

ON THE ROLE OF THE STATE IN FORMING A COMPETITIVE ENVIRONMENT FOR THE SALT MARKET

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SUMMARY

Herein the determining role of the state in establishing conditions providing for proper functioning of the salt market has been examined. Examples of the state interference into the process of forming a competitive medium have been given. Most detailed attention has been drawn to the Russian salt market, where some objective conditions result in derogation of domestic producers' positions. The areas in which the state may exert influence upon functioning of the salt market have been considered.

INTRODUCTION

All over the world salt trade is generally governed by well-known market laws and does not require state interference. However, there are cases when such interference is necessary and justified due to specific circumstances. Setting aside the considerable historical prospect of the state interference into the natural performance of salt markets we will

only dwell on the relevant examples of such influence.

WORLD EXPERIENCE

In each particular case the governments of all countries take account of the current economic situation in the country and the world and achieve reasonable decisions through the least painless methods to fulfill

their purposes. One of the main tasks is creation of free and fair competition for the market. The governments primarily strive to provide a favorable competitive environment and equitable conditions both for manufacturers and importers. In 2003, for example, the Japanese government completely liberalized the salt market though till 1990 the state had had a monopoly on this product [1]. In Austria the salt prices are established by the Parliament. With more than 200 large and small producers available, since 2005 China has been implementing a long-term program of monitoring of the salt market situation and taking measures to increase salt consumption by the population in order to cover the deficiency of some minerals in nutrition [2,3]. In Canada local authorities regulate the use of road salt [4].

It is necessary to note some examples of indirect influence on the market. Many countries (especially Great Britain) pay close attention to reduction of the population's consumption of salt and salt containing products in order to decrease the risk of cardiovascular and other diseases and actively promote this direction. Such activity naturally decreases consumption of the product and changes the market situation. The same influence is rendered on the competitive environment by the state attitude to iodized salt [5]. According to UNICEF, universal salt iodizing is obligatory in Austria and countries of Eastern Europe. The World Health Organization states that the share of the households using iodized salt in their nutrition

is the highest in East Asia and Latin America. Active in this issue are Azerbaijan, Belarus, India, Kazakhstan, China, Turkmenistan. More and more countries consider the expediency of legislative consolidation of the provision on obligatory salt iodization. The high safety standards introduced by the governments of many countries often hamper penetration of foreign products into the market.

In the USA the government institutions thoroughly analyze proposals regarding road salt prices to develop the strategy of road salt purchase, study the price change dynamics taking measures to ensure higher market competitiveness [6]. Similar activities pertain to Canadian regions. Establishing tariff and not tariff barriers to create more favorable conditions for domestic manufacturers is a traditionally known method in foreign economic activities [7].

All this holds true for developed, established markets. In a number of developing countries the problem of the state's influence turns out to be much more essential, primarily implying prevention of speculative demand for such a socially significant product as salt (Russia – 2006, Ukraine – 2009) and prevention of illegal trade in salt (China [8]). In emergency situations the social task of the state is to identify and to extinguish the emerging hot spot of the chain reaction in a timely manner using all available means and normalizing the demand.

But there are also other problems which arise in view of specific characteristics of the countries and the solution of which is to be

promoted by the state. An example at the present stage of development is Russia. In this connection we will turn our attention to some aspects of the possible impact on its salt market on the part of the state.

RUSSIAN SALT MARKET

Russia is the country possessing the greatest explored reserves of salt in the world, exclusive of the resources of the World Ocean. There are more than 40 large deposits of rock and solar pond salts, bittern and brines on its territory. Leaving aside the production facilities supplying specific nearby enterprises (as a rule, they develop salt deposits by the method of solution mining), we will consider those supplying salt to the market. These enterprises are distributed on territory of Russia as follows (Figure 1). Possessing essential capacity reserves they are situated at considerable distances, often of thousands

kilometers, from each other. But the most remarkable thing is that salt manufacturers are also located far from the major centers of consumption, that is West European regions: 56 % of salt are consumed in the Central and Privolzhsky federal districts.

But on the western side this region borders on salt producers of the former Soviet republics which are nowadays independent states. They are powerful enterprises importing their products to Russia for a number of objective reasons (modernization in the Soviet period, economy of scale, territorial location), their import amounting to 30%.

Given the average underutilization of their own enterprises of 40 - 50 % and the low export level which allows to consider Russia a net-importer, there arises a logical question: whether the Russian State should take a passive position in the present situation without stimulating development of domestic production and letting "the invisible hand of the market" solve the problem.



Figure 1

We are convinced that it is not right. "The invisible hand of the market" works well in ideal conditions: with an accessible entry on the market and withdrawal from it, uniform distribution of consumers, etc., that is availability of the factors ensuring fair competition. In our case the situation is complicated due to the low price-weight ratio of the product when space starts having a decisive impact on the competitive conditions. It is necessary to consider the extremely important factor of pressure upon the salt market on the part of importers – the economy of scale. Suffice it to remember, that just GPO Artemsol' (state production enterprise) alone extracts and markets to consumers more than 7 million tons of salt annually, while the product yield of all Russian enterprises is half as big.

