IATRC
INTERNATIONAL AGRICULTURAL TRADE RESEARCH CONSORTIUM

Celebrating the First Thirty Years

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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 2

The Global Context that Forged the IATRC

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RESOURCES FOR THE FUTURE

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The 30 years of activities of the IATRC need to be viewed and appraised in the context of the events and processes taking place in the world that particularly affected agricultural trade and trade policy. While the IATRC was founded in 1980, the agricultural trade environment and the forces at work leading to its establishment were active from a much earlier period. We will trace some of that history as it affected the establishment and the agenda if the IATRC.

CONFLUENCE OF FORCES AND EVENTS LEADING TO FORMATION OF THE IATRC

Force 1: Restructuring of the Global Economic Architecture

The collapse of the international trading system, the economic depression of the 1930's and World War II lasting until the mid 1940's destroyed past political, and economic roles and relationships. The U.S. emerged in a dominant world leadership position that it could not ignore. U.S. hegemony in global economic, trade and political affairs lasted uncontested until the mid 1960's. The 1944 Bretton Woods institutions, the International Bank for Reconstruction and Development (IBRD or World Bank) and the International Monetary Fund (IMF) along with the General Agreement on Tariffs and Trade (GATT)[1] resulting from the 1947 Havana Conference were established after WWII to deal with multilateral development, finance and trade relationships respectively. They were subsequently tested and found rea-

1 The International Trade Organization proposed by the 1947 Havana Conference was not ratified by the U.S. Congress on the grounds that it would usurp U.S. national sovereignty, thus leaving the world with only a set of trading rules known as the GATT.

sonably adequate to the tasks expected of them. Trade liberalization occurred, mainly on the industrial side through a series of multilateral trade negotiations under the auspices of the GATT to reduce trade barriers, principally tariffs.

Force 2: Changes in US Agricultural/Trade Policy

While the orientation of U.S. trade policy has shifted through time, the focus of agricultural interests reflecting a basic export objective has always been toward trade liberalization. This basic thrust has not held for dairy, sugar, tobacco and some of the other import competing commodities. And some would argue that the Section 22 legislation and the waiver that grandfathered it into the GATT is proof positive that agriculture is basically protectionist. But Section 22 provided for border protection mainly in the form of quotas, not to protect agriculture per se, but rather to protect the ability of the government to carry out effectively the mandated agricultural price support programs without undue cost to the Treasury.[2] With the changes in agricultural support programs, partly as a result of compliance with the Uruguay Round Agreement on Agriculture the U.S. finally gave up the Section 22 waiver in January 1995 as it was no longer relevant.

Although the U.S. trade orientation switched from protection to liberalization after the 1930's, domestic agricultural policies did not fully align to that orientation until the late 1960's. Between the development of the New Deal agricultural policies of the 1930's and the changes that took place in the 1960's, agricultural programs were based on price support measures that placed a price floor at levels usually above market clearing equilibrium levels. As a result the U.S accumulated large surplus stocks of commodities during the 1950's and 1960's. Many of these surplus stocks went into the world market, in part under the guise of humanitarian food aid through PL-480 programs and in part through commercial sales by the Commodity Credit Corporation at prices lower than those prevailing in the domestic market through the use of export subsidies.[3]

Beginning with the 1965 Farm Bill, the Food and Agriculture Act, a compromise slowly emerged between domestic price and income support objectives and the international trade objective for agriculture. Farm programs for major commodities switched from direct price supports to income support measures that made up the difference between the market price or loan rate and the price support target. This was accomplished first through redeemable market certificates and later through deficiency payments. This change in policy merged the U.S. domestic market and the international market into a single entity and established a single price in both markets. Thus the price faced by most U.S. producers became a meaningful signal of actual demand and supply relationships as they exist in the world marketplace.[4] However, support programs were still tied to levels of production on individual farms and thus remained trade distorting. It took another 30 years of farm bills before support payments were decoupled from levels of production (the 1996 farm bill) and were thus deemed to be non-trade distorting and acceptable under the rules of the GATT and the new World Trade Organization.

2 In 1951, Congress added a paragraph to Section 22 that read in part, "no international agreement heretofore or hereafter entered into shall be applied in a manner inconsistent with this Section". In 1955, the U.S. sought a "temporary" waiver in the GATT for Section 22 and under the threat of U.S. withdrawal from the GATT, due to the inconsistency of GATT rules and U.S. Legislation, the waiver was granted by the GATT contracting parties.

