IATRC

INTERNATIONAL AGRICULTURAL TRADE RESEARCH CONSORTIUM

Celebrating the First Thirty Years

Edited by

ALEX F. MCCALLA
UNIVERSITY OF CALIFORNIA, DAVIS

ED ROSSMILLER
RETIRED

LAURA BIPES
IATRC ADMINISTRATOR, UNIVERSITY OF MINNESOTA

CONTENTS

INTRODUCTION

At the December 2010 annual general meeting of the International Agricultural Trade Research Consortium (IATRC), the traditional Theme Day was organized as a celebration of the 30 year anniversary of that institution and was titled *Trade in Agriculture: So Much Done, So Much More to Do*. In the aftermath of that meeting a proposal was made that the 30 year history of the IATRC should be written while those who had lived through the full period were still available to provide the necessary institutional memory. The Executive Committee agreed and allocated $2000 to the project as a token of their serious support, while Alex McCalla, Ed Rossmiller and Laura Bipes agreed to see it to fruition. It soon became clear that in the tight fiscal environment of the time, further funding would not be forthcoming. Thus the team decided that if they did most of the work themselves they would be able to publish the results of their efforts as an e-book on the internet, but would not have the resources to produce any paper copies.

They also determined that in addition to the three major papers (unfortunately, the fourth major presentation by Valeria Csukasi, *Future Challenges in Agricultural Trade Negotiations*, is not available to us for inclusion in this manuscript) and the panel presentations at the 30th anniversary theme day, several other documents were available that detailed much of the rationale for the creation of the IATRC, its evolution and its output over the period.

The first of these documents is IATRC Objectives, Organization, Operations and Origins, the so called 'Blue Book', the latest edition of which is Edition VI dated April 2010. The Blue Book is a rolling record of the decisions taken at the meetings of the membership and the Executive Committee and a listing of the various outputs of the Consortium since its beginning. Since the Blue Book is revised and updated periodically and is publically available on the IATRC website

(http://iatrc.org/about/bluebook/BlueBook2010.pdf) it will only be referenced here as needed rather than being reproduced in its entirety.

The second of the documents is *An Analytical History of the IATRC* by Tim Josling, Alex McCalla and T. Kelley White, as requested by the Executive Committee and published in October 1997. It is reproduced here in its entirety.

Another pair of documents that add to the historical picture are the report dated December 2004 to the Executive Committee and the membership as requested by the IATRC Chair, Tim Josling, by the Futures Steering Group consisting of Mike Gifford, Joe Glauber, Stefan Tangermann, Linda Young and Alex McCalla, Chair, and the January 2011 Status Report on IATRC: Progress on Recommendations of the Futures Steering Group by the 2010 Executive Committee. These two documents are also reproduced in their entirety.

PART I

Theme Day

Trade in Agriculture: Much Done, So Much More to Do

CHAPTER 4

Agricultural Trade 1980 vs 2010: Some Progress, But Still So Far To Go

STEFAN TANGERMANN
UNIVERSITY OF GÖTTINGEN

INTRODUCTION

The International Agricultural Trade Research Consortium (IATRC) was created, as its name says, to engage in research. Why is it, then, interested in any progress that might have occurred in real world agricultural trade? And what does progress mean for the Trade Consortium? Clearly, the ultimate objective of all research is (or perhaps it is more accurate to say: should be) to make the world a better place. This is (or again: should be) particularly true for applied research as conducted, for example, by agricultural economists. It is, therefore, natural and desirable that an institution such as the IATRC should be interested in making sure that there is progress towards making the world a better place in the domain of its research, i.e. in agricultural trade.

It is also pretty obvious what needs to happen in order to improve the state of affairs in agricultural trade. When the Trade Consortium was founded in 1980, world agriculture was clearly in disarray (Johnson, 1973). Hefty government intervention, typically driven by special interests and narrowly circumscribed political aims, distorted resource allocation, markets and trade. In the rich countries, governments provided generous support and protection to their farmers. In many poor countries, agriculture was taxed and neglected. Economic opportunities were grossly redistributed through these policies. Farmers in rich countries benefitted at the expense of their colleagues in developing economies. Trade barriers did not only negate the exploitation of comparative advantages, they also amplified volatility on

international markets for agricultural products. In the process, global welfare suffered and the potential for economic development was not fully utilized.

Members of the agricultural economics profession, and in particular those interested in trade matters, have never shied away from criticizing this state of affairs vocally (Josling et al., 2010). The IATRC has, throughout its history, scrutinized the disarray and the political forces behind it, and developed options for improvement. Against this background there is no doubt what "progress" means in agricultural trade: a reduction of distortions, in the interest of enhanced global economic welfare and a fairer distribution of economic opportunities.

In looking at developments from that perspective, this paper begins with a reminder of some elements in the global economic environment at the time the IATRC was founded (section 2). It continues with a few comments on the development of trade flows in global agriculture (section 3) before turning to the evolution of the international trading order for agriculture (section 4) and any progress that there may have been in national policies (section 5). As the paper's title suggests, much remains to be done after the three decades of the IATRC's existence, and that topic is taken up in the final section of the paper.

WHERE WE STOOD AROUND 1980

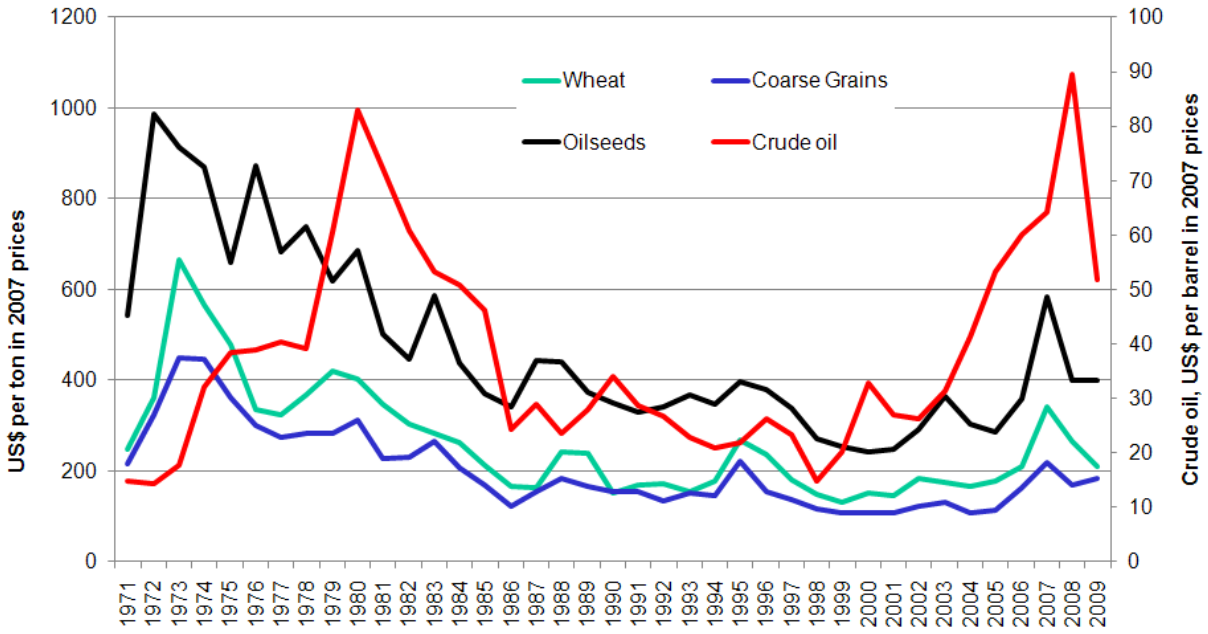
When the founders of the IATRC first came together in the late 1970s, the global economy and world agriculture had gone through a series of commotions some of which bear a striking similarity to shocks we have experienced recently. This is clearly one of these cases where, looking at developments in the economic environment around us, we have reasons to feel that there is a strong dose of déjà vu. Earlier in the 1970s, massive imbalances in the global economy and large budget and trade deficits in the US had triggered the collapse of the Bretton Woods regime and resulted in a large devaluation of the US dollar. A major crash of global stock markets had followed the breakdown of the old currency regime in 1973-74. The US economy had suffered through a period of stagflation, and the global economy was about to enter into the 1981-82 recession. There was a sense of significant uncertainty regarding the ability of the world economy and major nations to deliver continuously on the promise of solid growth and harmonious development.

On the side of commodity markets, and closely interrelated with the global macro-economic turmoil, the Western world had been deeply shocked by the first oil crisis of 1973-73, and it was entering the second and even worse explosion of oil prices in 1979. Like in 2007-08, and again in a somewhat less dramatic way in 2010, there was also a curious, though always idiosyncratic, simultaneity with price swings in other commodity markets, in particular those for agricultural products. In 1973, prices of cereals, in particular of wheat, had risen to unprecedented levels. Though the memory of many contemporary observers is obviously not long enough to remember it, wheat prices in 1973 rose to levels even higher in real terms than the peaks reached in 2008 (Figure 1). The "World Food Crisis" of the early 1970s impressed the media, the general public and politicians, and the international community agreed that something rather urgent needed to be done to save the world from impending global food scarcity. International high-level conferences were organized, programs agreed and new institutions founded (of which IFAD is essentially the only one to have survived to the present day). When prices subsided again in the mid-1970s, however, the political excitement subsided as well and most of the promises to do something serious about agricultural development in the poor countries were soon forgotten.

Cereal prices in international trade rose again towards the end of the 1970s, though to less dramatic levels than earlier in the decade (Figure 1). However, conditions on world markets for agricultural products were sufficiently conducive

for agricultural policy makers in several countries to engage in generous support programmes. In the US, the 1981 Farm Bill raised support prices and relaxed some of the supply constraints. In Europe, the Common Agricultural Policy (CAP), meanwhile fully developed, progressed towards the height of its generosity and began to suffer from some of the resulting market and trade problems.

FIGURE 1. SELECTED COMMODITY PRICES IN REAL TERMS, 1971 TO 2009



Source: OECD-FAO (2010).

As far as the international trading order was concerned, a rather difficult round of GATT negotiations had just ended when the IATRC was founded. In agriculture, the Tokyo Round (1973-1979) had achieved very little (Josling, Warley, Tangermann 1996). Some limited tariff reductions and expansions of tariff rate quotas had been agreed in cumbersome request-and-offer negotiations. A new Subsidies Code had been negotiated which, though, did not bring much strengthening of disciplines for agriculture. At the time, there was still some belief in the potential utility of international commodity arrangements. However, negotiations on an international grains agreements, held in parallel with the GATT round, had failed to yield effective measures. An International Dairy Arrangement had been agreed as part of the Tokyo Round results, but it did not really have teeth (fortunately enough, one might say). The International Bovine Meat Agreement, equally concluded as part of the Round, was even less consequential in practice.

Hence, when the IATRC was founded the GATT was still extremely weak in agriculture (Josling, Warley, Tangermann 1996). As far as border measures on the import side were concerned, most tariffs remained unbound and non-tariff barriers dominated in many cases. Grey area measures such as the EU's variable levies provided high and unconstrained levels of protection. The waiver allowing the US to impose quantitative import restrictions even in the absence of domestic supply controls undermined the credibility of US calls for opening up markets to agricultural trade. On the export side, unashamed open export subsidies were a regular feature, in particular under Europe's CAP, and the vague rules of the

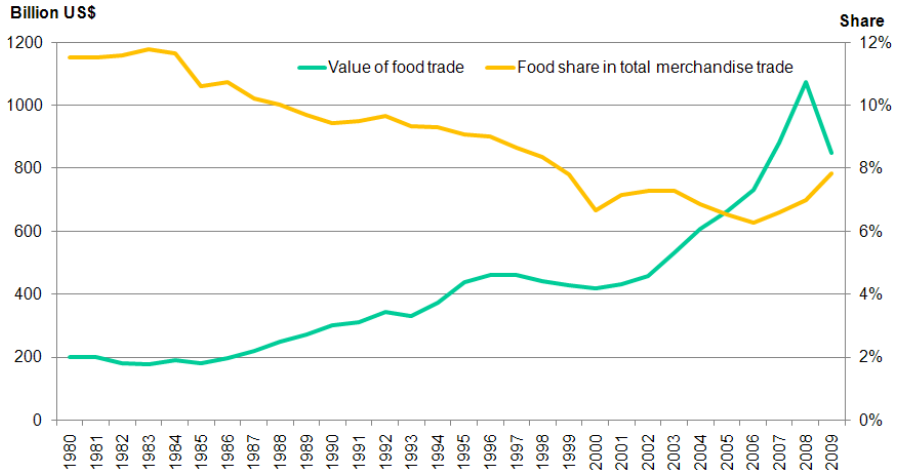
GATT did essentially nothing to rein them in. GATT disputes over agricultural trade issues were frequent but achieved very little to resolve the problems.