This factor deforms the competitive media of the market to a certain extent.

Therefore we think it reasonable that the state should slightly change the conditions of this environment to stimulate development of the domestic salt industry. It is the case when government regulation becomes essential as the market mechanism fails to solve the problem.

But before passing over to the analysis of the competitive situation, we will pay attention to the conditions created in developed countries in connection with the problem under consideration. First of all, this is the demonopolized transport with an extremely developed infrastructure created by the state. Secondly, this is the uniformly distributed and economically interested consumer. Some countries create state industrial structures

(China, for example). Regarding the specific situation in Russia, we will note that the problem is actually more profound: to find a way of invigorating the salt industry as a whole. Here again, in our opinion, we cannot do without the help of the state.

The global problem is connected with the necessity of carrying out a general strategic policy of the state aimed at the economics' rise, securing of stability in the country for attracting the capital, intensive promotion of modernized infrastructure projects in order to attain to up-to-date standards of the population life sustenance, leading to intensive development of a set of production facilities.

Among the measures that may be relatively painless and within short time period implemented by the state for essential rise in the level of use of available salt operations' potential there are considered:

- upgrading of transport infrastructure and demonopolization of railway traffic, improving their quality, renewal and increase of railcar fleet;
- implementation of more flexible tariff policy;
- limitation of impact from foreign companies by means of carrying out more flexible economic policy (including anti-dumping);
- lowering of taxation rates for salt operations;

– assistance in the industry consolidation, including establishing of salt unions;

– standardization of salt use techniques for de-icing of highways.

The priority problem is the transport one. Transport is a source of enormous losses for Russian salt producing enterprises. In many respects it is connected with railway monopolisation, partially – with the spatial factor resulting in the remoteness of eastern enterprises from the capacious central markets.

In order to influence the competitive environment the state has levers ensuring a more flexible tariff policy. For example, implementation of new transport projects, differentiation of railroad tariffs, introduction of reduction factors for long-distance transportations could temporarily compensate the shortcomings of the dictation of the natural monopoly and under certain conditions ensure its additional profit [9].

On the contrary, the permanent growth of tariffs observed throughout a decade with the low salt price leads to narrowing of the radius of transportations. Increased railroad rates actually repress free competition and lead to regional monopolisation of the market power reducing market coverage. Objective application of antidumping measures in these circumstances would be quite appropriate. The crisis period is the most proper moment for the state to show its managing functions. Its task is to find "stimulators" of domestic production which will allow to preserve and raise its

competitiveness. It is useful to note the expediency of more effective utilization of salt resources of the eastern direction combining their potential with the proximity to such possible foreign consumers, as near-border China which lacks sufficient rock salt amounts. In this case the sales volume could be raised by more intensive operation of the Trans-Siberian railway and improvement of its tracks. It may be expedient to compensate reduction of cargo transportation by the privileged use of the empty rolling stock returned to eastern ports from western directions, which will change the situation both on the domestic and foreign salt market.

The influence of foreign companies should be limited through a more flexible economic policy. The restraint tools set is quite wide (import quota system, measures of technical regulation, antidumping investigations, agreements on voluntary self-restriction of deliveries etc. provided that the measures are long-term and regular). The domestic industry may be also supported by implementing programs of preferential crediting and subsidizing.

Governmental regulation can be comparatively easily influenced by concentrated efforts of the interested companies through a voluntary salt Union which can serve as a perspective platform for consolidation of the industry. Such unions are strategic alliances consolidating long-term agreements and aimed at achievement of advantages of a group of enterprises. In this case this is a group of Russian enterprises

requiring consolidation of resources. The union is capable of attracting considerable volumes of private capital and uniting as well as centralizing the research and design activities in the industry. Its influence can manifest itself through development of standards, normative documents, general requirements based on analysis of situations and can be considered a tool of impact on the competitive environment.

All that would allow to raise salt production and the share of the market for Russian salt companies simultaneously increasing the product export volume.

CONCLUSION

State regulation as a component of the modern market economy also reveals itself in salt business. It is realized both in the influence on the product consumption and in creation of legal and economic conditions of its sale. Unlike many countries the specific features of the relationships of salt manufacturers and consumers in Russia demand more attention on the part of the State to align the competitive positions of domestic suppliers of the product with those of foreign suppliers. This can be achieved by a wide range of economic measures within the frames of admissible rules of international activity. These are budgetary tools (redistribution of resources, taxes) and monetary and credit tools (tariff-customs regulation) having an indirect impact on prices.

If applied wholistically, these tools can ensure

a tangible economic effect for the industry.

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