3 Some would argue that during this period the dollar, for a variety of reasons, was overvalued and that the implicit subsidy in the PL-480 program and the explicit subsidies in the commercial market were justified on that basis.

4 The above historical discussion is based on Mangum, Fred A. and George E. Rossmiller, "Trade Protection Versus Trade Liberalization: A Dilemma for the United States". Paper presented at the First International Food and Finance Conference, 'International Food, Finance and Agricultural Trade: Critical Issues for the 1980's", Minneapolis, Sep 12-14, 1982.

Force 3: The Formation of the EEC and its Common Agricultural Policy (CAP)

Without doubt the single most important event of the Post-WWII period to affect agricultural trade and global agricultural trade relations was the establishment and subsequent implementation of the European Union's Common Agricultural Policy (CAP), which in 2013 affected directly 12 million full time farmers in 28 countries with a total population of just over 500 million..

The 1957 Treaty of Rome brought into existence the European Community (now the European Union) consisting of the original 6 members – Belgium, France, Germany, Italy, Netherlands, Luxembourg. It established the Common Agricultural Policy (CAP)[5] with the following objectives:

1. to increase productivity;
2. to ensure a fair standard of living for the agricultural Community;
3. to stabilise markets;
4. to secure availability of food supplies;
5. to provide consumers with food at reasonable prices.

and with the following principles:

1. Market unity, common prices and a free flow of agricultural products across regions and countries within the EC;
2. Community preference, product preferences in the internal market over foreign imports through common tariff walls;
3. Financial solidarity, through common financing of CAP programs.

From its implementation in 1962 the Common Agricultural Policy was production enhancing and export oriented. As the common prices were established originally the Germans held out for high prices to protect their small, resource disadvantaged farmers, particularly in Bavaria. As a result the relatively larger more resource advantaged French farmers, particularly in the Paris basin, and the Italian farmers in the Po Valley capitalized on the high prices and increased production very rapidly. With surpluses exported into the international market mainly through the use of export subsidies came a rising number of trade disputes primarily with the U.S.

It is useful to note that during the 5 year period following the implementation of the common price regime of the CAP (1963-1967) Community grain imports averaged 20 million metric tons (mmt) per year. By 1981-82, the EC had become a net exporter of 6 mmt of grain and by 1992-93 net EC exports of grain were just under 27 mmt, a massive shift of 47mmt in a global wheat and feed grain market of about 200mmt in less than 30 years. Moreover, between 1970 and 1990, the enlarged Community moved from being a major importer to being the world's largest exporter of meat, dairy products and sugar in a span of only two decades.[6]

EU enlargement brought in the United Kingdom, Ireland and Denmark in 1973; Greece in 1981; and Spain and Portugal in 1986 to bring the total to EU-12.[7] The CAP survived these accessions virtually unchanged. The first reforms (the MacSharry Reforms) took place in 1992 beginning the shift of farm support from price support to direct payments, by lowering support prices and bringing in direct payments to compensate. The direct payments were based on histori-

5 www.ers.usda.gov/topics/international-markets-trade/countries-regions/european-union/common-agricultural-policy.aspx

6 McCalla, Alex F. "Agricultural Trade Liberalization: The Ever-Elusive Grail" American Journal of Agricultural Economics. December 1993, pp. 1102-1112.

7 German reunification in 1990 brought in the former East Germany without changing the total.

cal yields and were accompanied by new supply control measures with a mandatory paid set-aside program. Austria, Sweden and Finland joined the EU in 1995 to become the EU-15.

The second round of reforms, Agenda 2000, was implemented in preparation for the accession of the 10 new members (EU-25), primarily from Central and Eastern Europe, joining in 2004.[8] These reforms cut support prices further and used direct payments to compensate half of the loss from the price cuts. As with the 1992 reforms, farmers had to produce the commodity to receive the payment.

A third round of reforms in 2003/04 resulted in some renationalization of farm policy which gave member states discretion over timing and modes of implementation. They also provided for decoupled payments (designated Single Farm Payments) based on 2000-2002 historical payments and replacing the compensation payments of the 1992 and 2000 reforms. Rumania and Bulgaria joined in 2007 (EU-27).