In short, the economic and trade environment in which the fathers of our Consortium (it appears there were no mothers at the time) embarked on founding the IATRC around 1980 exhibited some similarities with our times, but also some stark contrasts. Like today, there was turmoil in the global macro-economy and on commodity markets, including recent oil price shocks and a "World Food Crisis" that had occurred just a while ago. But the international trading order for agriculture at the time was much different from what it looks today.

AGRICULTURAL TRADE SINCE 1980

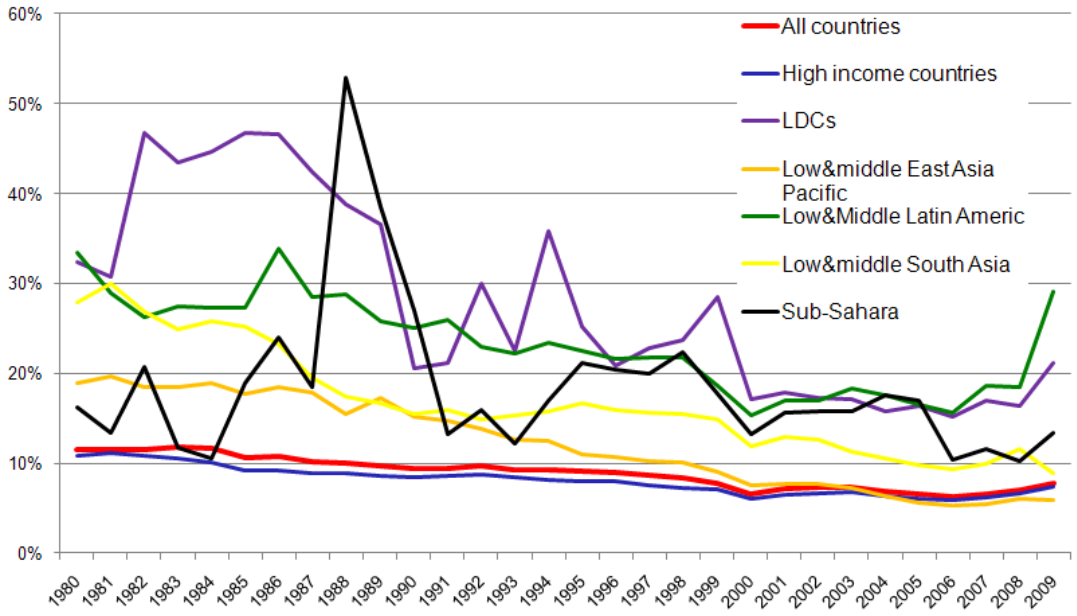
Over the 30 years of the IATRC's existence, agricultural trade has expanded dynamically (Figure 2). In nominal terms and expressed in US dollars, the value of world exports of food has grown by an annual rate of 6.2% between 1980 and 2008. Even including the decline in the global crisis year 2009 leaves an annual growth rate of 5.1%. Trade in all merchandise goods, though, has expanded even more dynamically, and as a result the share of food in total merchandise trade has declined from nearly 12% in the early 1980s to somewhat below 7% in recent years (7.8% in 2009 as the decline of food trade in 2009 was less pronounced than trade in manufactured goods). The declining share of agriculture in world trade (like in world GDP) cannot come as a surprise: it is essentially an expression of Engel's law in the domain of trade. Though there is the well-known tendency for the share of agriculture in total exports to be the higher the lower the level of economic development in a given country, the phenomenon of a declining share of agriculture in total exports is noticeable for virtually all country groups (Figure 3).

FIGURE 2. THE EVOLUTION OF FOOD TRADE SINCE 1980



Source: WITS/COMTRADE. Food: SITC 0+1+22+4. Total: all merchandise trade.

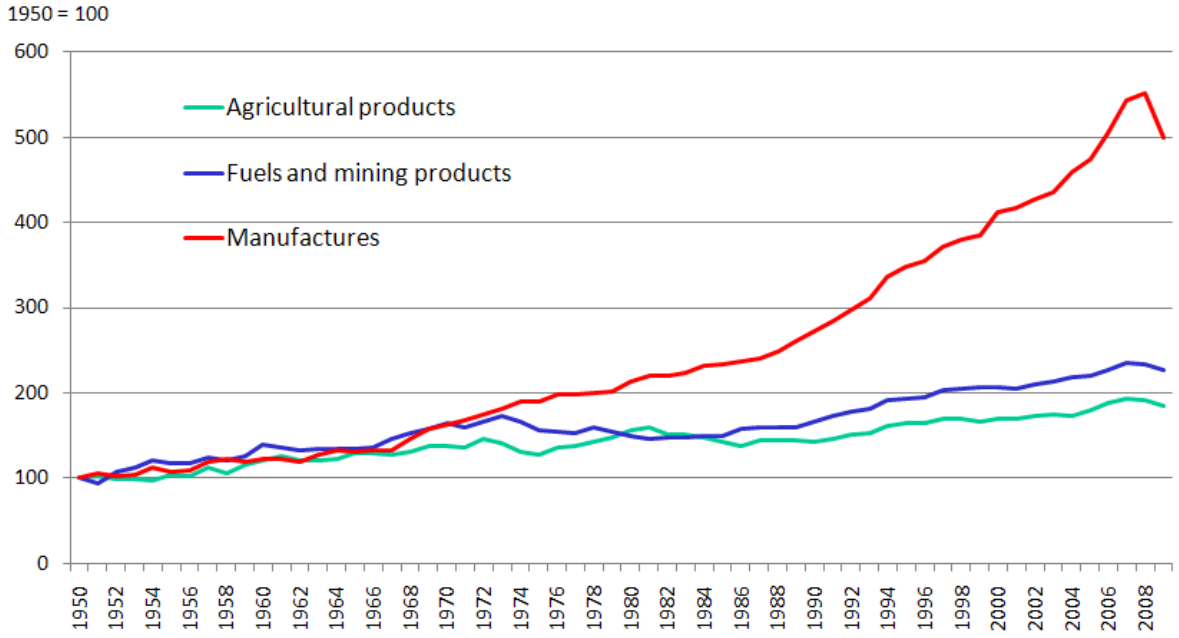
FIGURE 3. EVOLUTION OF THE SHARE OF FOOD EXPORTS IN TOTAL MERCHANDISE EXPORTS OF SELECTED COUNTRY GROUPS



Source: WITS/COMTRADE. Food: SITC 0+1+22+4. Total: all merchandise trade.

Simple trade statistics cannot of course tell us much, if anything, about progress in the sense of improved economic efficiency. However, it is somewhat reassuring to see that since several decades the volume of world agricultural trade has kept growing more rapidly than the volume of world agricultural output. In other words, the share of global agricultural production entering into international trade, sometimes referred to as trade intensity, has continued to rise (Figure 4). Of course, trade has no positive economic or other value in itself. Its benefit derives from the exploitation of comparative advantage in global resource use and satisfaction of differentiated consumer preferences. However, given that trade faced all sorts of barriers in 1980 and continues to do so, a growing trade intensity can well be called progress in the sense that trade policies have at least not prevented the distribution of labor across nations in agriculture from expanding. Before rejoicing too much we need to take note, however, of the fact that trade intensity has grown significantly faster in the sector of manufactures, and even non-agricultural commodities (fuel and minerals) have exhibited a slightly more dynamic growth of trade intensity than agriculture (Figure 4).

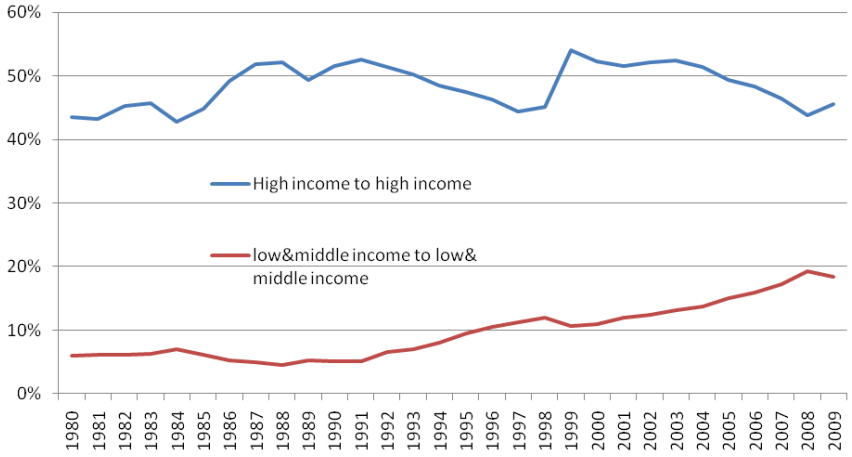
FIGURE 4. EVOLUTION OF TRADE INTENSITY IN SELECTED SECTORS



Source: WTO (2010).

World trade in agricultural products continues to be dominated by trade among developed countries, with agricultural exports from high-income countries to high-income countries accounting for just a little less than half of all agricultural trade (Figure 5). However, South-South trade (from low and middle income countries to low and middle income countries) is a growing part of overall trade in agriculture, and its share of now nearly one fifth of world agricultural trade is about three times as large as it was when the IATRC was founded.

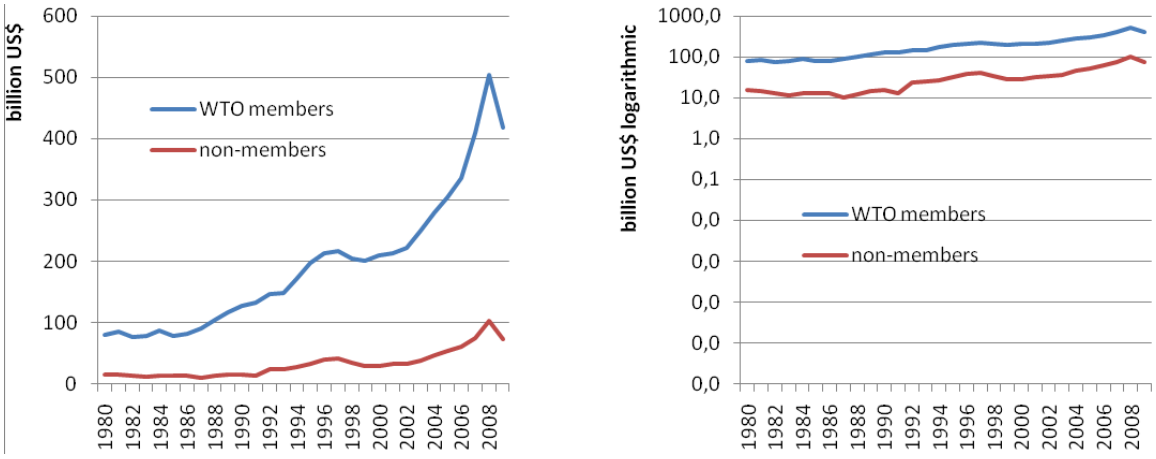
FIGURE 5. EVOLUTION OF THE SHARE OF INTRA-GROUP FOOD EXPORTS IN WORLD FOOD EXPORTS



Source: WITS/COMTRADE. Food: SITC 0+1+22+4

The statistical source from which the trade data presented here was taken, UN Comtrade via the World Integrated Trade Solution (WITS), also groups countries according to their membership in the WTO. Irrespective of the accuracy of the data shown for that country grouping it appeared interesting to compare the evolution of agricultural exports having entered WTO-member countries with those having gone to countries that are not members of the WTO. Have exports to WTO member countries been more dynamic, perhaps because these countries had to open up their markets more widely under WTO disciplines? A first visual inspection of the respective graph appears to suggest that result (Figure 6, left panel). However, that is an optical illusion, caused by the much higher absolute level of trade with WTO member country destination, and hence significantly larger annual increments in absolute terms. Converted into log scale (Figure 6, right panel) it becomes obvious that the relative rates of growth of the two categories of trade flows are very similar.

