilateral Agreements: Egypt has a 3-year agreement with Australia to supply 1 million metric tons of wheat annually.

[5]Fertilizer prices were subsidized 40 percent in 1975. This subsidy was lifted in 1976, but credit to purchase fertilizer was offered at zero interest. A subsidy was reinstituted in January 1980, at the industrial level (*28*).

Republic of Korea

State Trading: The Korean Flour Mills Industry Association (KOFMIA), a government-recognized trade group, is the sole importer of wheat into Korea. Annual import targets are set by the Ministry of Agriculture and Fisheries (MAF) which are flexible depending upon the domestic demand and supply situation for wheat.

Pricing Policies: Support prices for the limited domestic production of wheat are announced every year by the Grains Management Fund (GMF). These prices are usually higher than world market price. Wheat purchased by the government is sold to flour mills at release prices lower than the producer support price. The difference is absorbed by the GMF.

Imported wheat is sold at a government-established import price. When import prices are above this price, the difference is paid by the Flour Price Stabilization Fund (FPSF). Similarly, when import prices are below this established price, flour millers pay the difference into the fund. The FPSF was established in 1976 by KOFMIA and the Korean government to stabilize prices of imported wheat.

Tariff Quotas: A tariff quota system for wheat is in operation in 1980 in which wheat is imported duty free up to 2 million metric tons and a 5-percent *ad valorem* tariff is applied thereafter.

India

State Trading: The Food Corporation of India (FCI), a government agency established in 1965, is the sole importer of wheat into India.

Pricing Policies: Domestic wheat is purchased by the FCI at government-established support prices. Government support prices are generally below market prices but are competitive at harvest when market prices soften. Commercial prices have generally been equivalent to world market prices since 1976. In deficit periods, the government requires farmers to sell either a percentage of wheat production or an absolute quantity of wheat to the government at the established support price.

The FCI sells lower quality wheat through "Fair Price and Ration Shops" at prices which are lower than those on village commercial markets. Indian consumers generally prefer to buy on the commercial markets even if at higher prices.

Producer Subsidies: The government of India aids wheat producers through subsidies on the cost of fertilizer and pesticides. State governments provide financial assistance and/or price concessions for irrigation water and for sound irrigation practices.

Restrictions on Coarse Grains

Major importers which place restrictions on coarse grain imports are the EC, Japan, Spain, Mexico, the Republic of Korea, Greece, and Taiwan. Their agricultural trade and domestic policies are described below.

European Community

Variable Levies: Imports of corn, barley, rye, oats, and grain sorghum into the EC are subject to the same import levy system as imports of wheat (see previous section). The purpose of the levies on coarse grains is to protect the common pricing system of threshold (minimum import), support (intervention) prices, and target (desired wholesale) prices established for coarse grains every year.[6] The following are exceptions to the application of common levies on coarse grains in addition to those mentioned previously:

- Levy reductions are granted on corn and grain sorghum imported from ACP countries.[7]

- Levy reductions have been granted on feed grain imports into Italy from 1967/68 to the present marketing year.

Japan

State Trading: Imports of barley into Japan are subject to the same state trading arrangements as wheat imports. Imports of corn are usually made by private industry without interference from the government.

Pricing Policies: The government purchases all quantities of barley offered at the support prices or farmers may contract to sell on the local market. A dual pricing system is followed whereby resale prices are lower than the producer support prices. Production of corn in Japan is minimal and there are no support prices.

[6]A threshold price is set for oats, but there is no target or intervention price.
[7]ACP countries are the African, Caribbean, and Pacific developing countries that are signatories to the Lomé Convention.

Tariff Quotas: Corn for industrial use is subject to the Corn Import Quota Law enacted in 1965. The government sets an import quota on corn for industrial use within which corn is duty free or taxed at 10 percent *ad valorem* depending on the quality of corn and its end use. Corn imported outside the quota is taxed 15,000 yen (US $71) per metric ton.

Bilateral Trade Agreements: Japan renews informal arrangements each year with Canada and Australia to purchase about 800,000 metric tons and 650,000 metric tons of barley, respectively.

Production Subsidies: Japanese producers receive payments to divert paddy land to production barley (see rice section). The current rice diversion program provides for a base payment of 550,000 yen (US $2,613) per hectare of paddy land diverted to barley production.

Spain

Variable Levies: Variable levies in Spain are applicable to imports of corn, barley, sorghum, and millet. Spain's variable levy system, initiated in 1963, is designed to protect threshold (minimum import) prices for feed grains initiated at the same time as the producer support price system. Variable levies are the difference between a constructed cost plus insurance and freight (c.i.f.) offer price and the threshold price.[8] Individual levies are applicable to all grades and qualities of each grain and regardless of origin.