A fourth round of reforms in 2008 reduced Single Farm Payments to larger farms and abolished the set-aside scheme. It also increased the budget for the second pillar, the rural development budget.

The reforms of 2013 included a plan for convergence of the per hectare payments across countries and across farms within countries. In addition, 30% of direct payments will be linked to three environmentally friendly farming practices: crop diversification, maintaining permanent grassland and conserving 5%, and later 7%, of areas of ecological interest. Finally, further support will be allocated to helping young farmers, to less favored areas and measures to promote sustainability and combat climate change. Moreover, the amount of funding to support research, innovation and knowledge-sharing will be doubled. In 2013, Croatia became a member bringing the total to EU-28.

The formation of the EU helped bring about the IATRC and its evolution over time greatly influenced the subsequent agendas of the IATRC.

WORLD EVENTS

World events of many kinds have had a profound effect on the fortunes of agricultural sectors every where. We mention a few of the major ones here.[9]

Event 1: The Great Grain Robbery and Price Spikes

In 1972 the Northern Hemisphere, including North America, Europe and the (then) USSR all had short cereal crops due to adverse weather. The most significant drop in production occurred in the USSR. Gross output of grain and pulses was reported to be 168 million metric tons in 1972 compared with 181.2 MMT in 1971 and 186.8 MMT in 1970. USSR potato production also dropped sharply from 92.7 MMT in 1971 to 77.8 MMT in 1972.[10]

The USSR changed policy from slaughtering livestock in the face of feed shortages to importing cereals to make up domestic production shortfalls. They came into the international market in a big way. Between 1971/72 and 1972/73 USSR imports of wheat and coarse grains increased by 15 million metric tons.

8 Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Malta, Hungary, Poland, Slovakia, Slovenia.

9 The following discussion is based on Rossmiller, George E., "Economic Research and Policy Analysis in International Organizations". Paper presented to the Italian Section of the EAAE and IAAE, Campobasso, Italy, Sep 21, 1994.

10 Schnittker, John A., "The 1972-73 Food Price Spiral", Brookings Papers on Economic Activity, 2:1973, The Brookings Institution, Washington.

Thus in 1972/73, wheat and coarse grain production was off 32 million metric tons, or a modest 3.5 percent; world agricultural trade doubled, mainly because of the Soviet's increased import demand; and prices of world food commodities rose 80 percent (54 percent in real terms).

The 1974 World Food Conference, called by the Food and Agriculture Organization of the U.N. (FAO) because of the perceived world food crisis, resulted in all-out food production policies, especially by the United States and the European Community, to feed a hungry world. Earl Butz, then US Secretary of Agriculture, admonished US farmers to "plant fence row to fence row" to do their part in feeding a hungry world. And respond they did on both sides of the Atlantic so that by the early 1980s both the US and the EU were again dealing with agricultural surpluses as pervasive as ever.

Event 2: OPEC

During the same period (1973) the Organization of Petroleum Exporting Countries (OPEC) gave the world its first oil shock, with an overnight doubling of the price of oil. The oil price increase, as it rippled through national economies, increased the price of almost everything, notably for agriculture, of fertilizers and farm machinery, in addition to energy.

Event 3: US $ Devaluations and the Return to Floating Exchange Rates

In 1971 as pressures on the dollar increased with a growing trade deficit, the US abandoned the Bretton Woods Agreement by ending the convertibility of the dollar for gold and raising the price of gold from $35 to $38 per ounce. With continued pressure on the dollar, the US raised the price of gold to $42 per ounce in 1973 and then decoupled the value of the dollar from gold altogether. The dollar promptly devalued with the price of gold shooting up to $120 per ounce.[11] Other countries followed the US actions and thus the macroeconomic landscape within and among countries was altered drastically. Along with expansionary monetary policy, the immediate impact on US agriculture was rapidly increasing prices and strongly increasing agricultural exports. By the late 1970's agricultural prices were again dropping and the dollar began appreciation again in 1980 and farm exports declined substantially. Along with high interest rates, this brought on the farm financial crisis of the 1980's and drove supply control and farm program costs to record highs. By 1985 the dollar had depreciated to pre-1980 levels and farm exports began increasing again along with farm income.[12]