FIGURE 6. EVOLUTION OF FOOD EXPORTS TO WTO- MEMBERS VERSUS NON-MEMBERS



Source: WITS/COMTRADE. Food: SITC 0+1+22+4

EVOLUTION OF THE TRADING ORDER

In terms of the institutional framework for agricultural trade, the most important development during the IATRC's first 30 years of existence clearly was conclusion of the Uruguay Round and its Agreement on Agriculture (URAA). The Trade Consortium has worked hard to contribute to the negotiations, in particular through its series of Commissioned Papers under the title of "Bringing Agriculture into the GATT". And indeed, as argued in the IATRC's Commissioned Papers published after the Round, the URAA did bring agriculture effectively into the GATT. It did so, interestingly, by replacing the special treatment that agriculture had been accorded under the "old" GATT by a treatment that, in formal terms, is even more special. In discussing this continued "exceptionalism", Josling (2009) quite rightly makes the point that no other sector in goods trade (with the temporary exception of textiles) has its own set of special rules in the WTO. Daugbjerg and Swinnen (2009) provide a full discussion of this exceptionalism.

Creating a special sectoral regime for agriculture in the Uruguay Round was, though, the price that obviously had to be paid for ending what effectively was a non-treatment that agriculture had "enjoyed" under the GATT before the Uruguay Round. From an economic perspective, what really counts is not so much the legal and institutional approach

chosen, but an effective reduction of the large distortions that had plagued world trade in agriculture since decades. And it can well be argued that the URAA opened up a road leading in that direction.

The core achievement of the Uruguay Round in agriculture was that the vague qualitative rules of the "old" GATT gave way to reasonably well defined quantitative commitments which WTO member countries are now expected to honor in pursuing their agricultural policies. Most important, in the domain of market access the host of NTBs that were so characteristic of agricultural trade before the Uruguay Round underwent tariffication and were replaced by bound tariffs. In this regard, incidentally, agriculture is now special in a rather welcome way as it is the sector with the highest share (100 percent) of bound tariffs. On the side of export competition, the non-workable GATT rule of the "equitable share" in world trade was replaced by quantified limits to the quantities of subsidized exports and budgetary outlays on those subsidies, and the commitment to reduce these limits over time. Regarding domestic support, the qualitative rules of the Subsidies Code were complemented by a newly defined yardstick for support levels (the Aggregate Measurement of Support, AMS), quantified maximum amounts of support and reduction commitments, and rules regarding the implementation of these new elements.

The profession is largely in agreement that the weakest part of the URAA is what it has to say about domestic support. Not only do some of the domestic support provisions make very little economic sense (in particular the treatment of market price support). There is also a degree of vagueness, and some loopholes undermine effectiveness of the rules on domestic support. As Orden, Blandford, Josling (forthcoming) and their co-authors have shown, countries have made ample use of these deficiencies in their notifications, if not in their actual policy pursuit, and have also engaged in creative accounting. Moreover, notifications are notoriously late. However, in spite of all these weaknesses even the rules and commitments regarding domestic support under the URAA constitute, as can be argued, a major step forward compared to the situation that prevailed before the Uruguay Round.

As has been observed frequently, and quite rightly so, the URAA was progress in some sense but not in another. It was certainly a huge step forward in the historical evolution of the trading order for agriculture as it established completely new and largely effective rules of the game where none had existed before. The URAA did not, though, directly force a break in actual agricultural policies of WTO member countries as the quantitative commitments agreed were set such that they contained too much water. This is certainly a fair description of what the Uruguay Round achieved in agriculture, and what it did not. When looking for any progress in agricultural trade that might have occurred during the first 30 years of the IATRC's existence, a few further comments do, though, appear to be in place.

The impact of the Uruguay Round on actual policy making in agriculture began already before the Round was concluded and the Agreement on Agriculture entered into force. The most notable case is that of the MacSharry reform of the CAP which was enacted while and because the negotiations were underway, in order to create the conditions under which the EU could agree to an agricultural accord in the Round (Daugjberg and Swinbank, 2009; Moyer and Josling, 2002; Coleman and Tangermann, 1999). After the URAA was concluded, the existence of the new disciplines began to be one of the arguments that played a role in the debate about agricultural policy settings in quite a number of countries. To be sure, all sorts of domestic concerns continued to be the major driving forces in agricultural policy making in most cases, but considerations relating to the WTO in one way or another also began to have some effect. Moyer and Josling (2002) as well as Daugbjerg and Swinbank (2009) discuss policy developments during the 1990s in the US and the EU from that perspective. In IATRC Commissioned Paper No. 12 (Tangermann et al., 1997), the interplay between implementation of the URAA and national policies is discussed for a number of countries. The relationship between

the URAA domestic support commitments and national policies is analyzed, for a number of countries, in Orden, Blandford, Josling (forthcoming).

Perhaps even more important than the impact of the URAA commitments as such is the effect that expectations regarding future WTO disciplines in agriculture have (had) on agricultural policy making. The EU and recent reforms of its CAP are clearly a case in point, in particular the Agenda 2000 decisions and, even more so, the 2003 Fischler reform of the CAP (Swinnen, 2008 and 2010). These changes to the CAP were, to some extent, conditioned by the expectation that the enlarged EU would probably have to accept further reductions of the limits to its domestic support in the DDA negotiations, and by a desire to avoid, through anticipatory action, a repeat of the situation in the Uruguay Round where the EU realized that it had to effectively interrupt the negotiations, do its policy reform homework, and only then come back to the negotiating table prepared for a conclusion of the round (Daugbjerg and Swinnen, 2009). As a result of the post-URAA adjustments to the CAP, the EU can indeed now reasonably easily accept rather large cuts to its domestic support commitments in the DDA, as envisaged in the draft modalities of December 2008 (Orden, Blandford and Josling, forthcoming). Future analysts of the impact of the DDA in agriculture (if and when this round of negotiations is ever concluded) should keep this anticipatory action in mind because they might otherwise be inclined to argue that the DDA had no impact on the EU's agricultural policy decisions as it did not achieve anything else, with regard to the EU's domestic support commitments, than squeezing the water out of the commitments the EU had accepted in the Uruguay Round.

Another real world impact that the URAA clearly has (or at least can potentially have) will also materialize only in the future, but it may be its most important achievement. It is the fact that the new nature of rules and commitments agreed in the Uruguay Round has provided a wholly new basis for the talks in subsequent rounds of WTO negotiations. Negotiations can now move straight to the reduction rates for the various types of commitments. Market access is particularly important in that regard. There is no need any more to debate the acceptability or otherwise of various kinds of NTBs. The core negotiating business is now the scale of reduction rates to be agreed. Clearly, all sorts of other issues are also on the negotiating table, not the least the provisions to be applied to "sensitive" and "special" products, as well as the treatment of the (regrettably still existing, and possibly even new) tariff rate quotas. However, the URAA has allowed the focus of future negotiations to be clearly on reduction rates, and that offers the hope that all water will eventually be squeezed out of the commitments agreed under the URAA, and that further reductions can then be agreed that truly bite into the flesh of existing policies.

As far as provisions of major significance to agricultural trade are concerned, in addition to the Agreement on Agriculture, the Uruguay Round also yielded progress in the area of food regulation, through the Agreement on the Application of Sanitary and Phytosanitary Measures, the Agreement on Technical Barriers to Trade and the Agreement on Trade Related Aspects of Intellectual Property Rights. Important progress was also made through the Understanding on Rules and Procedures Governing the Settlement of Disputes, and a number of agricultural disputes under these new rules have reinforced the impact of the URAA on national policies. Given the limited space for this paper, these agreements are not covered here.[1] Another important dimension of the international trading order not discussed here is the rapid expansion in the number and coverage of free trade and regional trade agreements (FTAs and RTAs) and the treatment of agriculture in these arrangements.[2]

1 An excellent analysis of the agreements related to food regulation has been provided by IATRC members Josling, Roberts and Orden (2004). The impact of the new rules on dispute settlement on agricultural policies are discussed in Daugbjerg and Swinbank (2009).

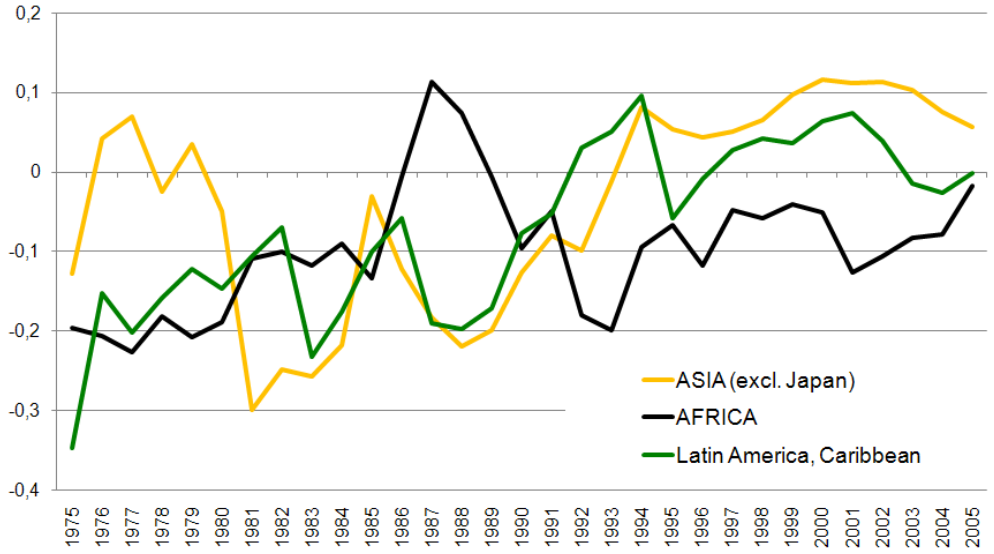
2 The evolution of the RTA landscape is described in Fiorentino, Crawford and Toqueboeuf (2009) and, with a focus on Asian FTAs, by Kawai and Wignaraja (2010). For an analysis of the treatment of agriculture in selected FTAs, see OECD (2004). The trade impact of selected RTAs in agriculture

PROGRESS IN NATIONAL POLICIES?

In order to gauge any progress that may have been made since the IATRC was founded 30 years ago, in the sense of more freely flowing agricultural trade, the best indicator should be the development of national agricultural policies around the world. Fortunately enough we now have much better and much more comprehensive information on these developments than was available in the early days of the Trade Consortium. As a matter of fact, the IATRC has made a significant contribution to that improvement in the state of affairs, through various activities of its members. Since the late 1980s the OECD measures, and regularly reports on, levels of farm support in its (expanding number of) member countries, and now also in a growing number of non-member countries. Most recently, the World Bank's agricultural distortions project, under the leadership of Kym Anderson, has generated time series of several decades for levels of assistance to agriculture in 75 countries across the globe (Anderson, 2009), updating and extending the earlier work done by Krueger, Schiff and Valdés (1988). Only a glimpse at this large body of work can be provided here.