Pricing Policies: Feed processors in Spain are guaranteed a maximum selling price of (plus or minus) 2 percent of the respective threshold price. In periods of high feed grain prices, the government will purchase domestic grain at support prices and sell it to feed processors at lower prices. Farmers who sell grain on the free market during these periods receive payments equal to the difference between market and support prices.

Production Subsidies: Producers of corn and sorghum receive production subsidies on the cost of improved seed, fertilizers, pest control treatment, and on shelling, drying, and storage facilities. Producers also receive loans for the purchase of seeds and fertilizer.

[8]Imports of feed grains are subject to a 1-percent *ad valorem* tariff as well as minor port dues and insurance charges. Imports are also subject to a compensatory tax, normally 8 percent, applied to compensate for value-added taxes paid on domestic feed grains. Feed grain imports also must be carried on Spanish flag vessels, although this requirement is often waived.

Mexico

State Trading: The government supply agency, CONSUPO (National Public Supply Company), has traditionally acted as the sole importer of coarse grains (corn and grain sorghum). In March 1979, agreements were reached which allow the private sector to play a more important role in the importation of grain. Mixed committees consisting of representatives from CONSUPO, the Ministry of Commerce, and the appropriate private trade organization were established for the purchase and import of all grains (*31*). CONSUPO continues to handle the importation of certain quantities of grains to supply small processors and firms under public management and when government-to-government purchases are required.

Tariffs: Imports of rye, barley, and oats are subject to *ad valorem* tariffs and surcharges. The *ad valorem* equivalent of duties on these grains is currently 12.3 percent of c.i.f. prices.[9] Import licenses are also required.

Pricing Policies: CONSUPO administers price supports for corn, grain sorghum, and barley. Coarse grains sold to feed compounders by CONSUPO are subsidized by the government. Prices are established at roughly 80 percent of producer support prices (*40*). The recent expanded role of the private sector in importing coarse grains has led the government to enact a program of direct compensation to importers so that the subsidy is retained.

Production Subsidies: The government aids grain producers by providing subsidies on the cost of seed, fertilizer, pest control, irrigation water, and credit.

Republic of Korea

State Trading: The Livestock Industry Development Corporation, an agency set up by the Korean government, assumed sole responsibility for feed grain imports (primarily corn) in 1979. Previously, imports were purchased by the Korea Feed Association, a trade group. Import targets for imported feed grains are set by the Ministry of Agriculture and Fisheries; these targets are flexible depending upon the domestic demand and supply situation.

Pricing Policies: Support prices for corn and barley are set every year in advance of the crop season. These prices are generally higher than market prices. Feed compounders purchase imported corn at an import price established by

[9]Until 1980, tariffs were applied to the c.i.f. value or to the artificial customs valuation, whichever was higher.

the government which can be higher or lower than world market prices. Any difference is paid out or paid into the Formula Feed Price Stabilization Fund established in 1976 to stabilize prices of imported corn.

The resale price of corn from government stocks is usually higher than the producer support price and the import price. Corn sold to feed processors from government stocks is subsidized from the Formula Feed Price Stabilization Fund. Resale prices of barley from government stocks are lower than producer prices. This loss is absorbed by the government.

Tariff Quotas: A tariff quota is applied on corn for industrial use. A 10-percent duty is applied on the first 480,000 tons and a 20-percent duty is applied thereafter. There are no tariffs on barley or on feed grains.

Producer Subsidies: Fertilizer subsidies existed in the early seventies but were ended in December 1975.

Greece

State Trading: Imports of coarse grains (primarily corn) are under complete government control. The government controls both domestic marketing and foreign trade in grains through the sole purchaser of domestically produced grains, the Ministry of Commerce. Imports of grain are made under international tenders which may be contracted to private domestic firms.

Pricing Policies: The Ministry of Commerce purchases grain from farmers at guaranteed prices which are above world import prices. The sale price of feed grains to livestock and poultry farmers is lowered by a government subsidy. Both domestic and imported feed grains are sold at the same price. In 1978, the resale price for feed grains (wheat, corn, and barley) was approximately US $125 per metric ton.

Tariffs: Greece was scheduled to join the EC on January 1, 1981, and will gradually adjust its tariff and nontariff barriers to EC levels. Tariff levels on imports of corn by the private sector in Greece are currently 0.3—0.7 paper drachmas (US $0.01—0.02) per kilogram. Imports of rye are subject to a 16-percent *ad valorem* duty and barley and oats are subject to specific tariffs of 0.6 paper drachmas (US $0.02) per kilogram.

Production Subsidies: Subsidies are granted for the purchase of fertilizer, herbicides, improved seed, and machinery for cutting, shelling, and drying of corn.