The rapid increase in agricultural trade since the mid 1960s, the rapid conversion of the EU from a significant importer to major exporter of agricultural products, and the large and increasingly costly farm programs on both sides of the Atlantic largely due to surplus production led to an escalation of agricultural trade disputes mainly between the US and the EU. This made it clear that there was an increasing influence of external world events on agriculture and agricultural trade flows, which no doubt contributed to the group of 6 west coast agricultural economists, as explained in Chapter 1, determining that a joint focusing of resources was needed to increase the amount and impact of research and analytical work on agricultural trade and trade policy. The result was the formation of the International Agricultural Trade Research Consortium with initial funding from the Economic Research Service (ERS), USDA and a first meeting of the original 13 members at the University of Minnesota in June/July 1980.

11 http://useconomy.about.com/od/monetarypolicy/p/gold_history.htm

12 Orden, David, "Exchange Rate Effects on Agricultural Trade and Trade Relations". Agriculture and Food Policy Systems Workshop: Policy Harmonization and Adjustment in the North American Agricultural and Food Industry, 4-5 March 1999, Farm Foundation.

FORCES INFLUENCING THE AGENDA OF THE IATRC

The Soviet Grain Embargo

The 1980's began with President Carter announcing the suspension of all grain sales to the (then) Soviet Union in excess of the 8 million metric tons guaranteed under the terms of a 1975 bilateral agreement, as punishment for the military occupation of Afghanistan. The embargo was lifted by President Reagan in April 1981.n A congressionally mandated study completed in 1986 by IATRC members and ERS found that the embargo had little economic effect on either the Soviet Union or on US agriculture.[13]

Regional Trade Agreements

As indicated in Chapter 1 the two main topics on the agenda of the first meeting of the IATRC were 'Agricultural Trade Implications of European Community (EC)' and 'Enlargement: North American Common Market', matters of particular importance and concern in both the US and Canada at the time. IATRC members did further research and analysis and organized conferences to inform the public, with the Canada-US Trade Agreement (CUSTA) coming into force on 1 January 1989 and the North American Free Trade Agreement (NAFTA) being implemented on 1 January 1994.

The Uruguay Round of GATT Negotiations

In 1986, Contracting Parties to the General Agreement on Tariffs and Trade (GATT) launched the Uruguay Round of multilateral trade negotiations. Agriculture, which had not been included effectively in previous negotiating Rounds, even though attempts were made to do so in both the Kennedy Round and the Tokyo Round, was to figure prominently in these negotiations and was put high on the agenda because agricultural trade tensions had reached an explosive point and Developed Countries could no longer afford the burgeoning budgets that agriculture was demanding to support its farm producers in the style to which they had become accustomed. During the course of the negotiations and up to today throughout the course of the so far failed Doha Round, trade economists, particularly those with world trade models and those associated with the International Agricultural Trade Research Consortium (IATRC) maintained full employment levels, analyzing negotiating options, estimating the effects of trade liberalization and proposing negotiating positions and policy changes.

The Creation of the World Trade Organization (WTO) and the Uruguay Round Agreement on Agriculture

The GATT Uruguay Round, after protracted negotiations that lasted over 7 years and which came close to derailment several times over agricultural disagreements, was finally concluded formally with the acceptance of the Final Act by Contracting Parties at Marrakesh in April 1994. The results are well documented in the Uruguay Round Agreement on Agriculture and analyzed in detail in numerous readily available publications, making a rehashing of them here redundant. Suffice to say that the Uruguay Round set an historical precedence in bringing agriculture under the GATT and its rules for the first time.

While the trade liberalization result was meager and spread over a five year phase-in period (10 years for Developing Countries), it is not insignificant. The more important accomplishments, however, are the new rules under which agricultural trade will be conducted, the limitations on the types of domestic agricultural policies that will be sanctioned, the rules for the prevention of back-sliding, and the base established for further trade liberalization in future rounds.

13 Embargoes, Surplus Disposal, and U.S. Agriculture: A Summary. Economic Research Service, U.S. Department of Agriculture. Agriculture Information Bulletin Number 503. November 1986.

The still on-going Doha Round has so far accomplished little in term of real liberalization despite reaching a modest Bali Accord in late 2013.

Future world events and issues affecting agriculture and agricultural trade will no doubt continue to influence the agenda of the IATRC. Further detailed history of the IATRC can be found in Chapters 8 and 9 of this document.