As clearly shown by Anderson (2009) and reflected in Figure 7, developing countries typically had a tendency to tax their agriculture, in particular in the exportables sector. In Asia (on aggregate), this picture has begun to change in the 1990s, and agricultural policies have switched to positive levels of assistance. Whether that constitutes progress is not unequivocally clear, though the most recent reported rates of nominal assistance for Asian countries on aggregate exhibited smaller positive levels than the negative rates of nominal assistance that prevailed around the time the IATRC was founded. The Latin America and Caribbean region has moved from negative rates of nominal assistance to rates fluctuating around zero, while Africa tends to still exhibit taxation of agriculture, though at lower rates than 30 years ago. Based on these observations one can probably argue that overall there was some progress in developing countries, in the sense of declining degrees of distortions of agricultural incentives.

FIGURE 7. NOMINAL RATES OF ASSISTANCE IN SELECTED GROUPS OF DEVELOPING COUNTRIES

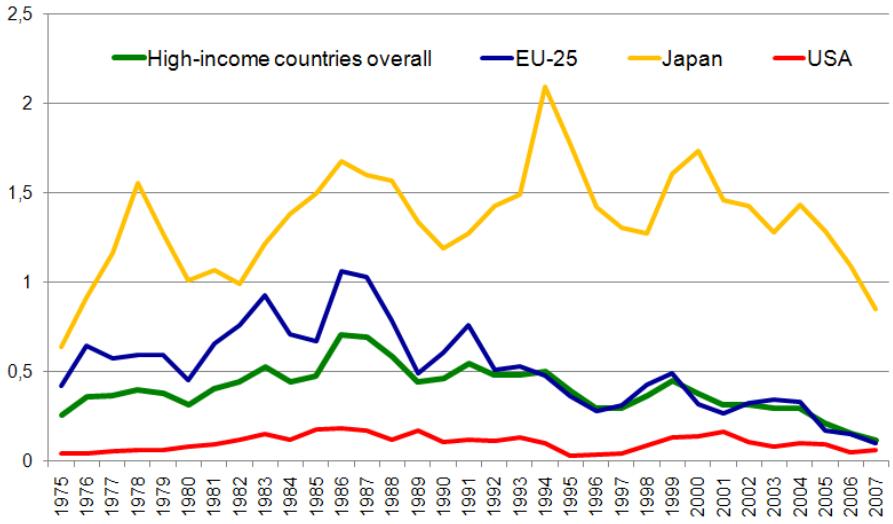


Source: Anderson and Valenzuela (2008). Note: Nominal rates of assistance shown are averages for all products covered in the study.

was analyzed by Korinek and Matos (2009).

For the group of developed countries, the results of the World Bank/Anderson project show a more unequivocal progress. In the group of high-income countries overall, the (positive) rate of nominal assistance has increased during the 1980s, but then declined to a level clearly below that prevailing around 1980 (Figure 8). As far as selected individual countries are concerned, the same general evolution was recorded for the EU, while the cases of Japan and the United States are less clear-cut. In any case, overall the World Bank/Anderson project can be said to have shown some progress on agricultural trade, in the sense of declining levels of distortion, during the last 30 years or so.

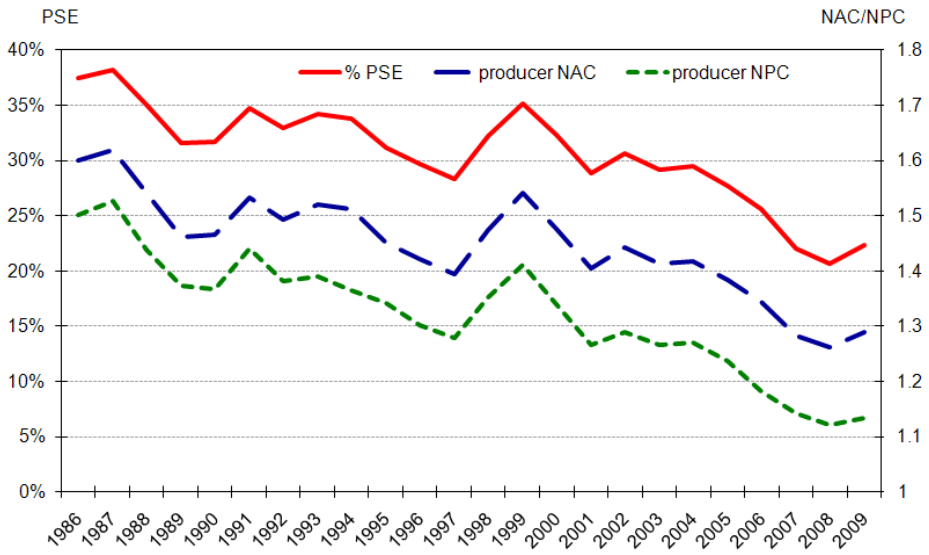
FIGURE 8. NOMINAL RATES OF ASSISTANCE IN HIGH-INCOME COUNTRIES OVERALL AND SELECTED DEVELOPED COUNTRIES



Source: Anderson and Valenzuela (2008). Note: Nominal rates of assistance shown are averages for all products covered in the study.

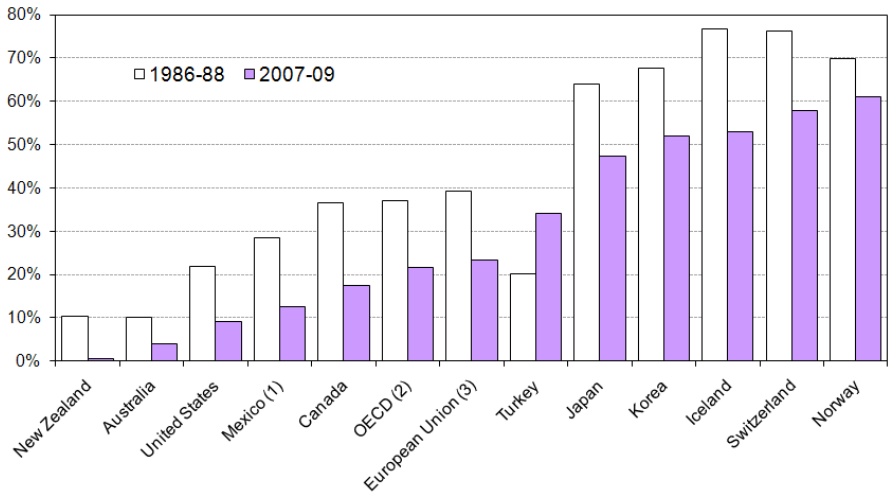
The OECD's measurement of farm support, through the Producer Support Estimate (PSE) and related indicators, begins only in 1986 and therefore does not cover the whole of the IATRC's 30-year history. Yet, what it shows since the mid-1980s is a clear trend of a declining level of support for the OECD area overall (Figure 9). What is particularly noteworthy is the significant decline in the degree of producer price distortion as measured by the Nominal Protection Coefficient (NPC), including, in the OECD's definition, payments per tonne of current output (often referred to as deficiency payments). Levels of farm support continue to vary widely across OECD member countries (Figure 10), but given the size of their farm sectors, the EU, the USA and Japan dominate the development of farm support in the OECD area overall, accounting among them for about three quarters of total farm support in the OECD area (OECD, 2010).

FIGURE 9. EVOLUTION OF FARM SUPPORT IN THE OECD AREA



Source: OECD (2010).

FIGURE 10. PERCENTAGE PRODUCER SUPPORT ESTIMATE IN OECD MEMBER COUNTRIES

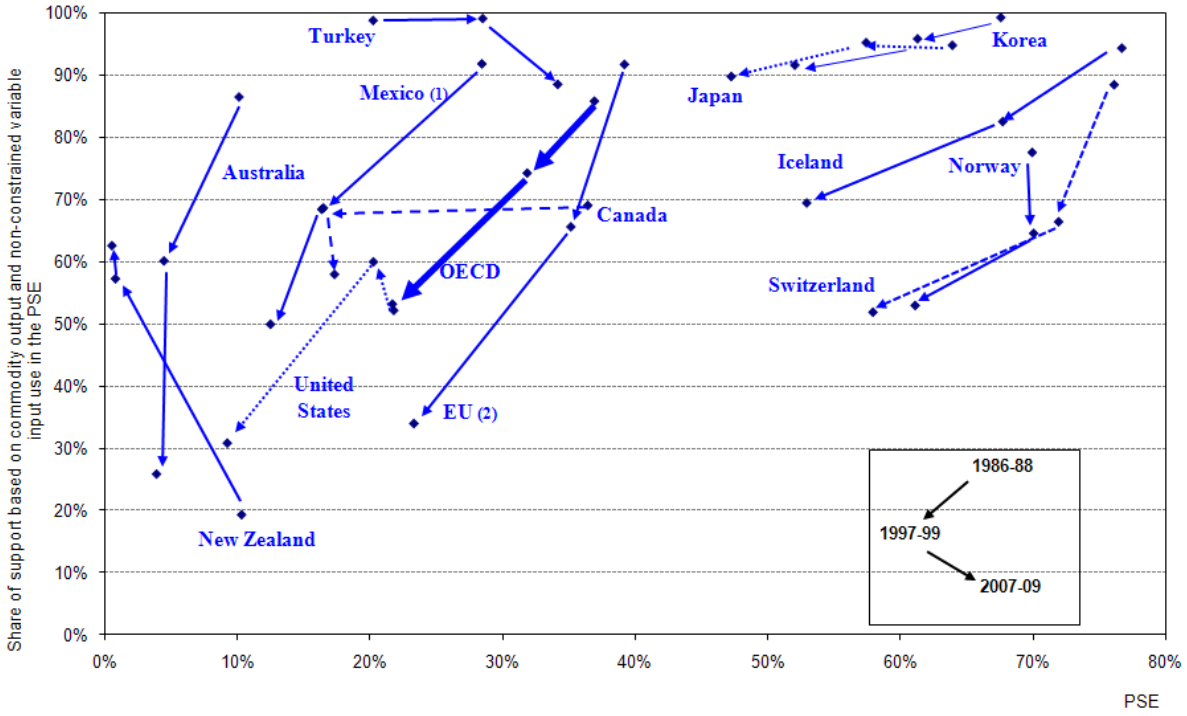


Source: OECD (2010). For footnotes, see OECD (2010).

An important element of progress towards less distorted agricultural trade, in addition to declining levels of overall farm support, was a significant change in the nature of policy measures employed to deliver support to farmers in the OECD area during the past 25 years. Support has been increasingly decoupled from current output (and input) and was gradually and partly transformed into types of measures that are arguably less distortive of markets and trade. Payments based on historical criteria and not requiring production are a case in point. As shown in Figure 11, along with a decline in the percentage PSE for the OECD area overall between 1986-88 and 2007-09, the share of support

based on commodity output and non-constrained variable input use in the PSE has decreased as well. This re-instrumentation has occurred in nearly all OECD member countries, though at variable speeds.[3]

FIGURE 11. CHANGES IN LEVEL AND COMPOSITION OF FARM SUPPORT IN THE OECD AREA

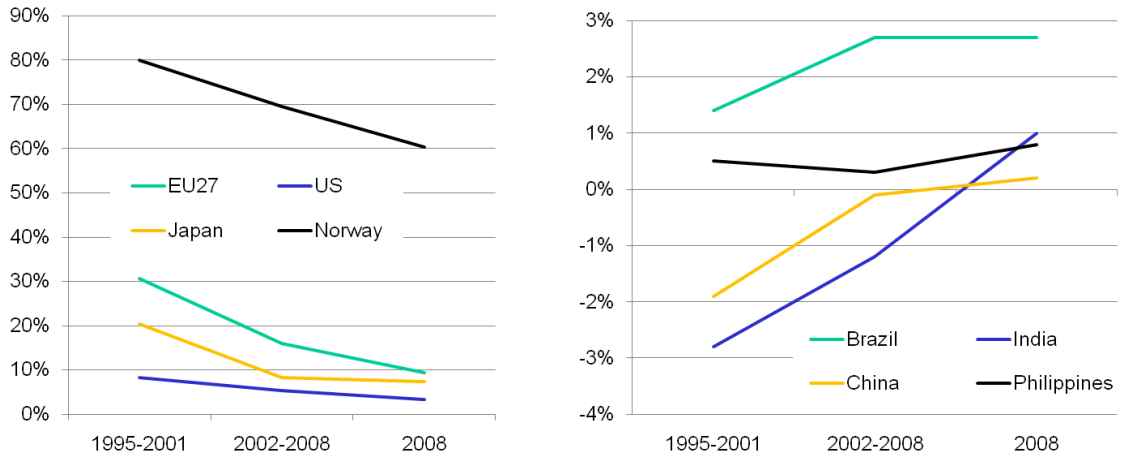


Source: OECD (2010). For footnotes, see OECD (2010).

In addition to the information provided by exercises such as those of the World Bank/Anderson and the OECD, the URAA has created another source of data, through its rules on measuring domestic support. Of course, that data exists only since the conclusion of the Uruguay Round and hence does not cover the 30 years of the IATRC's existence. But it allows another glimpse at any progress that may have been made over the most recent ten years. However, given the notorious lags in notifications, some of that data is not yet available. Fortunately enough, though, some members of the IATRC have closed the gaps by generating shadow notifications for the missing years (and for the future to the mid-2010s) for a group of selected countries (Orden, Blandford and Josling, forthcoming). In doing so, they have also used definitions of domestic support considered in the ongoing DDA negotiations and provisionally laid down in the draft modalities of December 2008. Results show that Overall Trade-Distorting Support (OTDS) as a percentage of the value of agricultural production has continuously declined since 1995 in the four selected major developed countries (Figure 12, left panel), while it has somewhat increased, though from low and in some cases negative levels, in the four selected major developing countries (Figure 12, right panel). The same general picture emerges when green box support and development programmes are added and expenditure on food aid and public stocks is excluded, to yield total support (Figure 13).

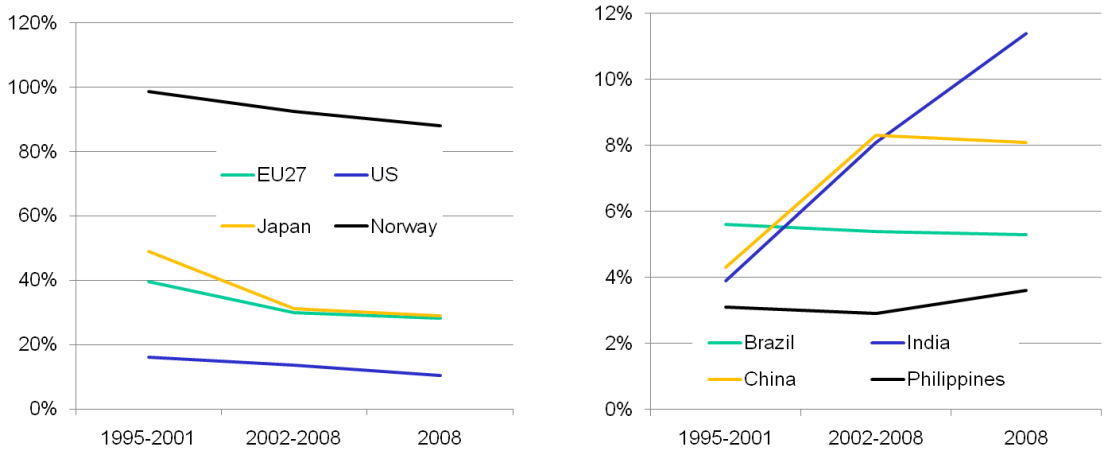
3 The case of New Zealand may appear to be an aberration, but given the very low level of farm support in that country, any changes in its structural composition are somewhat arbitrary.

FIGURE 12. OTDS (CURRENT TOTAL AMS + BLUE BOX + DE MINIMIS) AS PERCENT OF TOTAL VALUE OF AGRICULTURAL PRODUCTION



Source: Orden, Blandford and Josling (forthcoming).

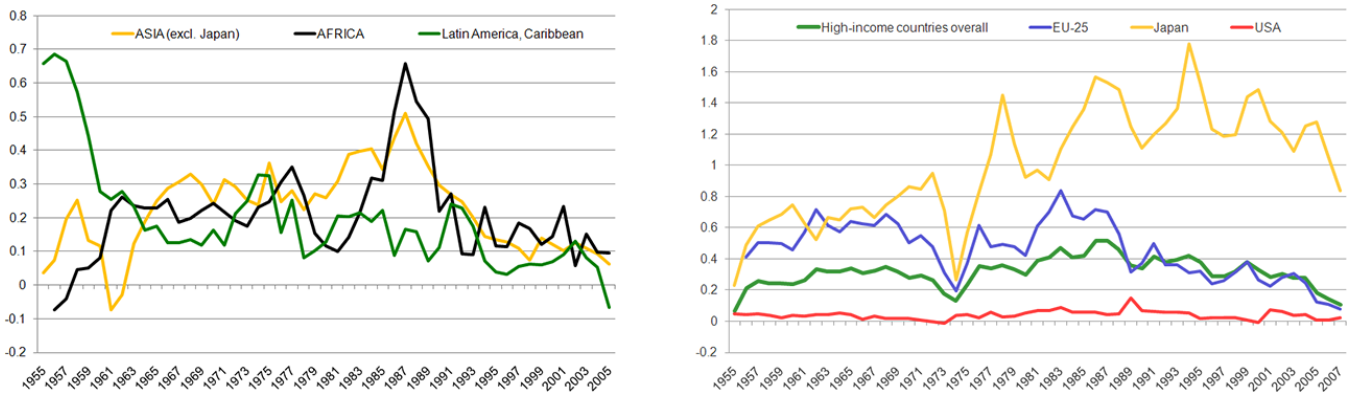
FIGURE 13. TOTAL SUPPORT (OTDS + GREEN BOX + DEVELOPMENT PROGRAMS – FOOD AID – PUBLIC STOCKHOLDING) AS PERCENT OF TOTAL VALUE OF AGRICULTURAL PRODUCTION



Source: Orden, Blandford and Josling (forthcoming).

Moreover, and arguably most relevant regarding the measurement of any progress that may have been made in national policies, in the direction of more freely flowing agricultural trade, trade distortion indicators can be estimated, in the spirit of the trade restrictiveness indices first developed by Anderson and Neary (1996, 2005). This is precisely what has been done in the World Bank/Anderson project (Lloyd, Croser, Anderson 2009). Specifically, a trade reduction index (TRI) was calculated, defined as the uniform tariff which, if applied to all goods included, would yield the same reduction in the volume of imports as the various trade distorting measures actually employed in the country concerned. Results for selected (groups of) developing and high-income countries are shown in Figure 14. They suggest that, with some ups and downs, overall the degree of distortions in agricultural trade has somewhat declined over the last 30 years.

FIGURE 14. TRADE REDUCTION INDICES FOR SELECTED DEVELOPING AND DEVELOPED COUNTRIES



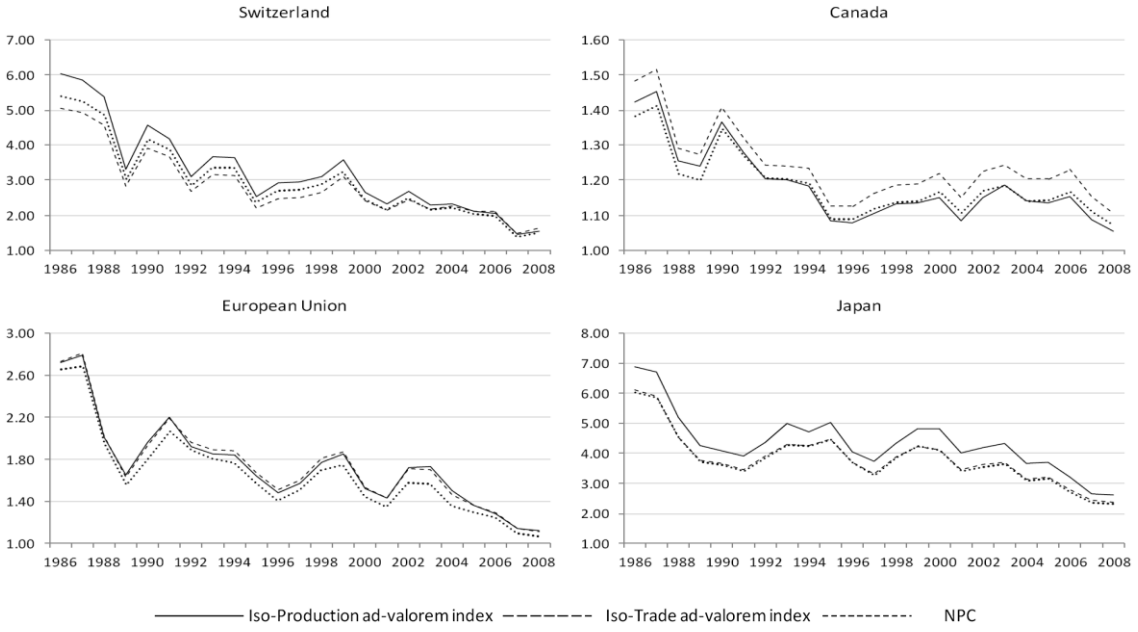
Source: Anderson and Croser (2009).

A similar exercise has recently been done in the OECD based on the Policy Evaluation Model (PEM), representing the agricultural sector in a number of selected OECD member countries. The model was used to calculate the amount of market price support which would generate the same net trade volume (or the same quantity of production) for each individual commodity included in the model as the variety of policy measures actually in use in the country concerned.[4] The ad valorem indicator calculated on that basis is comparable to the producer nominal protection coefficient (NPC), in the sense that it is the value of production inclusive of the estimated value of market price support, divided by the value of production at border prices.[5] Results are shown in Figures 15 and 16. For the period covered (1986 to 2008) they also exhibit a generally declining trend of distortions for the countries covered in the exercise.

4 The PEM, and hence the iso-trade and iso-production indicators estimated, include most, but not all, of the policy measures covered by the PSE.

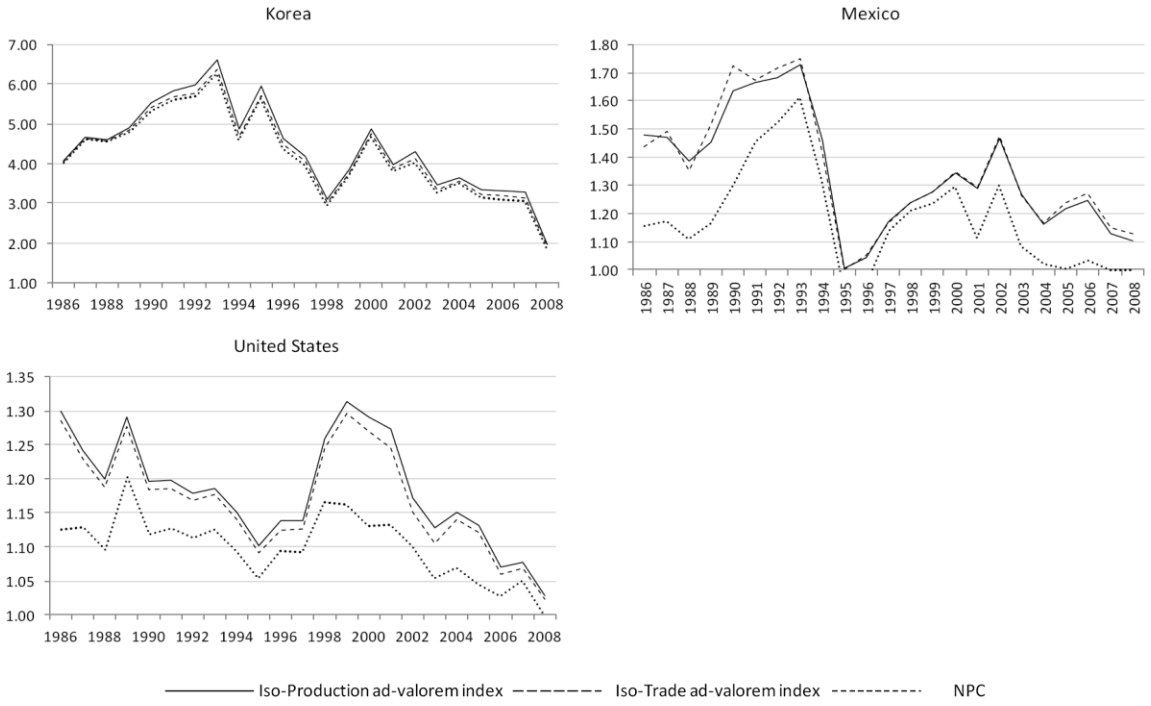
5 The iso-trade ad valorem index minus one is thus comparable to the TRI as calculated in the World Bank/Anderson study.

FIGURE 15. DISTORTION INDICES FOR SELECTED DEVELOPED COUNTRIES



Source: OECD Policy Evaluation Model.

FIGURE 16. DISTORTION INDICES FOR SELECTED DEVELOPED COUNTRIES



Source: OECD Policy Evaluation Model.

Finally, another indication of progress in agricultural trade through changes in national policies is provided, as part of the World Bank/Anderson study, by a model-based analysis in which Valenzuela, van der Mensbrugghe and Anderson (2009) have asked how the world would have looked like in 2004 if all changes in domestic and trade policies for agriculture and all reductions of import tariffs on other merchandise goods since 1980-84 had not happened. Using the World Bank's CGE model "Linkage," they find that global welfare would then have been 233 US$ billion lower than it actually was in 2004, with two thirds of that impact occurring in developed countries. Even though the results shown do not identify the contribution of agricultural policies alone to the welfare foregone had policies remained like they were in 1980-84, it appears reasonable to assume that agricultural policy changes had a rather large share, given the high starting levels of protection and support (positive and negative) prevailing in agriculture, relative to protection levels in other merchandise sectors. Another finding of this study is that international market prices for agricultural commodities would have been considerably lower in 2004 had the policy changes since 1980-84 not occurred, for example by 15.4% for wheat, 27.5% for other grains, 15% for beef and sheep meat, and 8.5% for dairy products.

STILL SO FAR TO GO

Where does all this leave us? Was there any progress in agricultural trade since the IATRC was founded in 1980? The answer would appear to be cautiously in the affirmative. Global agricultural trade has grown, in both absolute terms and relative to world agricultural output. The international trading order for agriculture has been thoroughly reformed through the URAA, and the new and reasonably well defined disciplines and quantitative commitments have largely stuck. They may not have directly forced much policy change in the direction of more open markets and less distorted trade because there was still too much water in the commitments agreed in the Uruguay Round. But it can be argued that the fundamental change in the nature of the legal provisions for agriculture in the GATT/WTO has indirectly brought about policy reforms in at least some countries, both during the Uruguay Round and in anticipation of the subsequent round of negotiations within that new framework. Perhaps most important, empirical data on the levels and nature of support and protection provided to agriculture by national policies suggest that the state of affairs in agricultural trade has somewhat improved over the last two or three decades. And it has been shown that global welfare today would be considerably lower had policy reforms not taken place since 1980.

Though no empirical research can be presented here regarding the extent to which the IATRC has contributed to these improvements, there are good reasons to believe that the Trade Consortium has had a more than marginal influence. Through its activities and those of its members it has provided evidence, demonstrated (the negative) implications of current policies, formulated and analyzed options for future policies at the national and international level, and engaged in all sorts of actions that have contributed to moving the agricultural trade agenda forward. It has done so in close cooperation between government officials and academics, i.e. in a mode of operation that was effective in making sure that research did not fall in the l'art pour l'art trap. All of this has been well described, at the time, in the Analytical History of the IATRC (Josling, McCalla and White, 1997), and perhaps it is time to update that record of the IATRC's achievements. What is more, the Trade Consortium has become an epistemic community with significant impact on the development of thinking about agricultural trade and related policies (Coleman, Skogstad and Atkinson, 1997; Ullrich, 2004; Josling et al., 2010). It has thus contributed to establishing and strengthening the paradigm of the need to reform agricultural policies such that they are less distortive of markets and trade.

Though some progress has been made in agricultural trade over the last 30 years or so, this is no guarantee that things will move on in the same direction. It is not even a reason to believe that backsliding has no chance. As suggested above, the global economic environment today bears some similarities with the situation around the time when the

IATRC was founded. There was and still is a lot of macro-economic noise in the air. Currency markets are plagued by uncertainties and political wrangling. We have just lived through another "world food crisis" and can still notice some of its reverberations on international markets for agricultural commodities. The DDA negotiations have virtually ground to a halt, and agriculture is again one of the most difficult items in the talks.

At the national level, it looks like the impetus for market oriented agricultural policy reforms has weakened considerably in major countries. In the US, the 2008 Farm Act has brought several changes to the arsenal of policy measures, but can hardly be said to have been a determined reform towards more market orientation. As far as the EU's CAP is concerned, it appears that the reform dynamic firmly established since 1992 by three successive Commissioners for agriculture (MacSharry, Fischler and Fischer Boel) has faded. The Commission's recent Communication on the CAP for the post-2013 period (European Commission, 2010) comes across more as a holding operation than a continuation of market oriented reforms (Tangermann, 2010). At the same time, governments of many countries engage in heavy-handed bioenergy support policies. Though the massive support schemes for biofuels supposedly aim at fighting climate change and improving the security of energy supplies, their effectiveness and efficiency in these dimensions is deplorably small, and the limited results are achieved at colossal costs (OECD, 2008a). What these policies certainly generate, though, is a new form of farm support, and when one listens to farm lobbies and their vocal calls for the continuation and further expansion of biofuels support policies, then it is hard to avoid the impression that this is the most important objective of these programmes.

With a bit of exaggeration and extrapolation one can, therefore, argue that over the last three decades we have come full circle, though the movement may have been more like on a spiral where we have progressed somewhat towards the agricultural trade policy nirvana in the center of the spiral, but have reached a point roughly on the same radius as before. In any case, we still have to go so far to arrive at a policy landscape we are dreaming of.

What this means for practical policy making in agriculture and trade is reasonably clear. In national policies of developed countries, the share of output-stimulating policies in overall farm support is still around 50 percent (Figure 11). This form of support contributes very little, if anything, to achieving societies' objectives, but distorts markets and trade most strongly. Hence, the process of decoupling support from production must continue, but it must then also progress to a better targeting of policies to well defined objectives, and to tailoring the level of support to what is really needed. What this means in concrete detail, and which hurdles must be overcome in order to move forward in this direction, has been clearly spelled out by the OECD, which has also succinctly summarized the major messages on policy reform in a synthesis paper on the design and implementation of agricultural policies (OECD, 2008b). In developing countries, taxation of agriculture must come to an end, domestic markets must be further opened up to international trade, and agricultural development and all its many ingredients must receive appropriate and lasting attention and support from national governments and international donors (World Bank, 2007).

At the international level, the first priority is to unlock the DDA negotiations and bring them to fruitful conclusion. From the perspective of the policy nirvana that is so close to our hearts, what is provisionally on the table, in the form of the December 2008 draft modalities, is still far from ideal. The rates of reduction considered are substantial and would, if actually agreed and implemented, bring global agricultural trade a good step forward towards the elimination of distortions. The envisaged end to export subsidies is good news. However, there are also many elements in the draft modalities that leave much to be desired. For example, the many exceptions envisaged in various parts of the modalities, in particular those for "sensitive" and "special" products, would leave a good part of current support and protection only marginally touched, and the continued existence, if not expanded coverage, of tariff rate quotas is

disturbing. But in spite of such deficiencies, the state of affairs in agricultural trade would be noticeably improved if a deal could be sealed around these draft modalities.

The real trouble is that no agreement among WTO members can be found, at least for the time being, on that basis. There are all sorts of explanations for the current deadlock in the negotiations. Perhaps a most telling interpretation is the one recently provided by the US Ambassador to the WTO Michael Punke who was reported as having explained unwillingness of the US to accept what is currently on the table in the DDA negotiations by commenting that "for us, what is very clear is the pain and what is not so clear is the gain" (Punke 2010). It is conceivable that politicians in many countries are not too vigorously opposed to accepting the new commitments that would follow from the draft modalities, but that they lack the vision to see why they should do so.

If this is the case, then much remains to be done for institutions like the IATRC. Fundamentally what needs to be overcome is the old problem democracies have with trade liberalization. When barriers to trade are removed and domestic support policies are redressed, the pain is concentrated on easily identifiable groups and hence highly visible, while the gain—much larger overall than the pain—is dispersed widely and therefore difficult to see. In a situation like that it cannot come as a surprise that politicians, responsive to voter behavior, feel more incentives to avoid the pain than to harvest the gain. This characteristic malfunction of democracies (nonetheless the best form of government) is not easily repaired. But economist can contribute to balancing its impact, by deliberately adopting the role of "efficiency partisans" (Olson, 1965). Where they do so, economists transcend the domain of pure academic research and raise their voices on the political stage, conveying messages that are deliberately normative in nature, arguing for action that is in the interest of the overall economy. A large majority of politicians defend the economic interests of individual groups. Economists should defend the interest of overall economic efficiency—such that the cake from which sectorial groups want to cut their slices is sufficiently large in the first place.

The IATRC has not been explicitly created to play that role. But through its work it has done so implicitly to a considerable extent, and with notable success. But it needs to continue that work, and may want to consider ways of raising its visibility further outside its membership, so as to enhance its impact as an efficiency partisan institution.

Much also remains to be done in research on agricultural trade issues, and new issues emerge all the time. This is not the place to develop a research agenda for the Trade Consortium, but the issues that would appear to burn particularly hot include topics such as (in no particular order and not at all exhaustive):

- development of empirically based and testable criteria for inclusion of policy measures in the green box;
- options for improving the definition of rules and commitments on domestic support in future rounds of negotiations;
- treatment of biofuels policies in measuring farm support (e.g. how should policies be treated that raise prices not only for domestic raw material producers but for foreign producers as well?);
- options for international and national responses to volatility on international markets for agricultural commodities;
- options for using the international trading order as an instrument to foster economic development (is the Doha Development Agenda's focus on allowing developing countries "policy space" the most advisable approach?);

- more specifically, identification of reasonable approaches to special and differential treatment of developing countries in the WTO (e.g. are food security concerns a good reason to exempt some products from regular tariff reductions?);
- options for dealing with preference erosion as a result of tariff reductions;
- options for dealing with private standards in the WTO;
- options for integrating agriculture fully in the "normal" framework of the GATT/WTO (e.g. which adjustments to GATT/WTO provisions, if any, are needed/appropriate in order to do eventually away with the Agreement on Agriculture?).

It looks like the IATRC's membership is aware of the fact that we still need to go so far, and is eager to make sure that the many burning issues in agricultural trade that are still before us are taken up successfully in its research activities.

CONCLUSIONS

As suggested by this paper's title, there was some progress in agricultural trade during the thirty years of the IATRC's existence, but we still need to go so far. The international trading regime for agriculture has been fundamentally reformed after the IATRC came into existence, through the Agreement of Agriculture concluded in the Uruguay Round. But the promise to continue the reform process in the subsequent round of negotiations has still to materialize. It is distressing and deplorable to see that the international community cannot muster the political will and energy required to advance the DDA negotiations, making the arguably small step from what is already on the table to a successful conclusion of the talks.

There was noticeable reform in national agricultural policies since 1980, in both developed and developing countries, and generally that reform has gone in the direction of more market orientation and less trade distortion. But there are indications that the reform dynamic has faded in major countries, at least for the time being. Current agricultural policies in many developed countries, though less objectionable than thirty years ago, still leave much to be desired. In particular, they still exhibit a large share of output-enhancing policies that don't respond to what society expects from agriculture, but distort markets and trade. And new arguments and instruments for providing support to farmers are invented all the time, biofuel support policies being a particularly egregious one. In developing countries, agriculture is generally less taxed and neglected than thirty years ago, but much remains to be done before it is placed appropriately on the policy agenda.

At thirty years of age, the IATRC is fully grown up. It can proudly look back at what it has achieved. But it must look even more closely at the large agenda remaining before it. There is a lot of research to be done, and new issues crop up continually. But perhaps even bigger is the challenge to contribute more effectively to the political process required to make sure people understand not only the pain, but also the gain to be expected from further progress in agricultural trade policies.

References

Anderson, K. (ed.) (2009), Distortions to Agricultural Incentives: A Global Perspective. Washington DC: World Bank and Palgrave Macmillan.

Anderson, K. and J. L. Croser (2009), National and Global Agricultural Trade and Welfare Reduction Indexes, 1955 to 2007. Spreadsheet at www.worldbank.org/agdistortions, World Bank, Washington DC, April.

Anderson, K., and E. Valenzuela (2008), Estimates of Distortions to Agricultural Incentives, 1955 to 2007, Aggregates. Spreadsheet at www.worldbank.org/agdistortions, World Bank, Washington DC, October.

Anderson, K.J. and J. P. Neary (1996), A New Approach to Evaluating Trade Policy. Review of Economic Studies, vol 63 pp. 107-125

Anderson, K.J., and J.P. Neary (2005), Measuring the Restrictiveness of International Trade Policy. Cambridge, MA: MIT Press.

Coleman, W.D., G.D. Skogstad and M.M. Atkinson (1997), Paradigm Shifts and Policy Networks: Cumulative Change in Agriculture. Journal of Public Policy, vol 16, pp. 273-301.

Coleman, W.D. and S. Tangermann (1999), The 1992 CAP Reform, the Uruguay Round and the Commission. Journal of Common Market Studies, vol. 37 (3), pp. 385-405.

Daugbjerg, C., and A. Swinbank (2009), Ideas, Institutions, and Trade. The WTO and the Curious Role of EU Farm Policy in Trade Liberalization. Oxford: Oxford University Press.

European Commission (2010), The CAP Towards 2020: Meeting the Food, Natural Resources and Territorial Challenges of the Future. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Document COM(2010) 672 final. Brussels: European Commission.

Fiorentino, R.V., J-A. Crawford and C. Toqueboeuf (2009), The landscape of regional trade agreements and WTO surveillance. In: R. Baldwin and P. Low (eds.), Multilateralizing Regionalism: Challenges for the Global Trading System. Cambridge: Cambridge University Press.

Johnson, D. G. (1973), World Agriculture in Disarray. London: Macmillan; New York: St. Martin's Press (revised in 1991).

Josling, T. (2009), Reflections on the Exceptional Treatment of Agriculture in the WTO. Presentation made at the Stefan Tangermann Retirement Workshop, Göttingen, 20 February 2009.

Josling, T., A. McCalla and T.K. White (1997), An Analytical History of the IATRC. St. Paul: The International Agricultural Trade Research Consortium.

Josling, T., D. Roberts and D. Orden (2004), Food Regulation and Trade: Toward a Safe and Open Global System. Washington DC: Institute for International Economics.

Josling, T., K. Anderson, A. Schmitz and S. Tangermann (2010), Understanding International Trade in Agricultural Products: One Hundred Years of Contributions by Agricultural Economists. American Journal of Agricultural Economics, vol. 92, pp. 424-446.

Josling, T., S. Tangermann and T. K. Warley (1996), Agriculture in the GATT. Houndmills, London, and New York: Macmillan Press.

Kawai, M., and G. Wignaraja (2010), Asian FTAs: Trends, Prospects and Challenges. ADB Economics Working Paper Series No. 226, October 2010. Manila: Asian Development Bank.

Korinek, J. and M. Melatos (2009), Trade Impacts of Selected Regional Trade Agreements in Agriculture. OECD Trade Policy Working Papers, No. 87. Paris: OECD.

Krueger, A.O., M. Schiff and A. Valdés (1988), Agricultural Incentives in Developing Countries: Measuring the Effect of Sectoral and Economy-wide Policies. World Bank Economic Review, vol. 2, pp. 255-272.

Lloyd, P.J., J.L. Croser and K. Anderson (2009), Welfare-Based and Trade-Based Indicators of National Agricultural Distortions. In: K. Anderson (ed.), Distortions to Agricultural Incentives: A Global Perspective. Washington DC: World Bank and Palgrave Macmillan.

Moyer H. W. and Josling T.E. (2002), Agricultural Policy Reform: Politics and Process in the EC and the USA in the 1990s. Burlington, VT, and Aldershot: Ashgate Publishing.

OECD (2004), Regional Trading Arrangements and the Multilateral Trading System: Agriculture. Document COM/TD/AGR/WP(2004)9/FINAL. Paris: OECD.

OECD (2008a), Biofuel Support Policies – An Economic Assessment. Paris: OECD.

OECD (2008b), Agricultural Policy Design and Implementation: A Synthesis. Paris: OECD.

OECD (2010), Agricultural Policies in OECD Countries At A Glance 2010. Paris: OECD.

OECD-FAO (2010), OECD-FAO Agricultural Outlook 2010-2019. Database at http://www.agri-outlook.org/document/12/0,3343, en_36774715_36775671_45444620_1_1_1_1,00.html. Paris: OECD.

Olson, M. (1965), The Logic of Collective Action: Public Goods and the Theory of Groups. Cambridge: Harvard University Press.

Orden, D., D. Blandford and T. Josling (eds.) (forthcoming), WTO Disciplines on Agricultural Support - Seeking a Fair Basis for Trade. Cambridge: Cambridge University Press.

Punke, M. (2010), comment made on 2 November 2010 during a WTO workshop on the impact of the Doha round. http://news.yahoo.com/s/nm/20101102/pl_nm/us_trade_doha_1, accessed on 19 November 2010.

Swinnen, J.F.M. (2010), Political Economy of Agricultural Distortions: The Literature to Date. In: K. Anderson (ed.), The Political Economy of Agricultural Price Distortions. Cambridge: Cambridge University Press.

Swinnen, J.F.M. (ed.) (2008), The Perfect Storm. The Political Economy of the Fischler Reforms of the Common Agricultural Policy. Brussels: Center for European Policy Studies.

Tangermann, S. (2010), CAP Reform – A Matter of the Past? Agra Europe, No. 2440, November 26, 2010, pp. 30-31.

Ullrich, H. (2004), The Impact of Policy Networks on Agricultural Trade Liberalization During the Uruguay and Doha Rounds: The Role of Ideas, Interests and Institutions. Paper presented at the Annual Meeting of the American Political Science Association, September 2-5, 2004, Chicago.

UN COMTRADE via the World Integrated Trade Solution (WITS), accessed at https://wits.worldbank.org/WITS/

Valenzuela, E., D. van der Mensbrugghe and K. Anderson (2009), General Equilibrium Effects of Price Distortions on Global Markets, Farm Incomes and Welfare. In: K. Anderson (ed.), Distortions to Agricultural Incentives: A Global Perspective. Washington DC: World Bank and Palgrave Macmillan.

World Bank (2007), Agriculture for Development. World Development Report 2008. Washington DC: World Bank.

WTO (2010), International Trade Statistics 2010. Geneva: WTO.

DISCUSSION

DAVID BLANDFORD
PENN STATE UNIVERSITY

Stefan Tangermann has done an excellent job of surveying developments in global agricultural trade and trade policy since the first meeting of the IATRC in its current form. He identifies four positive developments in his paper:

1. A major expansion in global agricultural trade, which has resulted in increased economic opportunities for agricultural producers and others engaged in the food and agricultural industry, as well as benefiting consumers through wider choice of products at reasonable prices, and reducing the dependence on seasonality in production.

2. Substantial reform of the international trading order with the creation of a framework of disciplines on policy through the market access, export competition and domestic support provisions of the Uruguay Round Agreement (URA) on Agriculture, the conclusion of other agreements in the Round, the creation of the WTO itself and the establishment of an improved dispute settlement procedure.

3. Some reforms in domestic policies, particularly a shift towards more decoupled forms of support for agriculture (developments in the Common Agricultural Policy of the EU are particularly notable in this regard).

4. Some reduction in protection in developed countries and a reduction in the disprotection of agriculture (implicit taxation) that has been prevalent in developing countries.

Tangermann also notes the role that the members of the IATRC have played in influencing thinking about trade and agricultural policy—in particular how to impose greater disciplines on domestic support and move domestic agricultural policies in a less-distorting direction. The "Bringing Agriculture into the GATT initiative" of the 1980s and related activities were particularly instrumental in this regard (IATRC Commissioned Paper Series, papers 1-9).

However, his analysis also leads me to note three troubling aspects of developments over the last 30 years:

1. A slowdown in the impetus for the reform of domestic agricultural policies in a trade-friendly direction (the two most recent US Farm Acts, and the rather weak proposals for further reform of the CAP post-2013 in the recent communication from the European Commission are two prominent examples).

2. Evidence that some developing countries are going beyond the elimination of disprotection of agriculture towards the creation of an environment for protection—repeating the transition that Japan, for example, made with economic growth. It is notable that the only OECD country which shows an increase in the percentage PSE since 1986-88 (Figure 10 of his paper) is Turkey, arguably the most developing member of the developed-country OECD club. It is also notable that the plots of Overall Trade-Distorting Support (OTDS) for developing countries in the book by Orden et al. (2011) (shown in Figure 12) trend upwards in contrast to the

downward trend for the developed countries analyzed. In addition, proposed changes in the draft agreement on agriculture in the Doha round point even more strongly in the direction of a more permissive approach to protectionism for developing countries—examples include the proposed creation of a special products category and expanded green-box exemptions for distorting policies pursued as part of development programs. Lars Brink has pointed out the considerable leeway for providing amber box support that will exist for large countries such as China and India under the more generous de minimis provision for developing countries in the draft Doha agreement (see chapter 2 of Orden et al., 2011).

3. Finally, his analysis reveals an apparent weakening of the commitment to multilateralism, as reflected by the proliferation of regional and bilateral trade agreements and the failure to conclude the Doha Round—regrettably we may be on track for Harry de Gorter's trend line prediction made in an IATRC annual meeting just after the start of the Round that it would take 17 years to complete (if completion is even possible)!

What are the implications of what we have witnessed in the trade area over the last 30 years for the future work of the IATRC? I would like to highlight three issues:

1. Analyzing domestic and trade policies and their economic implications is becoming increasingly complex and challenging. How easy it was 30 years ago when we could construct multi-commodity, multi-country partial equilibrium models, or multi-sectoral general equilibrium models, include a simple representation of implicit transfers (subsidies and taxes) associated with policies and figure out the implications for production, consumption, trade and economic welfare. Now we have to deal with a complex array of domestic policy measures whose impact on markets is not always apparent—for example, we still have lively disagreements on the extent to which various existing support policies influence current production, i.e., how much policies are actually decoupled. And on the trade front, despite tariffication in the Uruguay Round, we have a growing array of non-tariff measures whose impact on trade is often difficult to determine. And finally if developing countries are indeed going to move to greater support and protection, we face the not inconsiderable challenge of doing a better job of understanding and analyzing the impact of their agricultural policies on trade and markets.

2. The policy environment that affects international trade is becoming increasing complex. We have had differences of view among members of the IATRC in the past about the boundaries for the analysis implied by the "trade" label in our name. I remember one discussion at a meeting prior to the conclusion of the URA in which the argument was made that we should focus on trade measures per se, i.e., tariffs and export subsidies rather than spending too much time worrying about domestic policies. The logic of this argument was that if we can get the trade policy right—domestic policies will surely follow, i.e., they would inevitably have to change to become less distorting if the trade policy instruments that provide import protection were eliminated. I remember another discussion in a meeting after the URA had been concluded on whether we really needed to spend much time focusing on the reinstrumentation of domestic agricultural policies in developed countries—as trade analysts was it really within our remit to examine such things as adjustment policy or how countries could make a transition from the amber or blue boxes to the green box? As one who has always taken the view that trade policy can only be understood in the broader context of domestic policy objectives, it seems to me that we are going to have to face up to the challenge of figuring out the implications for trade and trade policy of an increasingly complex policy domestic and international policy agenda. That agenda includes how to

meet the material needs of a world population that is projected to exceed 9 billion by 2050, whether it is possible to reduce the environmental impact of economic growth (to achieve what is now termed "green growth" in the OECD setting), what are the implications of climate change and adaptation to its effects, and what is the future role of bioenergy (not just ethanol and biodiesel, but all the potential sources of energy production from the land-based industries of which agriculture forms a part)?

3. Stefan Tangermann highlights the role that we as economists can play as "efficiency partisans" and I agree with his view. We can play a major role in highlighting how ineffective or inefficient trade and domestic policies are (or occasionally perhaps, the opposite!), and (as the OECD has done) making the case for policy targeting and the monitoring of impact. There is much work to be done to increase transparency on the impact of policies—for example, will the policies included under pillar 2 (the rather broad and inclusive category of "rural development") of the post-2013 CAP be largely green box in character or something else? Or what distortions are likely to be created by the policies that are likely to surface in the debate on the 2012 US Farm Bill? However, if we focus solely on efficiency our analysis runs the risk of being ignored because we neglect the important distributional issues inherent in trade and domestic policies. The critical role played by rent seeking in shaping trade policies has been studied by many members of the IATRC and we should take every opportunity to highlight distributional implications, so that the public debate on the desirability or otherwise of these policies is fully informed. We should be vigilant not to fall into the trap of becoming advocates for particular policy choices on the basis of their distributional effects, but we need to be "distribution partisans" in the sense that we highlight clearly the distributional implications of policy choices.

Finally, let me say that I have appreciated the opportunity to make some comments on this celebratory theme day. It's been a very productive 30 years for this organization. I hope that the next 30 will be just as good!

Reference

D. Orden, D. Blandford and T. Josling (eds.), WTO Disciplines on Agricultural Support: Seeking a Fair Basis for Trade, Cambridge (UK): Cambridge University Press, 2011.

DISCUSSION

KARL D. MEILKE
UNIVERSITY OF GUELPH

Let me begin by arguing that the excellent paper by Tangermann (2010), along with the AAEA 100th Anniversary paper by Josling, et.al (2010) should be required reading in the first week of any agricultural trade course. Before making a few comments on Tangermann's paper, in the spirit of the IATRCs 30th anniversary, I'd like to begin by discussing Canada's involvement in the IATRC.

It is interesting that the founders of the IATRC used the term "international" instead of "United States" or "regional" in the organization's title because in the early days it was only the Canadian participants that made IATRC international. One of IATRC's major accomplishments, over the past 30 years, is that it is now truly international in membership and scope.

The origins of Canada's formal involvement in IATRC are cloudy but they started with one of the founders contacting Gerry Trant at AAFC and asking if they would like to participate. This invitation was passed down through the ranks to Ralph Lattimore who invited a handful of academics to travel to the IATRC meetings at AAFC expense. My memory of the early Canadian academics is fuzzy but they included me, Sandy Warley, Gary Storey, Colin Carter, Rick Barichello and Robert St. Louis as well as others I am sure I have omitted. I know several Canadian academics and AAFC staff were at the 1981 meeting in this Berkeley Claremont Hotel. In the mid-1980's AAFC started contributing to the general activities of the IATRC and by the end of the 1980's more formal financial arrangements were put into place. The first IATRC annual meeting on Canadian soil took place in Ottawa in 1983—it is time for a return visit!

AAFC has provided continuous financial support to IATRC for 30 years, which must be a record for voluntary contributions to a non-statutory activity by AAFC. Much of this success is due to Ralph Lattimore, Don McClatchy and Lars Brink. Don and Lars are two of the longest serving members on the IATRC executive (Don for 9 years and Lars for 14), in fact the three longest serving members on the IATRC Executive Committee are all government representatives, the third being Kelly White from USDA. Each of these individuals received their doctorate from Purdue University which means Purdue must teach tolerance, at least for long meetings.

Canadians have contributed to the accomplishments of the IATRC, co-authoring 13 of its 18 Commissioned Papers produced between 1988-91, and in 2001. Currently, 19 members of IATRC are from Canada, about ten percent of the membership and considerably more than our share of world GDP.

Turning to Tangermann's paper, I am currently more pessimistic about trade liberalization than at any point in my career and I'll speak to four points raised in Stefan's paper.

First, the current economic climate is similar in some respects to the lead-up to the formation of the IATRC, but it is also different several key aspects (Table 1). In the early to mid-1980's the United States economy went into a sharp recession with unemployment greater than seven percent and record high interest rates. The farm economy fully participated in this economic contradiction as illustrated by very low corn prices, massive government subsidization

of agriculture, farm bankruptcies and falling land values as prime interest rates approached 20 percent. The sharp and deep recession that began in 2008 is also characterized by high unemployment and weak grow but this time alongside record low interest rates. To a large extent the farm economy has escaped the recent recession with robust corn prices and rapid increases in farm land values as interest rates declined and commodity prices rose.

Leading into the recent recession we witnessed the collapse of the mortgage market and the near collapse of the banking system; leading to massive government budget deficits and total debt as a percent of GDP around 90 percent in the United States. All of this against a backdrop of on-going concerns about terrorism.

TABLE 1: THE UNITED STATES ECONOMY EARLY 1980S AND EARLY 2010S

	Early 1980s	Early 2010s
General economy	weak	weak
Unemployment	high	high
Interest rates	high	low
Growth	low	low
Annual federal budget deficit as percent of GDP	~ 5 percent	~ 40 percent
Total federal debt as percentage of GDP	~ 10 percent	~ 90 percent
Agricultural economy	weak	strong
Corn prices	low	high
Land values	falling	rising

For those who believe in open markets the failure of the banking system and the collapse of the real economy has given additional ammunition to domestic rent seekers and the anti-market, anti-globalization, local everything cabal. It is difficult to dismiss their arguments because you cannot argue the banking system did not fail. The leaders of the G-20 make frequent statements supporting open markets but domestically all of the political pressure is to close borders not to open them; with perhaps one notable exception—regional trade agreements. Unfortunately, regional trade agreements have a long history of ignoring all of the tough market access issues in agriculture, in spite of the work of Grant and Boys (2012) showing that the opening of markets leads to substantial growth in agrifood trade. Regional integration agreements are not an alternative to a completed Doha Development Agenda and it will be interesting to see what happens in the Trans Pacific Partnership (TPP) negotiations where agriculture is supposedly squarely on the table. With Japan joining the TPP negotiations I am not optimistic about a quick resolution of the negotiations or a significant breakthrough on agriculture. The EU-United States regional negotiations will also put agriculture in the spot light just as it is in the four year old Canada-EU regional negotiations.

Second, are we at the end of the cheap fossil fuel era? The oil price spikes of the 1970's (the real price of oil peaked in about 1980 at $100/barrel and we are at about $80 today) were caused by artificial shortages orchestrated by OPEC. Today the high price of oil seems less contrived and certainly many would argue the days of cheap oil are long gone. A few will even argue that high oil prices and carbon taxes will change our way of life in fundamental ways—the local food movement is one such example. Trade will revert to local trade and international trade and travel will be sharply curtailed. While I am bullish on oil I don't believe higher fuel prices will fundamentally change our way of life. I think

conventional economic wisdom is that transportation costs are such a small part of trade costs that they will not have a huge impact on trade and travel. Clearly, the non-fuel costs of long distance trade have fallen sharply with new communication technologies. However, I do wonder if we can sell this notion to the general public?

In the past decade through the development and subsidization of bioenergy, which remains largely corn based, we have created a deep connection between fossil fuel markets and agricultural commodity markets. I don't want to sidetrack this brief note into the food/fuel debate but it is not dead—what we know for sure is that in addition to the normal weather related and macroeconomic shocks agriculture now has to cope with instability coming out of the fossil fuel market. This means more variation in government support payments and less willingness to put constraints on them. In addition, recent high prices for grain and oilseeds have been capitalized into the value of land putting some farmers in a difficult debt position should commodity prices fall and/or interest rates rise.

Third, Tangermann presents data on North-North trade and South-South trade but I think the major issue is North-South trade, and most importantly trade from the South to the North. As long as trade flows consist of coffee, tea, spices and tropical fruit there is little problem, except for banana's of course. But, when the trade starts to encroach on traditional North products—and especially if it originates in China—it will raise all kinds of questions about food standards, which in many of these cases are going to be private standards rather than public standards. Developed country consumers are generally accepting of food standards set in their own countries but much less so of standards developed elsewhere; standards set by multinationals on products from China and other developing countries are likely to be met with skepticism and when food scares occur it will lead to tighter borders.

Forth, there appears to have been little progress on the Doha Development Agenda negotiations since 2008 (Blustein, 2009). The WTO (2008) draft text is complex and the potential gains from the negotiations difficult to explain. Efforts to model the implications of agrifood trade liberalization have improved since those undertaken on the Uruguay Round but with so many exceptions and complex border instruments, imposed at the tariff line level, market access analysis is difficult (Meilke, McClatchy and de Gorter, 1996; Rude and Meilke, 2004). At the same time this product orientated market access analysis has to take into account domestic support commitments that impose disciplines at an aggregate level. Still, the research shows that the major gains in agriculture come from limiting the number of products exempted from market access liberalization, but it is these sensitive products that are troublesome for domestic politicians (McCall and Nash, 2007). At this writing it is difficult to see the political will to push the negotiations to completion.

Most members of IATRC are apostles of economic efficiency—this is always a difficult role—and one that is not terribly well rewarded in academia. We need more articulate and informed agricultural economists who can speak to a broad audience about the benefits of trade through example, logic and humor. Jagdish Bhagwaiti is the role model I have in mind; an accomplished theoretician who can engage a layperson but also has access to the highest levels of trade diplomacy.

This comment brings me back to the IATRC. The fact it has survived 30 years with no legal structure but lots of good will is a testament to its usefulness to its members; members who from the start were expected to step forward to further the goals of the IATRC. I suspect the tension among those who see the IATRC as primarily a "policy" Consortium and those who see the Consortium as primarily a "professional" organization; whose focus should be on building better mousetraps is likely to continue. I think the Executive has done a good job over the years of juggling these two competing demands that should be complimentary to one another.

I would encourage the current Executive to look for more opportunities for members to work together on important issues. The Bringing Ag into the Gatt activity was a great opportunity for all that participated and there were an amazing number of government and academic professionals involved. There is no shortage of important topics where good research and collaboration among Consortium members could make a difference.

References

Blustein, P. 2009. Misadventures of the Most Favored Nations. New York: Public Affairs.

Grant, J. A. and K. A. Boys. 2012. "Agricultural Trade and the GATT/WTO: Does Membership Make a Difference". American Journal of Agricultural Economics 94(1):1-24.

Josling, T., K. Anderson, A. Schmitz and S. Tangermann. 2010. "Understanding International Trade in Agricultural Products: One Hundred Years of Contributions by Agricultural Economists". American Journal of Agricultural Economics 92(2):424-46.

McCalla, A. F. and J. Nash, eds. 2007. Reforming Agricultural Trade for Developing Countries: Volume Two. Washington D.C.:World Bank.

Meilke, K. D., D. McClatchy and H. de Gorter. 1996. "Challenges in Quantitative Economics Analysis in Support of Multilateral Trade Negotiations". Agricultural Economics 14:185-200.

Rude, J. I., and K. D. Meilke. 2004. "Developing Policy Relevant Agrifood Models". Journal of Agricultural and Applied Economics 36(2):369-382.

Tangermann, S. 2010. Agricultural Trade 1980 vs. 2010: Some Progress, But Still So Far To Go. Paper presented at the IATRCs 30th Anniversary Theme Day, 12 December. Berkeley.

WTO. 2008. Revised Draft for Modalities for Agriculture. World Trade Organization. TN/AG/W/4/Rev. 2. 19 May, 2008.